

OFFICIAL STATEMENT

New Issue
Full Book-Entry Only

Long-term Short-term
Moody's: Aa1 VMIG 1
Standard & Poor's: AA- A-1+
(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 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, including with respect to the alternative minimum tax imposed on certain large corporations for tax years beginning after December 31, 2022.

\$85,840,000

**THE CITY OF SEATTLE, WASHINGTON
MUNICIPAL LIGHT AND POWER REFUNDING REVENUE BONDS, 2023B
(VARIABLE RATE DEMAND BONDS)**

DATED: DATE OF INITIAL DELIVERY

DUE: NOVEMBER 1 AS SHOWN ON PAGE i

The City of Seattle, Washington (the "City"), will issue its Municipal Light and Power Refunding Revenue Bonds, 2023B (Variable Rate Demand Bonds) (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 \$100,000 or any integral multiple of \$5,000 in excess thereof. Purchasers will not receive certificates representing their interest in the Bonds. 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) (the "Bond Registrar/Paying Agent"), to the Securities Depository, 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 G—Book-Entry Transfer System.

The Bonds will initially bear interest at the Daily Interest Rate, as discussed herein. The Bonds are also subject to mandatory purchase upon conversion to a Weekly Interest Rate, Long-Term Interest Rate, or Index Floating Rate, as described herein. The City has entered into a paying agency agreement dated as of October 1, 2023 (the "Paying Agency Agreement"), with the Bond Registrar/Paying Agent, with regards to the Reserve Fund Requirement and the interest rate modes available for the Bonds.

This Official Statement describes the Bonds only at the Daily Interest Rate. See "Daily Interest Rate."

Payments of principal, purchase price, and redemption price of and interest on the Bonds will be initially supported by an irrevocable transferable direct-pay letter of credit (the "Letter of Credit") to be issued in favor of the Bond Registrar/Paying Agent for the benefit of the City on the date of delivery of the Bonds by TD Bank, N.A. (the "LOC Provider"), upon which the Bond Registrar/Paying Agent is instructed to draw to pay such principal and redemption price of and interest on the Bonds. The Bond Registrar/Paying Agent will also draw funds under the Letter of Credit to pay the purchase price of the Bonds tendered for payment and not remarketed to the extent other moneys are not available therefor. The Letter of Credit has a scheduled termination date of October 25, 2028, subject to extension or earlier termination under conditions described herein. See "The LOC Provider" and "The Letter of Credit."



The Bonds are being issued to refund certain obligations of the Light System and to pay the administrative costs of issuing the Bonds and 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. 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 by the City and received by BofA Securities, Inc., as the Underwriter, 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 D. Bond Counsel will also act as Disclosure Counsel to the City. Certain legal matters will be passed upon by Orrick, Herrington & Sutcliffe LLP, Seattle, Washington, as counsel to the Underwriter, and by Chapman and Cutler LLP, as counsel to the LOC Provider. It is expected that the Bonds will be available for delivery at DTC's facilities in New York, New York, or delivered to the Bond Registrar/Paying Agent on behalf of DTC for closing by Fast Automated Securities Transfer, on or about October 26, 2023.

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.

BOFA SECURITIES, UNDERWRITER AND REMARKETING AGENT

Dated: October 17, 2023

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 G—Book-Entry Transfer System, which has been obtained from DTC’s website, the form of opinion of Bond Counsel attached as Appendix D, or information provided under “Other Bond Information—Municipal Advisor” and “—Underwriter 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 Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

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 E 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) 2023 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. Neither the City nor the Underwriter take any 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, any social media account, or any other internet presence referenced herein, in determining whether to purchase the Bonds. Information appearing on any such website, social media account, or any other internet presence is not incorporated by reference in this Official Statement.

The Underwriter may offer and sell the Bonds to dealers, institutional investors, and others at prices lower or yields higher than the public offering prices or yields stated in the Summary of Offering and such public offering prices may be changed from time to time by the Underwriter.

The LOC Provider has no responsibility for the form and content of this Official Statement, other than solely with respect to the information describing itself under the heading “The LOC Provider” and has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein or omitted herefrom, other than solely with respect to the information describing itself under the heading “The LOC Provider.” Accordingly, the LOC Provider disclaims responsibility for the information in this Official Statement (other than solely with respect to the information describing itself under the heading “The LOC Provider”) or otherwise made in connection with the offering, sale, and distribution of the Bonds.

SUMMARY OF OFFERING

\$85,840,000

**THE CITY OF SEATTLE, WASHINGTON
MUNICIPAL LIGHT AND POWER REFUNDING REVENUE BONDS, 2023B
(VARIABLE RATE DEMAND BONDS)**

Term Bonds due November 1, 2046; CUSIP Number 812643ZK3

Variable Rate Demand Bonds

Initial Reoffering Price: 100%

Initial Interest Rate Period: Daily Interest Rate Period

Interest Payment Date: First Business Day of each calendar month, commencing December 1, 2023

Maximum Interest Rate: 12%

Initial LOC Expiration Date: October 25, 2028

THE CITY OF SEATTLE
CITY OFFICIALS AND CONSULTANTS

MAYOR AND CITY COUNCIL

Bruce A. Harrell	Mayor
Council Member	Term Expiration (December 31)
Lisa Herbold ⁽¹⁾	2023
Debora Juarez ⁽¹⁾	2023
Andrew Lewis	2023
Tammy Morales	2023
Teresa Mosqueda ⁽²⁾	2025
Sara Nelson	2025
Alex Pedersen ⁽¹⁾	2023
Kshama Sawant ⁽¹⁾	2023
Dan Strauss	2023

CITY ADMINISTRATION

Jamie L. Carnell	Interim Director of Finance
Ann Davison	City Attorney

SEATTLE CITY LIGHT DEPARTMENT

Michael Haynes	Interim General Manager and Chief Executive Officer
Jen Chan	Chief of Staff
James Baggs	Interim Chief Operating Officer
Kirsty Grainger	Chief Financial Officer
Emeka Anyanwu	Energy Innovation and Resources Officer
DaVonna Johnson	Chief 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/PAYING AGENT

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

-
- (1) These Council Members have announced that they do not intend to seek re-election when their terms expire.
- (2) This Council Member has announced her candidacy for a King County Council position that will be on the ballot in November 2023. If elected, she will resign from her position on the Seattle City Council prior to the expiration of her term.

TABLE OF CONTENTS

	Page
INTRODUCTION	1
DESCRIPTION OF THE BONDS	2
General.....	2
Registration and Book-Entry Form	2
Payment of Bonds.....	3
Redemption of Bonds.....	3
Purchase	4
Refunding or Defeasance of Bonds.....	4
Defaults and Remedies; No Acceleration	4
DAILY INTEREST RATE.....	5
Determination of Daily Interest Rate	5
Conversion of Interest Rate Determination Method.....	6
Optional Tender Provisions.....	6
Mandatory Tender Provisions	6
Notice of Mandatory Tender for Purchase	7
Payment of Purchase Price.....	7
THE LOC PROVIDER.....	7
THE LETTER OF CREDIT	8
General.....	8
Extension, Reduction, and Reinstatement	9
Summary of Certain Sections of the Reimbursement Agreement	9
THE REMARKETING AGREEMENT	13
General.....	13
Special Considerations Related to the Remarketing of the Bonds	13
USE OF PROCEEDS	14
Purpose	14
Sources and Uses of Funds	14
Refunding Plan	14
SECURITY FOR THE BONDS.....	15
Outstanding Parity Bonds	15
Pledge of Revenue	15
Priority Expenditure of Gross Revenue; Flow of Funds	17
Rate Covenant.....	17
Reserve Fund and Reserve Fund Requirement	17
Future Parity Bonds	19
Other Covenants.....	20
Amendments	20
Parity Payment Agreements.....	21
Parity Reimbursement Obligations	21
Rate Stabilization Account.....	22
Defaults and Remedies; No Acceleration	22
Subordinate Lien Obligations	22
SEATTLE CITY LIGHT DEPARTMENT	23
Introduction.....	23
Service Area.....	23
Management.....	24
Department Employment and Labor Relations	26
COVID-19 Pandemic.....	26
Strategic Plan	27
Enterprise Risk and Emergency Response.....	27

TABLE OF CONTENTS (CONTINUED)

	Page
POWER RESOURCES AND COST OF POWER.....	28
Overview of Resources	28
Department-Owned Resources.....	32
Purchased Power Arrangements.....	36
Wholesale Market Sales and Purchases	40
Wholesale Energy Risk Management	41
Washington’s Renewable Portfolio Standard and Regulatory Compliance (Climate Commitment Act, Initiative 937, and CETA).....	42
Conservation	43
Integrated Resource Plan	43
TRANSMISSION AND DISTRIBUTION.....	44
Introduction.....	44
Department-Owned Transmission.....	44
Transmission Contracts.....	44
NorthernGrid (Formerly ColumbiaGrid).....	45
Open Access Transmission Services.....	45
Retail Service.....	45
Operation and Maintenance	46
Federal Regulations	46
DEPARTMENT FINANCIAL INFORMATION.....	47
Historical Sales	47
Largest Customers	48
Financial Policies	49
City Investment Pool.....	50
Taxation and Intergovernmental Payments.....	50
Retail Rates.....	50
Billing and Collection Processes.....	54
Historical Operating Results 2018-2022	56
Management Discussion of Historical Operating Results 2018-2022	59
Expectations for 2023 Operating Results	61
Debt Service Requirements.....	61
Outstanding Variable Rate Parity Bonds.....	61
Subordinate Obligations.....	62
CAPITAL REQUIREMENTS.....	64
Central Utility/General Plant.....	64
Distribution	64
External Projects	64
Power Supply.....	64
Transmission.....	64
Conservation.....	65
High Ross Agreement Payment Amortization	65
Relicensing, Mitigation, and Other Costs	65
Adopted CIP and Conservation and Other Capital Requirements.....	65
Financing Plans.....	66
ENVIRONMENTAL MATTERS	66
Impact of Environmental Matters	66
Waste Management and Disposal Issues.....	67
Contaminated Site Liability	67
Endangered Species Act.....	68
Clean Water Act.....	71
Renewable Energy and Greenhouse Gas Mitigation.....	72
Climate Change.....	73
Wildfire Risk.....	73
VARIOUS FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY	74
Certain Considerations Specific to the Electric Utility Industry	74
Contingent Payment Obligations Unrelated to Debt Obligations.....	75

TABLE OF CONTENTS (CONTINUED)

	Page
THE CITY OF SEATTLE.....	75
Municipal Government.....	76
Budgeting and Forecasting.....	76
Fiscal Reserves.....	77
Financial Management.....	78
Investments.....	79
Risk Management.....	80
Pension Plans.....	80
Other Post-Employment Benefits.....	89
State Paid Family and Medical Leave Insurance.....	89
State Long-Term Care Services and Supports Benefit Program.....	90
Labor Relations.....	90
Emergency Management and Preparedness.....	91
Climate Change.....	91
Cyber Security.....	93
OTHER CONSIDERATIONS RELATIVE TO THE CITY.....	93
Public Health Emergencies.....	93
Public Safety.....	93
Infrastructure and Capital Projects.....	94
Federal Policy Risk and Other Federal Funding Considerations.....	94
INITIATIVE AND REFERENDUM.....	95
State-Wide Measures.....	95
Local Measures.....	95
LEGAL AND TAX INFORMATION.....	95
No Litigation Relating to the Bonds.....	95
Approval of Counsel.....	96
Limitations on Remedies and Municipal Bankruptcies.....	96
Tax Matters.....	97
CONTINUING DISCLOSURE AGREEMENT.....	98
OTHER BOND INFORMATION.....	100
Ratings on the Bonds.....	100
Municipal Advisor.....	101
Underwriter of the Bonds.....	101
Conflicts of Interest.....	101
Official Statement.....	101
BOND ORDINANCE, AS AMENDED AND RESTATED.....	APPENDIX A
FORM OF ADDENDUM TO THE PAYING AGENCY AGREEMENT.....	APPENDIX B
FORM OF LETTER OF CREDIT.....	APPENDIX C
FORM OF BOND COUNSEL OPINION.....	APPENDIX D
2022 AUDITED FINANCIAL STATEMENTS OF THE DEPARTMENT.....	APPENDIX E
DEMOGRAPHIC AND ECONOMIC INFORMATION.....	APPENDIX F
BOOK-ENTRY TRANSFER SYSTEM.....	APPENDIX G

OFFICIAL STATEMENT

\$85,840,000

**THE CITY OF SEATTLE, WASHINGTON
MUNICIPAL LIGHT AND POWER REFUNDING REVENUE BONDS, 2023B
(VARIABLE RATE DEMAND BONDS)**

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 \$85,840,000 aggregate principal amount of the City’s Municipal Light and Power Refunding Revenue Bonds, 2023B (Variable Rate Demand Bonds) (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.

The Bonds are issued under the provisions of 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 authorized by Ordinance 125460, passed by the City Council on November 20, 2017, as amended by Ordinance 125987, passed by the City Council on November 25, 2019, and as further amended by certain amendments set forth therein that became effective pursuant to Section 23(e)(ii) thereof upon the occurrence of the Parity Covenant Date and the Second Parity Covenant Date. The text of the restated Bond Ordinance reflecting these amendments is set forth in Appendix A—Bond Ordinance, as Amended and Restated. Purchasers of the Bonds are subject to the amendments reflected therein. As authorized by the Bond Ordinance, certain terms of the Bonds, including available interest rate modes and payment details, are set forth in that certain Paying Agency Agreement with respect to the Bonds, dated as of October 1, 2023 (the “Paying Agency Agreement”), between the City and U.S. Bank Trust Company, National Association, as bond registrar and paying agent (the “Bond Registrar/Paying Agent”) and, specifically, in the Addendum to the Paying Agency Agreement Regarding Determination of Interest Rate Modes and Related Provisions (the “PAA Addendum”). See Appendix A—Bond Ordinance, as Amended and Restated, and Appendix B—Form of Addendum to the Paying Agency Agreement.

Capitalized terms used in this Official Statement and not otherwise defined herein have the meanings as set forth in the Bond Ordinance and in the PAA Addendum. The Bond Ordinance, the Paying Agency Agreement, and the bond purchase agreement between the City and BofA Securities, Inc. (the “Underwriter”), together are defined as the “Bond Documents.”

This Official Statement describes the Bonds only at the Daily Interest Rate. There are significant differences in the terms of the Bonds while they bear interest in an interest rate mode other than the Daily Interest Rate. This Official Statement is not intended to provide information with respect to the Bonds bearing interest in an interest rate mode other than the Daily Interest Rate. Owners and prospective owners of the Bonds should not rely on this Official Statement for information in connection with any change in interest rate mode, but should look solely to the offering document to be used in connection with any such change in interest rate mode.

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.

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

General

The Bonds will be issued in authorized denominations of \$100,000 or any integral multiple of \$5,000 in excess of \$100,000 (“Authorized Denominations”).

The Bonds will be initially issued in the Daily Interest Rate mode bearing interest at the Daily Interest Rate. Interest during the Daily Interest Rate Period accrues on the basis of the actual number of days elapsed in a 365-day year (or a 366-day year in a leap year) and is payable on each Interest Payment Date for the period commencing on the Interest Accrual Date preceding the prior Interest Payment Date and ending on the last day of the month in which such Interest Accrual Date occurs. Interest is payable monthly by the Paying Agent, commencing December 1, 2023. See Appendix B—Form of Addendum to the Paying Agency Agreement.

Payments of principal, purchase price, and redemption price of and interest on the Bonds will be initially supported by an irrevocable transferable direct-pay letter of credit (the “Letter of Credit”), established by TD Bank, N.A. (the “LOC Provider”), to be issued in favor of the Bond Registrar/Paying Agent. The Letter of Credit is issued by the LOC Provider in accordance with the terms of that certain Reimbursement Agreement between the City and the LOC Provider, and dated as of October 1, 2023 (the “Reimbursement Agreement”). See “The LOC Provider” and “The Letter of Credit.” BofA Securities, Inc. will serve as initial remarketing agent for the Bonds (the “Remarketing Agent”). See “The Remarketing Agreement.”

The Bonds are subject to mandatory purchase and conversion (a “Conversion”) to a Weekly Interest Rate, Long-Term Interest Rate, or Index Floating Rate, as set forth in the PAA Addendum. See Appendix B—Form of Addendum to the Paying Agency Agreement.

Registration and Book-Entry Form

Book-Entry Form. The Bonds initially will be issued in Book-Entry Form and registered in the name of the Securities Depository. The Bonds so registered will be held fully immobilized in Book-Entry Form by the Securities Depository in accordance with the provisions of the Letter of Representations. Neither the City nor the Bond Registrar/Paying Agent, currently U.S. Bank 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 G—Book-Entry Transfer System. The City makes no representation as to the accuracy or completeness of the information in Appendix G 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 PAA Addendum and the other Bond Documents. For so long as the Bonds are in the Daily Interest Rate mode, principal and redemption price of and interest on the Bonds will be payable solely from draws by the Bond Registrar/Paying Agent on the Letter of Credit. The Bonds are not general obligations of the City. No Bonds will be subject to acceleration under any circumstances.

For so long as the Bonds are held in Book-Entry Form, payment will be made in the manner set forth in the Letter of Representations. If the Bonds are not held in Book-Entry Form, interest 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. During a Daily Interest Rate Period, the Bonds will be subject to optional redemption at the written direction of the Director of the Office of City Finance (the “Director of Finance”) on any Business Day (as defined in the PAA Addendum), in whole or in part, at a redemption price of 100% of the principal amount thereof plus interest, if any, accrued to the date fixed for redemption.

The Bond Ordinance provides that, unless waived by the Registered Owner, notice of optional redemption will be given by the Bond Registrar 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 at the address appearing on the Bond Register on the Record Date. This requirement is deemed to have been fulfilled when notice has been mailed as so provided, whether or not it is actually received by any Owner.

For a description of optional and mandatory tender provisions, see “Daily Interest Rate--Optional Tender Provisions” and “—Mandatory Tender Provisions” below.

Mandatory Sinking Fund Redemption. The Bonds are designated as Term Bonds and, if not redeemed or purchased at the City’s option prior to the Maturity Date, will be redeemed at a price equal to the principal amount thereof to be redeemed plus accrued interest on November 1 in the years and in the sinking fund requirements set forth below:

Years	Amounts	Years	Amounts
2024	\$ 2,300,000	2036	\$ 3,755,000
2025	2,440,000	2037	3,905,000
2026	2,535,000	2038	4,060,000
2027	2,640,000	2039	4,225,000
2028	2,745,000	2040	4,390,000
2029	2,855,000	2041	4,570,000
2030	2,970,000	2042	4,750,000
2031	3,085,000	2043	4,940,000
2032	3,210,000	2044	5,140,000
2033	3,340,000	2045	5,345,000
2034	3,470,000	2046 ⁽¹⁾	5,560,000
2035	3,610,000		

(1) Maturity.

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 G. For a description of notice provisions in connection with a mandatory tender, see “Daily Interest Rate—Notice of Mandatory Tender for Purchase” below.

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. See also “Daily Interest Rate” for a description of provisions for optional and mandatory tender for purchase.

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 Gross Revenues of the Light System available after payment of Operating and Maintenance Expense (“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 “—Redemption of Bonds.”

In accordance with the PAA Addendum, any Trust Account established to carry out a refunding or defeasance as set forth above must be held separate and apart from the funds and accounts created under the PAA Addendum. Furthermore, for purposes of funding any such Trust Account, interest shall be deemed to accrue at the Maximum Interest Rate during any period for which the interest rate has not been determined. The City, in adopting its refunding or defeasance plan, will cause tender or redemption to occur on the earliest possible tender, redemption, or interest readjustment date occurring after the establishment of such Trust Account.

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.

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 (defined in the Bond Ordinance as 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) 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 other Bond Documents (except as otherwise provided in the Bond Ordinance or in such other 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 Parity Bonds then outstanding.

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.”

In addition, remedies of the holders of Parity Bonds (including Parity Payment Obligations) are limited as set forth in the springing amendments set forth in Section 24 of the Bond Ordinance. See Appendix A—Bond Ordinance, as Amended and Restated.

DAILY INTEREST RATE

Determination of Daily Interest Rate

The Bonds will initially bear interest at the Daily Interest Rate, which is to be determined by the Remarketing Agent by 10:30 a.m., New York time, on each Business Day in accordance with the timing, notice, and other related provisions set forth in the PAA Addendum. See Appendix B—Form of Addendum to the Paying Agency Agreement. Each Daily Interest Rate will be the rate of interest per annum determined by the Remarketing Agent (based on an examination of tax-exempt obligations comparable, in the judgment of the Remarketing Agent, to the Bonds and known by the Remarketing Agent to have been priced or traded under then-prevailing market conditions) to be the minimum interest rate that, if borne by such Bonds, would enable the Remarketing Agent to sell all of the Bonds on such Business Day at a price (without regard to accrued interest) equal to the principal amount thereof. The Daily Interest Rate for any day that is not a Business Day will be the same as the Daily Interest Rate for the preceding Business Day.

If no Daily Interest Rate is established by the Remarketing Agent, then the Daily Interest Rate for such Business Day will be the same as the preceding Daily Interest Rate, and such Daily Interest Rate will continue to be in effect until the earlier of (i) the date on which the Remarketing Agent determines a new Daily Interest Rate, or (ii) the seventh day succeeding the first day on which the Daily Interest Rate was not determined by the Remarketing Agent. If the Daily Interest Rate is held to be invalid or unenforceable by a court of law, or if the Remarketing Agent fails to determine the Daily Interest Rate for a period of seven days, then the Daily Interest Rate, as determined by the Remarketing Agent, will be equal to 110% of the SIFMA Index, or if such index is no longer available, 85% of the interest rate on 30-day high-grade unsecured commercial paper notes sold through dealers by major corporations as

reported in The Wall Street Journal on the Business Day such Daily Interest Rate would otherwise have been determined, until the Daily Interest Rate is again validly determined by the Remarketing Agent.

Conversion of Interest Rate Determination Method

The Bonds will initially bear interest at the Daily Interest Rate, but upon the City's election to effect a Conversion, the Bonds may be converted to a Weekly Interest Rate, Long-Term Interest Rate, or Index Floating Rate mode (each, an "Interest Rate Period"). See Appendix B—Form of Addendum to the Paying Agency Agreement. The Interest Rate Period for the Bonds may not be adjusted prior to each date on which the Bonds are required to be purchased pursuant to the Paying Agency Agreement (each, a "Purchase Date"), except for a Conversion of all outstanding Bonds.

In accordance with the Paying Agency Agreement, notice of a Conversion will be provided to bondholders not less than 20 days prior to the proposed Conversion Date, which notice will set forth certain details of the proposed conversion as required under the Paying Agency Agreement and may be combined with a notice of mandatory tender. The City may rescind any election to effect a Conversion by delivering written notice to the Bond Registrar/Paying Agent, the LOC Provider, and the Remarketing Agent, on or prior to 10:00 a.m., New York time, on the second Business Day preceding the proposed Conversion Date. If the City rescinds its election to effect a Conversion, the Bonds will continue to bear interest at the Daily Interest Rate.

The Bonds are subject to mandatory tender for purchase on a Conversion Date and Registered Owners may not elect to retain ownership of the Bonds. The notice of Conversion and notice of mandatory tender may be combined into a single notice.

Optional Tender Provisions

During a Daily Interest Rate Period, the Bonds may be tendered for purchase in any Authorized Denomination (provided that the amount that is not tendered for purchase must also be in an Authorized Denomination) upon delivery by a Registered Owner of such Bonds to the Bond Registrar/Paying Agent and Remarketing Agent by no later than 11:00 a.m., New York time, on any Business Day, of an irrevocable written notice (or an irrevocable telephonic notice, promptly confirmed by email or other written notice), that states (i) the principal amount of Bonds to be purchased, and (ii) the Purchase Date, which will be that Business Day on which the notice is timely delivered. Any such notice delivered to the Bond Registrar/Paying Agent or the Remarketing Agent after 11:00 a.m., New York time, will be deemed to have been received on the succeeding Business Day.

A notice of optional tender for purchase given by a Registered Owner or Participant is irrevocable, regardless of whether such Bonds are delivered to the Bond Registrar/Paying Agent for purchase on the applicable Purchase Date. Bonds that are not tendered for purchase on the Purchase Date will be deemed to be Undelivered Bonds.

Mandatory Tender Provisions

The Bonds are subject to mandatory tender for purchase at a price equal to the principal amount required to be tendered, without premium, plus accrued interest from the most recent Interest Payment Date to the Purchase Date, plus any other accrued and unpaid interest (the "Purchase Price"), on the following Purchase Dates (without duplication): (A) on each Scheduled Mandatory Tender Date; (B) on each Conversion Date; (C) in the event that the Bonds cease to be subject to the Letter of Credit, as set forth in the Paying Agency Agreement; and (D) at any time during a Delayed Remarketing Period, upon notice given by the Remarketing Agent to the Bond Registrar/Paying Agent of a successful remarketing and the availability of funds sufficient to pay the Purchase Price for all or any portion of such Bonds (in Authorized Denominations), without regard to any notice requirements set forth in the Paying Agency Agreement.

In accordance with the Paying Agency Agreement, in conjunction with a mandatory tender upon the expiration or termination of the Letter of Credit, the Purchase Date for such mandatory tender will be (i) the fifth Business Day preceding any such expiration or termination of the Letter of Credit if no Alternate Credit Facility is to be delivered to the Bond Registrar/Paying Agent, (ii) the Business Day on which an Alternate Credit Facility is delivered to the Bond Registrar/Paying Agent, or (iii) the Conversion Date. For a definition of "Alternate Credit Facility" see Appendix B—Form of Addendum to Paying Agency Agreement.

Notice of Mandatory Tender for Purchase

In connection with any mandatory tender for purchase following the expiration or termination of the Letter of Credit, the Bond Registrar/Paying Agent will give notice to the Registered Owner(s) of the affected Bonds not less than seven days prior to the Purchase Date. A notice of mandatory tender must contain the following information (and may, at the direction of the City and in its sole discretion, be combined with a notice of Conversion delivered to the Registered Owner(s)): (i) each notice will state that if the Purchase Price is provided to the Bond Registrar/Paying Agent from remarketing or refunding proceeds, proceeds of a draw on the Letter of Credit, or other funds made available by the City, such Bonds will be purchased on the Purchase Date; and (ii) in the case of a mandatory tender for purchase as the result of the expiration or termination of the Letter of Credit, the notice will state that (a) the Letter of Credit will expire, terminate, or be replaced, (b) after the Purchase Date, the Bonds will no longer be purchased pursuant to the Letter of Credit then in effect, and (c) the short-term ratings applicable to the Bonds may be lowered or withdrawn.

Payment of Purchase Price

Bonds tendered for purchase will be purchased on the Purchase Date specified in the applicable notice by payment of the Purchase Price by the Bond Registrar/Paying Agent, from the sources described below, payable in immediately available funds to the Registered Owner at 2:50 p.m., New York time, on the Purchase Date, or as soon as practicable thereafter upon the receipt by the Bond Registrar/Paying Agent of the Purchase Price.

The Purchase Price of any Bonds to be purchased on any Purchase Date will be made from the following sources in the following order of priority: (i) proceeds of the remarketing of such Bonds; (ii) proceeds of a draw on the Letter of Credit; and (iii) other funds made available by the City.

THE LOC PROVIDER

The following information has been supplied by the LOC Provider for inclusion in this Official Statement. This information has not been verified independently by the City, its advisors, or the Underwriter and no representation is made by the City, its advisors, or the Underwriter as to the accuracy, adequacy, or completeness of the information.

TD Bank, N.A. (the "LOC Provider"), is a national banking association organized under the laws of the United States, with its main office located in Wilmington, Delaware. The LOC Provider is an indirect, wholly-owned subsidiary of The Toronto-Dominion Bank ("TD") and offers a full range of banking services and products to individuals, businesses and governments throughout its market areas, including commercial, consumer and trust services, and indirect automobile dealer financing. The LOC Provider operates banking offices in Connecticut, Delaware, the District of Columbia, Florida, Maine, Maryland, Massachusetts, New Hampshire, New Jersey, North Carolina, New York, Pennsylvania, Rhode Island, South Carolina, Vermont, and Virginia. As of June 30, 2023, the LOC Provider had consolidated assets of \$303.9 billion, consolidated deposits of \$374.2 billion, and stockholder's equity of \$44.7 billion, based on regulatory accounting principles.

Additional information regarding the foregoing, and the LOC Provider and TD, is available from the filings made by TD with the U.S. Securities and Exchange Commission (the "SEC"), which filings can be inspected and copied at the public reference facilities maintained by the SEC at 100 F Street, N.E., Washington, D.C. 20549, at prescribed rates. In addition, the SEC maintains a website at <http://www.sec.gov>, which contains reports, proxy statements, and other information regarding registrants that file such information electronically with the SEC.

The information concerning TD and the LOC Provider contained herein is furnished solely to provide limited introductory information and does not purport to be comprehensive. Such information is qualified in its entirety by the detailed information appearing in the documents and financial statements referenced herein.

The Letter of Credit has been issued by the LOC Provider and is the obligation of the LOC Provider and not TD.

The LOC Provider will provide copies of the publicly available portions of the most recent quarterly Call Report of the LOC Provider delivered to the Comptroller of the Currency, without charge, to each person to whom this document is delivered, on the written request of such person. Written requests should be directed to:

TD Bank, N.A.
1701 Route 70 East
Cherry Hill, New Jersey 08034
Attn: Corporate and Public Affairs

Information regarding the financial condition and results of operations of the LOC Provider is contained in the quarterly Call Reports of the LOC Provider delivered to the Comptroller of the Currency and available online at <https://cdr.ffiec.gov/public>. General information regarding the LOC Provider may be found in periodic filings made by TD with the SEC. TD is a foreign issuer that is permitted, under a multijurisdictional disclosure system adopted by the United States, to prepare certain filings with the SEC in accordance with the disclosure requirements of Canada, its home country. Canadian disclosure requirements are different from those of the United States. TD's financial statements are prepared in accordance with International Financial Reporting Standards, and may be subject to Canadian auditing and auditor independence standards, and thus may not be comparable to financial statements of United States companies prepared in accordance with United States generally accepted accounting principles.

The delivery hereof shall not create any implication that there has been no change in the affairs of TD or the LOC Provider since the date hereof, or that the information contained or referred to under the heading "The LOC Provider" of the Official Statement is correct as of any time subsequent to its date.

NEITHER TD NOR ANY OTHER SUBSIDIARY OF TD OTHER THAN THE LOC PROVIDER IS OBLIGATED TO MAKE PAYMENTS UNDER THE LETTER OF CREDIT.

The LOC Provider is responsible only for the information contained in this section of the Official Statement and did not participate in the preparation of, or in any way verify the information contained in, any other part of the Official Statement. Accordingly, the LOC Provider assumes no responsibility for and makes no representation or warranty as to the accuracy or completeness of information contained in any other part of the Official Statement.

THE LETTER OF CREDIT

General

The Letter of Credit will be issued on the date of delivery of the Bonds by TD Bank, N.A. as the LOC Provider, for the account of the City in favor of the Bond Registrar/Paying Agent. The Letter of Credit is issued in the amount of \$87,251,069 (the "Original Stated Amount") to pay principal of and accrued interest on, or the purchase price of, the Bonds in accordance with the terms of the Letter of Credit.

The Bond Registrar/Paying Agent is authorized to draw upon the Letter of Credit beginning on the Initial Issue Date and ending on the earliest to occur of the LOC Provider's close of business on:

- (i) October 25, 2028 (as extended from time to time, the "Stated Expiration Date");
- (ii) the earlier of (i) the date which is one Business Day following the date on which the Bonds have been converted to a rate other than the Daily Interest Rate or Weekly Interest Rate (the "Conversion Date") as such date is specified in a certificate and (ii) the date on which the LOC Provider honors a Drawing under the Letter of Credit on or after the Conversion Date;
- (iii) the date of receipt from the Bond Registrar/Paying Agent of a certificate certifying either that no Bonds remain outstanding within the meaning of the Ordinance, or that all drawings required to be made under the Paying Agency Agreement and available under the Letter of Credit have been made, or that a substitute letter of credit or other credit or liquidity facility has been issued to replace the Letter of Credit pursuant to the Paying Agency Agreement and the Reimbursement Agreement (the "Notice of Termination"), upon which the Letter of Credit will automatically terminate;

- (iv) the date of a drawing equal to the principal amount of the Bonds outstanding on November 1, 2046, the maturity date thereof as specified in the Paying Agency Agreement (a “Stated Maturity Drawing”); and
- (v) the date which is 15 days after the receipt by the Bond Registrar/Paying Agent of a Notice of Default from the Bank under the Reimbursement Agreement stating that an Event of Default as defined in the Reimbursement Agreement has occurred and directing the Bond Registrar/Paying Agent to cause a mandatory tender of the Bonds.

While the Bonds are in the Daily Interest Rate or Weekly Interest Rate mode, drawings on the Letter of Credit may be made in the form of an Interest Drawing, a Redemption Drawing, a Liquidity Drawing, or a Stated Maturity Drawing (each, a “Drawing”). No Drawing may be made under the Letter of Credit for Bonds bearing interest at a rate other than the Daily Interest Rate or Weekly Interest Rate, for Bonds that have been purchased with the proceeds of a Liquidity Drawing and registered in the name of the LOC Provider or its nominee (“Bank Bonds”), or for Bonds that are owned by or held for the account of or on behalf of the City or any Affiliate thereof.

Extension, Reduction, and Reinstatement

Extension. The Stated Expiration Date of the Letter of Credit may be extended prior to the Stated Expiration Date at the request of the City upon the delivery by the LOC Provider of an amendment to the Letter of Credit to the Bond Registrar/Paying Agent designating the date to which the Stated Expiration Date is being extended.

Reduction and Reinstatement. The Available Amount of the Letter of Credit is equal to the Original Stated Amount less (a) the amount of all prior reductions pursuant to Drawings and less (b) the amount of any reduction thereof pursuant to a reduction certificate attached to the Letter of Credit to the extent such reduction is not already accounted for by a reduction in the Available Amount pursuant to the immediately preceding clause (a) plus (c) the amount of any reinstatements as provided in the Letter of Credit. The Available Amount will be reduced automatically by the amount of any Drawing honored by the LOC Provider under the Letter of Credit; *provided, however,* that the amount of any Interest Drawing, less the amount of the reduction in the Available Amount attributable to interest as specified in a certificate attached to the Letter of Credit (each a “Reduction Certificate”), will be automatically reinstated effective as of the opening of business on the sixth day following such Drawing unless the Bond Registrar/Paying Agent shall have received from the LOC Provider by telecopy or in writing (or other electronic telecommunication) on or before the close of business on the fifth (5th) day after the date of such Drawing notice that the LOC Provider has not been reimbursed in full for such Drawing and as a result an Event of Default under the Reimbursement Agreement has occurred or any other Event of Default under the Reimbursement Agreement has occurred and as a consequence thereof the Letter of Credit will not be so reinstated and the LOC Provider shall direct the Bond Registrar/Paying Agent to cause a mandatory tender of the Bonds. After payment by the LOC Provider of a Liquidity Drawing, the obligation of the LOC Provider to honor Drawings under the Letter of Credit will be automatically reduced by the amount of such Liquidity Drawing. In addition, prior to the Conversion Date, in the event of the remarketing of the Bonds (or portions thereof) previously purchased with the proceeds of a Liquidity Drawing, the LOC Provider’s obligation to honor Drawings under the Letter of Credit will be automatically reinstated concurrently with receipt by the LOC Provider of a certificate attached to the Letter of Credit and an amount equal to the amount stated in such certificate.

Summary of Certain Sections of the Reimbursement Agreement

The Bond Registrar/Paying Agent is authorized to make Drawings under the Letter of Credit. Each Liquidity Drawing shall constitute an advance (“Advance”) to the City. The City has promised in the Reimbursement Agreement to reimburse the LOC Provider for the interest portion of each Advance on the earliest to occur of: (i) the next Interest Payment Date with respect to the related Bonds occurring after the date of such Advance; (ii) the date on which the Letter of Credit is replaced by an Alternate Credit Facility pursuant to the terms of the Paying Agency Agreement; (iii) the date on which any Bonds purchased by the LOC Provider with funds disbursed under the Letter of Credit in connection with the related Liquidity Drawing are redeemed, prepaid, or canceled pursuant to the Bond Documents; (iv) the date on which any Bonds purchased by the LOC Provider with funds disbursed under the Letter of Credit are remarketed pursuant to the Bond Documents; (v) the Conversion Date; and (vi) the date on which the Available Amount of the Letter of Credit is permanently reduced to zero or the Letter of Credit is otherwise terminated (except as the result of the occurrence of the Stated Expiration Date).

The City has promised in the Reimbursement Agreement to repay the then unpaid principal portion of each Advance to the LOC Provider on the earliest to occur of: (i) the date on which the Letter of Credit is replaced by an Alternate Credit Facility pursuant to the terms of the Paying Agency Agreement; (ii) the date on which any Bonds purchased by the LOC Provider with funds disbursed under the Letter of Credit in connection with such Liquidity Drawing are redeemed, prepaid, or canceled pursuant to the Bond Documents; (iii) the date on which any Bonds purchased by the LOC Provider with funds disbursed under the Letter of Credit in connection with the related Liquidity Drawing are remarketed; (iv) the Conversion Date; and (v) the date on which the Available Amount of the Letter of Credit is permanently reduced to zero or the Letter of Credit is otherwise terminated (except as the result of the occurrence of the Stated Expiration Date).

Unless such Advance is payable in full as provided in the Reimbursement Agreement, each Advance shall be payable by the City, in quarterly principal installments (each a “*Quarterly Principal Payment*”) on each Amortization Payment Date related thereto (commencing on the first such date to occur after the making of the related Advance), with the final installment in an amount equal to the entire then outstanding principal amount of such Advance being due and payable on the related Amortization End Date. Each Quarterly Principal Payment shall be that amount which will result in equal (as nearly as possible) aggregate Quarterly Principal Payments over the applicable Amortization Period.

“Amortization Commencement Date” means the earlier to occur of (i) the first Business Day to occur at least 367 days after the date the related Advance was made and (ii) the Stated Expiration Date.

“Amortization End Date” means the earliest to occur of (a) the third (3rd) anniversary of the date the related Advance was made; (b) the date on which the Letter of Credit is replaced by an Alternate Credit Facility pursuant to the terms of the Paying Agency Agreement; (c) the date on which any Bonds purchased by the LOC Provider with funds disbursed under the Letter of Credit in connection with the related Liquidity Drawing are redeemed, prepaid or canceled pursuant to the Bond Documents; (d) the date on which any Bonds purchased by the LOC Provider with funds disbursed under the Letter of Credit in connection with the related Liquidity Drawing are remarketed; (e) the Conversion Date; and (f) the date on which the Available Amount of the Letter of Credit is permanently reduced to zero or the Letter of Credit is otherwise terminated (except as the result of the occurrence of the Stated Expiration Date).

“Amortization Payment Date” means, with respect to any Advance (a) the Amortization Commencement Date and the corresponding date in every third month occurring after the Amortization Commencement Date (provided, however, if any such date is not a Business Day, the next succeeding day which is a Business Day) occurring thereafter prior to the related Amortization End Date and (b) the related Amortization End Date.

“Amortization Period” means the period commencing on the related Amortization Commencement Date and ending on the related Amortization End Date

Events of Default. The occurrence of any of the following events (whatever the reason for such event and whether voluntary, involuntary, or effected by operation of Law) shall be an “Event of Default” under the Reimbursement Agreement, unless waived in writing by the LOC Provider:

- (a) the City shall fail to pay the principal of or interest on any Bank Bond or any Reimbursement Obligation when due (whether by scheduled maturity or extraordinary mandatory redemption payment or otherwise);
- (b) the City shall fail to pay any Obligation (other than the obligation to pay the principal of or interest on the Bank Bond or any Reimbursement Obligation) when due and such failure shall continue for five (5) Business Days;
- (c) any representation or warranty made by or on behalf of the City in the Reimbursement Agreement (including those incorporated therein by reference) or in any other Facility Document or in any certificate or statement delivered thereunder shall be incorrect or untrue in any material respect when made or deemed to have been made or delivered;
- (d) the City shall default in the due performance or observance of any of the certain specified covenants set forth in the Reimbursement Agreement subject to the terms and conditions and grace periods set forth in the Reimbursement Agreement

- (e) the City shall default in the due performance or observance of any other term, covenant or agreement contained in the Reimbursement Agreement (including those incorporated therein by reference) (other than with respect to any other Event of Default set forth in the Reimbursement Agreement) or any other Facility Document and such default shall remain unremedied for a period of thirty (30) days after the City has actual knowledge or notice of the occurrence thereof;
- (f) the City or the Light System shall (i) have entered involuntarily against it an order for relief under the United States Bankruptcy Code, as amended, (ii) become insolvent or shall not pay, or be unable to pay, or admit in writing its inability to pay, its debts generally as they become due, (iii) make an assignment for the benefit of creditors, (iv) apply for, seek, consent to, or acquiesce in, the appointment of a receiver, custodian, trustee, examiner, liquidator or similar official for it or any substantial part of its Property, (v) institute any proceeding seeking to have entered against it an order for relief under the United States Bankruptcy Code, as amended, to adjudicate it insolvent, or seeking dissolution, winding up, liquidation, reorganization, arrangement, marshalling of assets, adjustment or composition of it or its debts under any law relating to bankruptcy, insolvency or reorganization or relief of debtors or fail to file an answer or other pleading denying the material allegations of any such proceeding filed against it, (vi) take any official or corporate action in furtherance of any matter described in parts (i) through (v) above, or (vii) fail to contest in good faith any appointment or proceeding described in the immediately succeeding paragraph (g);
- (g) a custodian, receiver, trustee, examiner, liquidator or similar official shall be appointed for the City or any substantial part of the Light System or the Property thereof, or a proceeding described in clause (v) of the immediately preceding paragraph (f) shall be instituted against the City (if such proceeding is permitted under applicable law) and such proceeding continues undischarged or any such proceeding continues undismissed or unstayed for a period of thirty (30) or more days;
- (h) a debt moratorium, debt restructuring, debt adjustment or comparable restriction is imposed on the repayment when due and payable of the principal of or interest on any Debt of the City by the City or any Governmental Authority with appropriate jurisdiction;
- (i) any material provision of the Reimbursement Agreement, the Bonds or any of the other Facility Documents shall at any time for any reason cease to be valid and binding on the City; or the validity or enforceability of any material provision of the Reimbursement Agreement, the Bonds or any of the other Facility Documents shall be contested by the City; or the City or any agent or trustee on its behalf shall deny that it has any or further liability under the Reimbursement Agreement, the Bonds or any of the other Facility Documents to which it is a party;
- (j) dissolution or termination of the existence of the City or the Light System;
- (k) (A) the City shall (i) default on the payment of the principal of or interest on any Parity Debt, including, without limitation, any regularly scheduled payments on Swap Contracts which constitute Parity Debt, beyond the period of grace, if any, provided in the instrument or agreement under which such Parity Debt was created or incurred; or (ii) default in the observance or performance of any agreement or condition relating to any Parity Debt or contained in any instrument or agreement evidencing, securing or relating thereto, or any other default, event of default or similar event shall occur or condition exist, the effect of which default, event of default or similar event or condition is to cause or permit (determined without regard to whether any notice is required) any such Parity Debt to become immediately due and payable in full as the result of the acceleration, mandatory redemption or mandatory tender of such Parity Debt; or (B) the City shall (i) default on the payment of the principal of or interest on any Debt payable from or secured on a subordinate basis to the Lien on Net Revenues securing the payment of the principal of and interest on the Bonds and Parity Debt aggregating in excess of \$30,000,000, beyond the period of grace, if any, provided in the instrument or agreement under which such Debt was created or incurred; or (ii) default in the observance or performance of any agreement or condition relating to any Debt payable from or secured on a subordinate basis to the Lien on Net Revenues securing the payment of the principal of and interest on the Bonds and Parity Debt aggregating in excess of \$30,000,000, or contained in any instrument or agreement evidencing, securing or relating thereto, or any other default, event of default or similar event shall occur or condition exist, the effect of which default, event of default or similar

event or condition is to permit or cause (determined without regard to whether any notice is required) any such Debt to become immediately due and payable in full as the result of the acceleration, mandatory redemption or mandatory tender of such Debt;

- (l) any final, unappealable judgment or judgments, writ or writs or warrant or warrants of attachment, or any similar process or processes, which are not covered in full by insurance, with written acknowledgement of such coverage having been provided by the provider of such insurance coverage to the LOC Provider, in an aggregate amount not less than \$30,000,000 shall be entered or filed against the City or against any of its Property and remain unpaid, unvacated, unbonded or unstayed for a period of thirty (30) days;
- (m) (i) any “event of default” under any Facility Document (as defined respectively therein) shall have occurred; or (ii) any “event of default” as defined in any loan, credit, liquidity, purchase or other similar agreement between the City and the LOC Provider which is not cured within any applicable cure period shall occur; or
- (n) any of Fitch, Moody’s and S&P shall have downgraded its rating of any long-term unenhanced Parity Debt of the City to or below “BBB” (or its equivalent), “Baa2” (or its equivalent), or “BBB” (or its equivalent), respectively, or suspended or withdrawn its rating of the same.

Remedies. (i) Upon the occurrence of any Event of Default, the LOC Provider may exercise any one or more of the following rights and remedies in addition to any other remedies in the Reimbursement Agreement or by law provided:

- (a) give written notice of the occurrence of an Event of Default to the Bond Registrar/Paying Agent in the form of Exhibit B to the Reimbursement Agreement, a Notice of Default, directing the Bond Registrar/Paying Agent to cause a mandatory tender of the Bonds pursuant to the terms of the Bond Documents, thereby causing the Letter of Credit to expire 15 days following receipt of such Notice of Default;
- (b) either personally or by attorney or agent without bringing any action or proceeding, or by a receiver to be appointed by a court in any appropriate action or proceeding, take whatever action at law or in equity may appear necessary or desirable to collect the amounts due and payable under the Facility Documents or to enforce performance or observance of any obligation, agreement or covenant of the City under the Facility Documents, whether for specific performance of any agreement or covenant of the City or in aid of the execution of any power granted to the LOC Provider in the Facility Documents;
- (c) cure any Default, Event of Default or event of nonperformance under the Reimbursement Agreement or under any other Facility Document; provided, however, that the LOC Provider shall have no obligation to effect such a cure; and
- (d) exercise, or cause to be exercised, any and all remedies as it may have under the Facility Documents and as otherwise available at law and at equity, including, without limitation, actions to petition a court of competent jurisdiction to issue a mandamus order to the City and compel specific performance of the covenants and agreements of the City contained in any of the Facility Documents.

From and after the occurrence of any Event of Default, all Obligations due and owing under the Reimbursement Agreement (including, without limitation, unreimbursed Drawings, Advances and Bank Bonds) shall bear interest at the Default Rate, payable on demand.

- (ii) To the extent permitted under the Ordinance and notwithstanding anything contained in the Reimbursement Agreement or any other Facility Document to the contrary, if the City fails to observe the covenant set forth in Section 5.29 of the Reimbursement Agreement and, as a result of such failure to observe Section 5.29 of the Reimbursement Agreement, any holder or credit or liquidity enhancer of any Parity Debt secured by a pledge of all or any portion of the Net Revenues or any counterparty under any Swap Contract related thereto (A) exercises the remedy of causing such obligations to become immediately due and payable or payable prior to its stated maturity date (whether by repurchase, mandatory tender, mandatory redemption, acceleration or otherwise), the LOC Provider may immediately and without notice declare or cause to be declared the unpaid principal amount of the Obligations, all interest accrued and unpaid thereon, and all other amounts owing or payable under the Reimbursement Agreement to be immediately due and payable, or (B) has the right to shorten

the times at which principal of and interest on such Parity Debt (whether as bank bonds, unremarketed bonds or otherwise) become due and payable while a Term-Out Provision (or similar provision under any ordinance or supplemental ordinance or resolution relating to any such Parity Debt or under any other document or agreement relating to any such Parity Debt) is in effect or prevent such a Term-Out Provision or similar provision from taking effect, the LOC Provider shall immediately have the same rights with respect to the repayment of Bank Bonds under the Reimbursement Agreement as such holder or credit or liquidity enhancer or counterparty.

THE REMARKETING AGREEMENT

General

The Bonds and the Bond Documents provide, among other things, that the Registered Owners may elect (or may be required) in certain instances to tender their Bonds for purchase upon certain terms in the Bonds and the Bond Documents. BofA Securities, Inc., as initial remarketing agent (the “Remarketing Agent”), has agreed to remarket the Bonds on each Purchase Date and on each Conversion Date, in accordance with a remarketing agreement dated October 26, 2023, between the City and the Remarketing Agent (the “Remarketing Agreement”), subject to customary conditions as set forth in the Remarketing Agreement.

BofA Securities, Inc. is also the Underwriter of the Bonds. For additional information on BofA Securities, Inc. and its affiliates, see “Other Bond Information—Underwriter of the Bonds.”

Special Considerations Related to the Remarketing of the Bonds

Investors should consider the following factors with respect to the remarketing of the Bonds.

A Remarketing Agent Has Been Selected and Will Be Paid by the City. The Remarketing Agent’s responsibilities include remarketing the Bonds, as further described in this Official Statement. The Remarketing Agent is appointed by the City and paid by the City for its services. As a result, the interests of the Remarketing Agent may differ from those of the Registered Owners or Beneficial Owners of the Bonds.

The Remarketing Agent May Purchase the Bonds for Its Own Account. The Remarketing Agent, in its individual capacity, may in good faith buy, sell, own, hold and deal in any of the Bonds, including, without limitation, any Bonds offered and sold by the Remarketing Agent pursuant to the Remarketing Agreement. The Remarketing Agent may sell any of such Bonds at prices above or below par, at any time. The Remarketing Agent, in its individual capacity, either as principal or agent, may also engage in or be interested in any financial or other transaction with the City and may act as depository, trustee, or agent for any committee or body of Registered Owners or other obligations of the City as freely as if it did not act in any capacity hereunder. Nothing in the Remarketing Agreement obligates the Remarketing Agent to purchase any Bonds at any time.

The Remarketing Agent May Be Removed, Resign, or Cease Remarketing. The Remarketing Agent may at any time resign and be discharged of its duties and obligations under the Remarketing Agreement upon providing the bond Registrar/Paying Agent and the City with 30 days’ prior written notice. In addition, the Remarketing Agent may be removed at any time at the direction of the City upon 30 days’ prior written notice to the Remarketing Agent. Upon removal or resignation of the Remarketing Agent, the City will promptly cause the Bond Registrar/Paying Agent to give notice thereof to all Registered Owners and to any rating agency that has assigned a rating to the Bonds.

The Bonds May Be Offered at Different Prices on Any Date Including an Interest Rate Determination Date. The Remarketing Agent is required by the Remarketing Agreement to determine the applicable rate of interest that, in its judgment, is the lowest rate that would permit the sale of Bonds bearing interest at such rate at par plus accrued interest, if any, on and as of the Rate Determination Date. Such interest rate will reflect, among other factors, the level of market demand for such Bonds (including whether the Remarketing Agent or the City is willing to purchase such Bonds for its own account). The Remarketing Agreement requires that the Remarketing Agent use its best efforts to remarket the Bonds tendered pursuant to the Paying Agency Agreement. There may or may not be Bonds tendered and remarketed on a Rate Determination Date; the Remarketing Agent may or may not be able to remarket any of the Bonds tendered for purchase on such date at par; and the Remarketing Agent may sell Bonds at varying prices to different investors on such date or any other date. The Remarketing Agent is not obligated to advise purchasers in a

remarketing if it does not have third party buyers for all of the Bonds at the remarketing price. In the event the Remarketing Agent or the City owns any Bonds for its own account, it may, in its sole discretion in a secondary market transaction outside the tender process, offer such Bonds on any date, including the Rate Determination Date, at a discount to par to some investors which, in the case of the Remarketing Agent, may include the City.

The Ability to Sell the Bonds Other Than Through the Tender Process May Be Limited. The Remarketing Agent and the City may buy and sell Bonds other than through the tender process. However, they are not obligated to do so and may cease doing so at any time without notice and may require holders that wish to tender Bonds to do so through the Bond Registrar/Paying Agent with appropriate notice. Thus, investors who purchase the Bonds, whether in a remarketing or otherwise, should not assume that they will be able to sell their Bonds other than by tendering the Bonds in accordance with the tender process.

USE OF PROCEEDS

Purpose

The Bonds are being issued to refund on a current basis certain obligations of the Light System (described below under “—Refunding Plan”), and to pay the administrative costs of issuing the Bonds and the costs of administering the Refunding Plan.

Sources and Uses of Funds

The proceeds of the Bonds will be applied as follows:

SOURCE OF FUNDS	
Par Amount of the Bonds	\$ 85,840,000
Cash Contribution for Accrued Interest ⁽¹⁾	<u>519,578</u>
Total Sources of Funds	<u>\$ 86,359,578</u>
USES OF FUNDS	
Deposit to Refunding Escrow ⁽¹⁾	\$ 85,899,578
Costs of Issuance ⁽²⁾	<u>460,000</u>
Total Uses of Funds	<u>\$ 86,359,578</u>

(1) Preliminary, subject to change. Future interest rate resets based on assumed maximum rate of 12%.

(2) 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

With a portion of the proceeds of the Bonds, the City will refund on a current basis the City’s Municipal Light and Power Refunding Revenue Bonds, 2018C-1 (SIFMA Index) (the “2018C-1 Bonds”), and 2018C-2 (SIFMA Index) (the “2018C-2 Bonds,” and together with the 2018C-1 Bonds, the “Refunded Bonds”), as shown below.

REFUNDED BONDS

Series	Maturity		Call Price	Call Date	Scheduled Mandatory	
	Date	Par Amount			Tender Date	CUSIP Numbers
2018C-1 Bonds	11/1/2046	\$ 42,690,000	100%	11/1/2023	11/1/2023	812643 SE5
2018C-2 Bonds	11/1/2046	42,690,000	100%	11/1/2023	11/1/2023	812643 SF2

The City will enter into a Refunding Trust Agreement with U.S. Bank Trust Company, N.A., 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 cash sufficient to pay the principal of and accrued interest coming due on the redemption date of the Refunded Bonds.

The mathematical accuracy of the computations of the adequacy of the cash 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.

SECURITY FOR THE BONDS

Outstanding Parity Bonds

The Bonds are being issued on parity with the Outstanding Parity Bonds, which currently include 21 series of bonds issued since 2010. See “Department Financial Information—Debt Service Requirements.”

OUTSTANDING PARITY BONDS

Series	Original Par Amount	Outstanding Principal as of 10/1/2023
2010A	\$ 181,625,000	\$ 162,360,000
2010C	13,275,000	13,275,000
2011B	10,000,000	10,000,000
2012A	293,280,000	39,275,000
2012C	43,000,000	43,000,000
2014	265,210,000	95,645,000
2015A	171,850,000	96,545,000
2016A	31,870,000	31,870,000
2016B	116,875,000	74,055,000
2016C	160,815,000	119,610,000
2017C	385,530,000	306,795,000
2018A	263,755,000	240,675,000
2018C-1 ⁽¹⁾⁽²⁾	49,245,000	43,810,000
2018C-2 ⁽¹⁾⁽²⁾	49,245,000	43,810,000
2019A	210,540,000	196,755,000
2019B	140,275,000	71,485,000
2020A	198,305,000	191,685,000
2021A	259,795,000	243,040,000
2021B ⁽²⁾	100,620,000	100,620,000
2022	257,715,000	239,535,000
2023A	273,625,000	273,625,000
Total	<u>\$3,476,450,000</u>	<u>\$ 2,637,470,000</u>

(1) A portion of these bonds are the Refunded Bonds, which are expected to be defeased on October 26, 2023.

(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. Payment of principal of and interest on the Bonds is supported by the Letter of Credit (see “The Letter of Credit”), and draws on the Letter of Credit are payable from and secured solely by Net Revenue and by money in the Seattle Municipal Light Revenue Parity Bond Fund (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 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—Bond Ordinance, as Amended and Restated.

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 (including the City's repayment obligations under the Reimbursement Agreement or any Alternate Credit Facility), 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 “—Future Parity Bonds,” “Department Financial Information—Financial Policies,” and Appendix A—Bond Ordinance, as Amended and Restated.

Reserve Fund and Reserve Fund Requirement

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

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—In General. 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.”

Reserve Fund Requirement for the Bonds. With respect to the Bonds, the Director of Finance has determined in the Paying Agency Agreement that the Reserve Fund Requirement for the Bonds will be calculated as follows:

- (i) For so long as the City’s surety bond purchased from Financial Security Assurance, Inc. (“FSA”) (the “Surety Bond”) remains in effect, the Reserve Fund Requirement for the Bonds will be the additional amount necessary, if any, to provide an overall level of funding in the Reserve Fund equal to the maximum amount permitted by the Code as a “reasonably required reserve or replacement fund,” calculated as of the date on which the Bonds are delivered to the Underwriter pursuant to the Bond Purchase Agreement (the “Initial Issue Date”) based on the debt service requirements for all Parity Bonds then outstanding.
- (ii) From and after the expiration or termination of the Surety Bond, the Reserve Fund Requirement for the Bonds will be \$0 and the debt service requirements for the Bonds will be thereafter excluded from calculation of the Reserve Fund Requirement for other Parity Bonds then outstanding.

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 Initial 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 2021B Bonds, the 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 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 2021B Bonds and the 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) will remain secured by the Reserve Fund, despite any resulting reduction in the overall amount of the Reserve Fund Requirement.

Method of Satisfying Reserve Fund Requirement. The Bond Ordinance delegates to the Director of Finance the authority to determine the method of funding the Reserve Fund Requirement for each issue of 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 Initial 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. The Paying Agency Agreement provides that, prior to the Initial Issue Date, the City will deposit into the Reserve Fund an amount sufficient to satisfy the Reserve Fund Requirement for the Bonds from amounts already on deposit in the Reserve Fund or from Net Revenue or other funds of the City available from sources other than proceeds of the Bonds.

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—Bond Ordinance, as Amended and Restated. 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 August 31, 2023, the remainder of the Reserve Fund Requirement is satisfied by \$105,153,886 in cash held in the Reserve Fund.

As of the Initial Issue Date of the Bonds, the aggregate Reserve Fund Requirement will be equal to approximately \$163.6 million, which will be satisfied by the cash already on deposit in the Reserve Fund and the Policy Limit of the Surety Bond.

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, AA, and AA+ by Moody's Investors Service, S&P Global Ratings, and Kroll Bond Rating Agency, 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 SEC. Certain SEC filings of AGM are available on the company's website, www.assuredguaranty.com. Such reports, proxy statements, and other information may also be inspected and copied at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549.

Future Parity Bonds

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

- (i) No deficiency may then exist in the Parity Bond Fund or in any of the accounts therein; and

- (ii) Provision must be made to satisfy the Reserve Fund Requirement for all Parity Bonds then outstanding plus any additional amount required in connection with issuance and sale of the proposed Future Parity Bonds (if any) in accordance with the Bond Ordinance; and
- (iii) There must be on file with the City a Parity Certificate, as described below. 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—Bond Ordinance, as Amended and Restated.

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

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—Bond Ordinance, as Amended and Restated.

Amendments

The Bond Ordinance, as passed by the City, reserved 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.

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 were redeemed or defeased. The Parity Covenant Date has occurred and those covenants are reflected in Appendix A—Bond Ordinance, as Amended and Restated.

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, that went into effect on the “Second Parity Covenant Date,” which occurred when the City obtained the consent of the owners of at least 60% of the then-Outstanding Parity Bonds. The owners of all Parity Bonds issued in 2018 or later, by purchasing Parity Bonds, consented to this set of amendments. As of August 11, 2023, the date on which certain then-outstanding Parity Bonds were defeased, the proportion of bondholders who had consented to the Second Parity Covenant Date amendments surpassed 60%. In late November 2023, the City Council is expected to approve an ordinance that sets forth the amendments in full and restates the Bond Ordinance to reflect the cumulative springing covenants in the form set forth in Appendix A—Bond Ordinance, as Amended and Restated. Purchasers of the Bonds are purchasing the Bonds pursuant to the Bond Ordinance, as Amended and Restated.

Parity Payment Agreements

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

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

Parity Reimbursement Obligations

The City may enter into Parity Reimbursement Obligations that constitute a charge and lien on Net Revenue equal to that of the Parity Bonds. The City’s reimbursement obligation under the Reimbursement Agreement constitutes a Parity Reimbursement Obligation.

“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 (which includes a letter of credit, standby bond purchase agreement, or other liquidity facility) (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 are excluded from the calculation of Annual Debt Service for all purposes. For purposes of determining percentages of ownership of Parity Bonds, Parity Reimbursement Obligations have no principal amount, and any consent or similar rights (if any) are determined only as set forth in the applicable Parity Reimbursement Obligation.

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 August 31, 2023, the balance in the RSA is approximately \$28,346,942. See the discussion of the RSA and the City’s current policies under “Department Financial Information—Financial Policies—Rate Stabilization Account” and Appendix A—Bond Ordinance, as Amended and Restated.

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 (as defined in the Bond Ordinance), 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 Registered 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, Registered 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 Parity Bonds then outstanding.

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—Bond Ordinance, as Amended and Restated.

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—Bond Ordinance, as Amended and Restated.

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 Paying Agency Agreement, 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

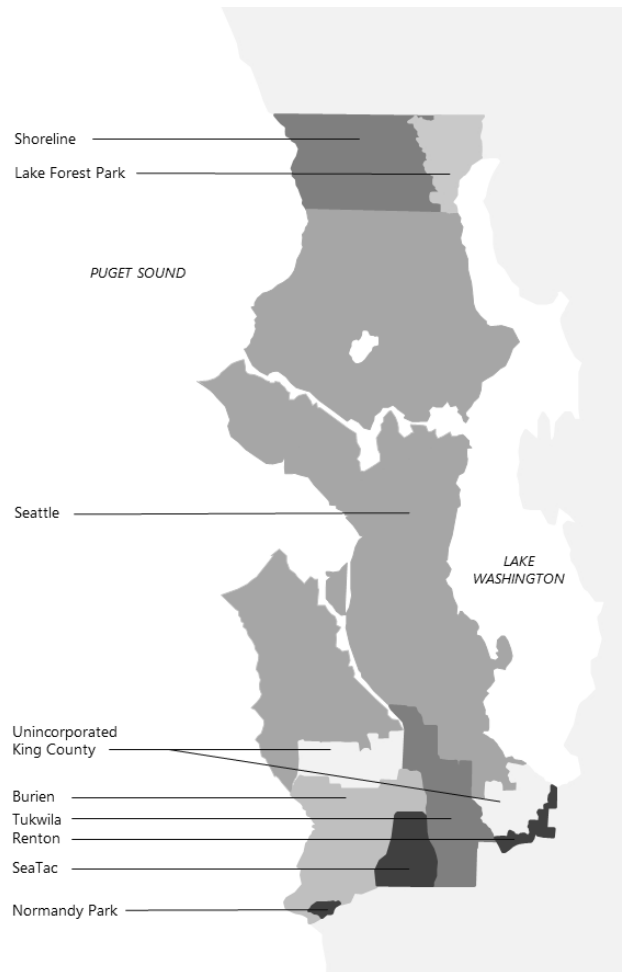
The Department is a municipally-owned electric utility. In 1905, the City began providing its customers with electricity generated by the Cedar Falls Hydroelectric Plant (the “Cedar Falls Project”), which was the first such municipally-owned facility in the nation. By 1910, operational responsibility 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 961,000.

Sales to customers located outside the City’s boundaries but within the service area represent approximately 15.5% 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:

Michael Haynes, P.E., Interim General Manager and Chief Executive Officer, was appointed to this position effective July 1, 2023. 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.

Jen Chan, Chief of Staff, joined the General Manager's Office in May 2019. Prior to joining the Department, she was with the City 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.

James Baggs, Interim Chief Operating Officer, was appointed to this position as of July 7, 2023. He 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 the pharmaceutical company Eli Lilly. Ms. Grainger holds a bachelor's degree in Mathematics from Whitman College and a master's degree in Engineering-Economic Systems and Operations Research (now Management Science and Engineering) from Stanford University.

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, Chief 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 2023, 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 E—2022 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 Electrical Workers bargaining unit that is specific to the Department expired on January 23, 2023, and was opened for the purposes of negotiations, which remain ongoing. 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, also expired on January 1, 2023, and were opened for the purposes of negotiations, which remain ongoing. 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, 28% 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 skilled trades staff, followed by professional staff. 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 54% 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

May 11, 2023, marked the official end of the federally declared COVID-19 public health emergency. While retail load has recovered from the initial impact of the pandemic, the Department continues to experience lingering pandemic-related impacts in its supply chain. Raw material and labor shortages at manufacturing sites, compounded by increased industry-wide demand, have led to longer lead times and higher costs across goods such as wires, splicers, connectors, and transformers. Transformer lead times, for example, have increased by a factor of four compared to 2019. Notwithstanding the foregoing, the impacts from the COVID-19 pandemic did not affect the Department’s ability to pay debt service on its outstanding obligations, and the Department does not anticipate supply chain issues will affect its ability to pay future debt service on its outstanding obligations.

The Department experienced a sharp increase in overdue receivables at the beginning of the pandemic. Between January 2020 and May 2020, overdue receivables grew substantially by approximately \$20 million, from \$30.3 million in January 2020 to \$51.1 million in May 2020, and reached a peak of \$70 million in April 2022. Following several months of broad and targeted outreach to customers, the Department resumed collection activities in late September 2022 for customers who had not set up a payment plan or paid their past due balance. See “Department Financial Information—Billing and Collection Processes.” The increase in receivables is accounted for in the Allowance for Doubtful Accounts and included as part of expense for 2022 in the Department’s audited financial statements. Reductions in spending largely mitigated the impact of the foregone revenue. As of July 2023, overdue receivables were \$56.4 million. The entire amount of overdue receivables may not be included in the Allowance for Doubtful Accounts, depending on the age of the past-due account. Overdue receivables below a certain age threshold are not expensed.

Strategic Plan

The City Council adopted Resolution 32056 approving the 2023-2028 Strategic Plan on July 19, 2022. 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 2023-2028 Strategic Plan calls for rate increases averaging 3.5% per year during this period (4.5% in 2023 and 2024 and 3.0% in 2025-2028).

The retail sales forecast supporting the 2023-2028 Strategic Plan predicts mostly flat energy sales to customers over the planning timeframe. Energy efficiency is expected to continue to offset new housing, economic growth, new electric cooling and heating equipment, and electric vehicles. In the longer term, the electrification of buildings and transportation is expected to grow more rapidly, leading to mild growth in overall customer load. Annual retail sales are expected to grow by approximately 1% per year between 2030 and 2040.

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 handled 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. Additionally, the Department attends annual meetings with West Coast utilities such as the Bonneville Power Administration (“BPA”), Pacific Gas and Electric, Southern California Edison, and others where dialogue related to seismic resiliency and policy creates consistency with others in earthquake regions. 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 and King County’s wastewater treatment division, for example, rely on electric power for their operations, and have standby generators at their critical facilities. Wireless communication also partially relies on the Department’s towers, which may be compromised due to landslides. The Department conducts regional exercises to demonstrate the response scenarios for such events, but there is a need for 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. Since November 2022, there have been approximately ten physical attacks on energy infrastructure in the Pacific Northwest, none of which have affected the Department’s assets. 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 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 6.2 million megawatt hours (“MWh”) of electrical energy in 2022, which was about 56% 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 on September 15, 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 availability of supply resources and available transmission.

Table 1 lists the Department’s owned and purchased power resources as of January 1, 2023, 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 2023
(AS OF JANUARY 1, 2023)

	Nameplate Capacity (MW)	Energy Available Under Firm Water Conditions (MWh) ⁽¹⁾	Energy Available Under Average Water Conditions (MWh) ⁽²⁾	Year FERC License Expires	Year Contract Expires
Department-Owned Resources					
Boundary Project ⁽³⁾	1,118	2,674,340	3,182,050	2055	N/A
Skagit Project					
Gorge	207	698,909	867,568	2025	N/A
Diablo	180	583,621	748,801	2025	N/A
Ross	450	556,354	703,996	2025	N/A
Small Hydro Projects ⁽⁴⁾	48	149,962	137,788	Varies	N/A
Department's Share of Purchased Resources					
BPA Block	⁽⁵⁾	3,859,895	3,859,895	N/A	2028
Priest Rapids	6	16,552	21,583	2052	2052
CBH ⁽⁶⁾	64	237,755	232,437	2030-2032	2022-2027
High Ross ⁽⁷⁾	72	310,222	311,862	N/A	2066
Lucky Peak ⁽⁸⁾	113	N/A	N/A	2030	2038
Small Renewables ⁽¹⁰⁾	20	N/A	191,360	N/A	Various

- (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 from 2022 through 2027. The plants are part of an irrigation project and do not provide capacity in the Department’s winter peak period. The first contract, for the R.D. Smith plant, expired on September 1, 2022, and the second contract, for the Eltopia Branch Canal Project, expired on May 1, 2023; together, they accounted for approximately 3% of the Department’s purchase from all five CBH projects. The other three contracts expire on January 1, 2025, March 1, 2025, and January 1, 2027.
- (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 2023, the Department is reselling the output and receiving fixed quantities of power in April, May, June, and August.
- (9) Small renewables include Columbia Ridge Landfill Gas, King County West Point Treatment Plant, and the Condon Wind Facility. 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)

	2018	2019	2020	2021	2022
Department-Owned Generation					
Boundary Project	4,008,235	3,307,074	3,576,351	3,211,443	3,712,739
Skagit Hydroelectric Project					
Gorge	947,000	832,815	958,211	988,738	989,832
Diablo	626,127	610,968	703,719	847,067	590,907
Ross	690,006	524,516	655,524	823,907	749,013
Cedar Falls/Newhalem	89,250	41,376	81,065	83,424	83,538
South Fork Tolt	58,518	29,624	42,306	54,658	58,716
Subtotal	6,419,136	5,346,373	6,017,176	6,009,237	6,184,745
Energy Purchases		-			
BPA	4,435,838	4,388,973	4,299,280	4,119,204	3,804,606
Priest Rapids	25,732	19,866	25,596	23,601	26,770
CBH	241,236	219,094	258,498	265,850	262,947
High Ross	310,700	307,599	309,960	315,101	305,764
Lucky Peak	347,669	364,089	254,619	221,981	234,067
Stateline Wind Project ⁽¹⁾	342,873	338,452	380,795	360,191	74,161
Columbia Ridge	102,617	101,615	102,421	92,937	86,968
Seasonal and Other Exchange ⁽²⁾	547,638	503,881	541,909	546,914	548,575
Wholesale Market Purchases ⁽³⁾	1,167,441	1,028,182	633,111	1,281,656	1,148,487
Subtotal	7,521,744	7,271,751	6,806,189	7,227,435	6,492,345
Total Department Resources	13,940,880	12,618,124	12,823,365	13,236,672	12,677,090
Minus Offsetting Energy Sales					
Firm Energy Sales and Marketing Losses ⁽⁴⁾	344,435	387,615	505,727	695,102	426,932
Seasonal and Other Exchange ⁽²⁾	593,928	570,672	497,728	469,277	480,891
Wholesale Market Sales ⁽⁵⁾	3,329,288	2,123,263	2,605,592	2,543,488	1,951,244
Total Net Energy Resources	9,673,229	9,536,574	9,214,318	9,528,805	9,818,023

- (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 Public Utility District No. 2 of Grant County ("Grant PUD"), the Lucky Peak Project, and Northern California Power Agency ("NCPA"), which expired on April 30, 2018. 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 2022 were 91% of the average for the overall period 1949 to 2022, and 114% of average in 2018, 88% of average in 2019, 97% of average in 2020, and 96% of average in 2021.

Source: Seattle City Light Department, Accounting Division

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

	2018	2019	2020	2021	2022
BPA ⁽¹⁾	\$ 161,382	\$ 159,519	\$ 157,658	\$ 151,190	\$ 102,868
Priest Rapids	1,478	1,793	1,179	1,100	1,374
CBH	6,723	6,012	7,882	8,008	8,449
High Ross	13,456	13,467	13,470	13,126	12,985
Lucky Peak	7,818	8,418	6,711	6,618	7,463
State Line Wind Project ⁽²⁾	23,892	22,658	26,293	25,198	2,930
Columbia Ridge - Biogas	7,554	7,905	7,887	7,237	7,263
Seasonal and Other Exchange ⁽³⁾	7,753	4,506	9,388	27,518	36,267
Total	\$ 230,056	\$ 224,278	\$ 230,468	\$ 239,995	\$ 179,599
Contracted Resources (MWh)	6,354,303	6,243,569	6,173,078	5,945,779	5,343,858
Average Unit Cost (Dollars/MWh) ⁽⁴⁾	\$ 38.28	\$ 39.07	\$ 39.07	\$ 39.36	\$ 29.89

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

(4) 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 the 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 implementation of the Owners Dam Safety Program reports to the Engineering and Technology Operation Director and 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 safely and as effectively as is reasonably possible 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 as of 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 a field inspection and an in-depth assessment of every aspect of a project, including a detailed review of the project’s records such as design and construction, engineering analyses, and historical performance; an evaluation of spillway adequacy; and a potential failure mode with 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 2023-2027 timeframe for project improvements resulting from recent five-year independent consultant inspection reviews and Level 2 risk assessments for the Boundary, Skagit, Cedar Falls, 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 29% of the Department’s total resources in 2022.

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 2022 dollars; the total estimated cost in 2022 dollars for the remainder of the license period is \$354 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 2022, this encroachment amounted to 0.36% 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 in 2025 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.

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 18% of the Department’s total resources in 2022.

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, filed a Proposed Study Plan with FERC in December 2020, and

filed a Final License Application with FERC on April 28, 2023. See “Environmental Matters—Endangered Species Act—Department Mitigation Efforts.” As a condition of the current FERC license, the Department has taken, and under the new FERC license expected in 2025 will continue to take, various mitigating actions relating to fisheries, wildlife, erosion control, archaeology, historic preservation, recreation, and visual quality resources. The latest independent safety inspection of the Skagit Project required by the FERC license was completed in 2022, including a semi-quantitative risk analysis, and revealed no significant dam safety issues; the final report was submitted to FERC in July 2022. 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 2021 and 2022, with the next five-year inspection scheduled for 2026.

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 or changes to the High Ross Agreement are not likely to 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 305,764 MWh in 2022. 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, in 2021 and 2022, the Sauk-Suiattle Indian Tribe initiated a series of three lawsuits challenging the operation of the Skagit Project. The suit filed in Sauk-Suiattle tribal court was resolved through settlement of the parties. For information on the status of the other two lawsuits, 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 2022 at the Cedar Falls Project was 83,538 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 the second independent inspection in accordance with the Department SOP I-604 in 2021-2022, including a semi-quantitative risk analysis. See “—Dam Safety.” The independent safety inspection report is currently being finalized. No major dam safety issue was identified. 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. FERC’s draft environmental assessment is expected by the end of 2023, and the Department will receive direction as to next steps for the license surrender as part of that document. Five-year inspections by FERC are not required of the Newhalem Project, due to its small size and low hazard classification; 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 process for renewing the FERC license began in 2022, with the Pre-Application Document to be filed with FERC in early 2024 and the final application for relicense to be filed in 2027, with a new FERC license expected to be issued in 2029. The nameplate capability of the installed single turbine unit is 16 MW. Power production at the South Fork Tolt Project was 58,716 MWh in 2022. 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 \$2.9 million in 2022. 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 last FERC five-year independent dam safety inspection was completed in 2017 and concluded that the South Fork Tolt Project was in good condition. The Department is currently conducting the five-year independent dam safety inspection. This round of dam safety inspection is a comprehensive assessment that includes an in-depth review of the project’s safety and a Level 2 risk analysis according to the new FERC regulations. The anticipated completion date of the comprehensive assessment dam safety inspection is November 2023. 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 SPU staff. See “Department-Owned Resources—Dam Safety.”

Purchased Power Arrangements

In 2022, the Department purchased approximately 49% 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”) 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. As part of its “Provider of Choice” process, BPA gathered customer feedback in 2023 and published its draft policy on July 20, 2023. Comments are being taken through October 13, 2023, after which BPA will finalize the policy in early 2024. BPA will then implement the policy through new contracts starting 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 2023 will be for 445 aMW, which will vary from a high of 818 aMW in heavy load hours in January 2023 to a low of zero aMW in June 2023.

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. BPA’s average net cost for Tier 1 power will be approximately \$35.00 per MWh through September 30, 2025, 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. In October 2022, BPA announced it would settle Power and Transmission rates for the consolidated power and transmission rate proceeding for FY 2024-2025 (“BP-24”) holding most rates constant from 2022-2023. 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 \$3.5 billion of bonds outstanding (as of June 30, 2022) 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 2023, the Department will pay \$0.8 million to receive the \$5.2 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 2022, the Department received 262,947 MWh from the projects. The Department currently expects to let the contracts expire.

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 234,067 MWh in 2022. 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 (Expired). 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 and Regulatory Compliance (Climate Commitment Act, Initiative 937, and CETA).”

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.

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 86,967 MWh of power under the Columbia Ridge purchase contracts in 2022.

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

CONDON WIND FACILITY. The Condon Wind Facility is a 49.8 MW wind project in Gilliam County, Oregon. AES Corporation, an American utility and power generation company, built the facility in 2001; in 2014 Allete, a publicly held energy company that invests in renewable energy transmission infrastructure, bought the facility and currently owns and operates it. The Department has been buying 100% of the output since October 2022, and finalized a five-year purchase contract in May 2023 (effective June 1, 2023). Average annual output is expected to be about 95,000 MWh, and the facility will help the Department diversify its supply portfolio and meet reliability and clean energy goals.

The Department has embarked on a renewables power purchase program to establish power purchase agreements with solar and wind (and other renewables) power generators. No contracts have been executed, but one or more new agreements are expected in the coming years.

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 2023, the counterparty is Shell Energy, 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 2022, hydro flows were above average on the Pend Oreille River and about 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 108% and 101% of the historical average, respectively. The average revenue per MWh realized from surplus sales in 2022 was \$53.14/MWh. Net wholesale revenue in 2022 was \$13.1 million, significantly lower than the budgeted amount of \$40 million. As of July 31, 2023, net wholesale revenue for 2023 is forecast to be -\$49.4 million, \$89.4 million below the budgeted amount of \$40 million. This variance will be transferred to the RSA. See “Department Financial Information—Management Discussion of Historical Operating Results 2018-2022,” “—Expectations for 2023 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 2018-2022 period.

TABLE 4
SUMMARY OF WHOLESALE MARKET SALES AND PURCHASES

	2018	2019	2020 ⁽²⁾	2021 ⁽²⁾	2022 ⁽²⁾
Cost of Wholesale Purchases (\$000) ⁽¹⁾	\$ 22,576	\$ 41,839	\$ 15,753	\$ 52,258	\$ 90,546
Wholesale Market Purchases (MWh in 000s)	1,167	1,028	633	1,282	1,148
Average Cost (\$/MWh)	\$ 19.35	\$ 40.70	\$ 24.89	\$ 40.76	\$ 78.87
Revenue from Sales (\$000) ⁽¹⁾	\$ 72,509	\$ 57,307	\$ 63,434	\$ 89,822	\$ 103,671
Wholesale Market Sales (MWh in 000s)	3,329	2,123	2,606	2,543	1,951
Average Revenue (\$/MWh)	\$ 21.78	\$ 26.99	\$ 24.34	\$ 35.32	\$ 53.14
Net Wholesale Revenue (\$000) ⁽¹⁾	\$ 49,933	\$ 15,468	\$ 47,681	\$ 37,564	\$ 13,125
Sales Net of Purchases (MWh in 000s)	2,162	1,095	1,973	1,261	803

- (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 four voting members are the Director of Risk Oversight (Chair), Chief Financial Officer (Acting-Chair), Regulation and Market Development 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 E—2022 Audited Financial Statements of the Department—Note 19.

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 and Regulatory Compliance (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. Electric power entities, including the Department, will receive no-cost allowances from the State which can be used to meet their compliance obligations; the first compliance period is 2023 to 2026. Ecology allocates the no-cost allowances and may make adjustments. The Department will have a compliance obligation when it imports or receives power from emitting sources or when the specific generating source cannot be documented. The 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. 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 2023.

Clean Energy Transformation Act. Enacted in 2019, the Clean Energy Transformation Act (“CETA”) 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 preliminary 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 RECs. 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 energy transformation projects or RECs. By 2045, utilities must supply State customers with electricity that is 100% renewable or non-emitting. 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 itself owns no coal-fired resources (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 2022, the Department achieved 5.4 aMW (47,364 MWh) of energy savings from completed projects, which cost the Department \$25.7 million in incentives and expenditures associated with the delivery of the energy savings. Total savings in place in 2022 amounted to approximately 209.9 aMW (1,838,377 MWh), representing approximately 20% of the Department’s total retail sales in 2022. 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 2018-2022.”

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 the Washington State Department of Commerce (“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, affirmed 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 32040 on February 1, 2022. The Department filed the 2022 IRP with Commerce by the draft deadline of September 1, 2022; work on the 2024 IRP is currently underway. 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. In October

2022, BPA announced a settlement for Transmission rates for the BP-24 period holding the major rates steady from 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.

NorthernGrid (Formerly ColumbiaGrid)

ColumbiaGrid, 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. ColumbiaGrid is not a Regional Transmission Organization under FERC policies but provides services on a bilateral, contractual basis. ColumbiaGrid’s planning role enables the Department to meet federal requirements for regional transmission planning.

As of January 1, 2020, the members of the ColumbiaGrid, along with several additional public and private electric utilities in the Pacific Northwest, transitioned to a new organization called the NorthernGrid, 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. In 2009, the City Council approved legislation authorizing the Department to implement and administer an open access transmission tariff (“OATT”). In October 2020, the City Council approved a revised OATT, which included updated rates, terms, and conditions. Although the Department provides wholesale transmission service under several legacy, bilateral agreements, no party is currently receiving service under the Department’s OATT.

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 is in the process of updating its Outage Management System, which is designed to improve operational efficiencies and provide timely information to the dispatchers and customers while operations staff are responding to service interruptions. The Department maintains 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. This system is currently planned for replacement by 2026.

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. The Department maintains nearly 92,000 wood poles in its service area. Since 2009, the Department has inspected the wood poles and replaced 12,000 of them 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. Wood pole maintenance is an ongoing program.

Underground Cable Replacement. The Underground Cable Replacement program is an ongoing system-wide reliability-improvement program. The Cable Replacement program began in 2013 and since then 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 30 years.

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 orders, policies, or rules proposed by regulatory entities. 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 current audit occurred over a two-week period from September 25, 2023, to October 6, 2023. WECC will perform a combined audit and review Cyber Security/Critical Infrastructure Protection and Operations and Planning ("O&P") standards. On May 26, 2023, WECC issued its formal Notice of Audit to the Department, with a Standard scope of nine standards and 15 individual requirements. This is an overall reduction, as compared to the Departments' 2020 Audit, when WECC reviewed 13 standards and 29 individual requirements. WECC reduced the number of Critical Infrastructure Protection Standards under review, with a slight increase for O&P.

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 2018 and 2022. 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, rebounded just over 5% in 2021 as the economy began recovering from the pandemic, and increased almost 3% in 2022 due to colder than normal temperatures during the heating season and warmer than normal temperatures during the cooling season. Peak energy sales for the period 2018-2022 were 1,917 MW in December 2022, 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

	2018	2019	2020	2021	2022
Average Number of Customer Accounts					
Residential	410,664	419,601	426,359	433,686	441,926
Non-Residential	50,859	50,779	51,219	51,469	51,737
Total Customer Accounts	461,523	470,380	477,577	485,155	493,663
Energy Sales (MWh) ⁽¹⁾					
Residential	2,992,914	3,091,019	3,192,877	3,320,729	3,334,209
Non-Residential	6,081,148	6,030,940	5,446,010	5,757,653	5,983,684
Total Energy Sales	9,074,062	9,121,959	8,638,887	9,078,382	9,317,893
Peak Demand (MW)	1,764	1,806	1,757	1,896	1,917
Energy Requirements (MWh)					
Total Energy Sales	9,074,062	9,121,959	8,638,887	9,078,382	9,317,893
Energy used in Operation	25,642	26,962	26,203	26,537	27,466
System Losses ⁽²⁾	573,525	387,653	549,228	423,886	472,664
Total Energy Requirements ⁽³⁾	9,673,229	9,536,574	9,214,318	9,528,805	9,818,023

(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 2022.

TABLE 6
TOP TEN CUSTOMERS

Customer	Customer Profile	Annual Dollars Billed	% Total Retail Revenue
University of Washington	Higher Education	\$ 30,877,536	3.0%
Nucor Corporation	Steel Manufacturer	30,821,902	3.0%
Amazon	Technology Company	21,565,721	2.1%
Boeing	Airplane Manufacturer	16,865,367	1.7%
King County	Government	14,516,908	1.4%
Sabey Corporation	Data Center	14,149,036	1.4%
City of Seattle ⁽¹⁾	Government	11,048,633	1.1%
2001 Sixth LLC	Data Center	10,956,726	1.1%
US Government	Government	8,609,597	0.8%
Unico Properties	Property Management	7,273,701	0.7%
		<u>\$ 166,685,127</u>	<u>16.3%</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 Setting” and “Security for the Bonds—Rate Stabilization Account.”

The RSA has been in use since January 1, 2011. In 2021, 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. The March 2023 RSA balance fell below \$50 million, triggering a 4% surcharge effective June 1, 2023. However, Ordinance 126819 authorized the Department to make one or more discretionary transfers in 2023 and canceled the June 2023 surcharge implementation. A \$30 million transfer from the operating account was completed in May 2023, and an additional \$30 million transfer was made in August 2023. The RSA balance at the end of August was \$28.3 million and a 4.0% surcharge is expected to trigger at the end of September, with an effective date of January 1, 2024. See “Department Financial Information—Expectations for 2023 Operating Results.”

**TABLE 7
AUTOMATIC SURCHARGES**

RSA Balance	Action
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 2023 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 2023 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 \$45 million for both 2024 and 2025. 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.”

Liquidity. While not a formally adopted financial policy, the Department has established in the Adopted 2023-2028 Strategic Plan a planning target for a minimum balance of cash on hand equal to 130 days of operating expenses. As of December 31, 2022, the Department’s cash balance equaled 218 days of operating expenses. See “Seattle City Light Department—Strategic Plan.”

City Investment Pool

The Treasury Services Division of the Office of City Finance within the Department of Finance and Administrative Services invests the Department’s funds. See “The City of Seattle—Investments” and Appendix E—2022 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 became effective in 2023 and consists 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. To provide customers a variety of pricing programs, 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 toward assisting very low income customers not adequately supported by the current discount program. On September 26, 2022, the City Council passed Ordinance 126677 approving average rate increases of 4.5% in 2023 and 2024. This rate ordinance includes optional Time-of-Day rates for residential and small and medium general service customers and commercial charging rates. These rates will become effective in 2024 and will replace the first two pilots described above. The ordinance also introduces daily base service charges for the commercial classes in 2023.

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 are 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. A BPA passthrough equivalent to approximately 1.0% of retail rates will be implemented January 1, 2024. The passthrough is associated with higher BPA purchased power costs associated with a 10.8% increase in purchase volumes. See “Power Resources and Cost of Power—Purchased Power Arrangements.”

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 but not limited to 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 to account for higher costs associated with the franchise agreements. 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). The Department has a ten-year franchise agreement with the County that was finalized in 2022. The franchise agreement with Tukwila expired in March 2018, and services are continuing under the expired agreement until a new agreement is executed. The Department is currently negotiating a franchise agreement with the City of Normandy Park for the small area served by the Department in that city. 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 small 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. 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, 2022, 9,594 customers participated in Green Up through payments on their bills. Green Up revenue in 2022 totaled \$852,117. REC purchases on behalf of Green Up customers totaled 85,212 MWh in 2022. Green Up is certified and annually audited by Green-e, a clean energy certification program offered by the non-profit Center for Resource Solutions.

Historical Rates. The following table provides a summary of historical base rate increases, RSA surcharges, and BPA pass-throughs in place between 2014 and 2023.

**TABLE 8
RATE CHANGES, 2014-2023**

Effective Date	Percent Change	Type
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 ⁽¹⁾	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 ⁽¹⁾	1.5%	RSA Surcharge Increase
January 1, 2020	5.5%	Base Rate Increase
April 1, 2021 ⁽¹⁾	-3.0%	RSA Surcharge Decrease
April 1, 2021	3.0%	Base Rate Increase
January 1, 2022	3.9%	Base Rate Increase
January 1, 2022	-1.8%	BPA Pass-Through
January 1, 2023	4.5%	Base Rate Increase

(1) See “—Financial Policies—Rate Stabilization Account”

The total anticipated average retail rate increase for January 1, 2024, reflecting the adopted 2024 rate of 4.5%, a 4.0% RSA surcharge, and a 1.0% BPA passthrough, is approximately 9.5% cumulatively. See “Financial Policies—Rate Stabilization Account.”

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 15, 2023)

	Average Revenue in Cents per kWh						Average Monthly Bills (\$)					
	City Standard and Suburban ⁽²⁾	City Network ⁽¹⁾	Burien, King County, SeaTac, Shoreline	Lake Forest Park	Tukwila	Normandy Park	City Standard and Suburban ⁽²⁾	City Network ⁽¹⁾	Burien, King County, SeaTac, Shoreline	Lake Forest Park	Tukwila	Normandy Park
Residential												
500 kWh per month	13.1	(3)	14.5	14.5	14.4	14.3	65	(3)	73	73	72	72
1,000 kWh per month	13.1		14.5	14.5	14.4	14.3	131		145	145	144	143
2,000 kWh per month	13.1		14.6	14.6	14.4	14.3	261		291	291	289	287
Small General Service												
10,000 kWh per month (40kW)	11.1	(3)	11.7	11.7	11.7	11.6	1,110	(3)	1,174	1,175	1,168	1,156
Medium General Service												
20,000 kWh per month (60kW)	9.9	13.1	10.7	10.7	10.6	(5)	1,973	2,619	2,130	2,132	2,123	(5)
200,000 kWh per month (500kW)	9.5	12.4	10.3	10.3	10.2	(5)	18,990	24,845	20,500	20,520	20,430	(5)
Large General Service												
400,000 kWh per month (1,000kW)	9.5	11.7	10.3	10.3	10.3	(5)	38,157	47,000	41,205	41,152	41,053	(5)
1,800,000 kWh per month (5,000kW)	9.6	12.0	10.4	10.4	10.3	(5)	172,825	215,228	186,631	186,394	185,942	(5)
High Demand General Service												
6,000,000 kWh per month (20,000kW)	9.2	(4)	(4)	(4)	9.9	(5)	549,385	(4)	(4)	(4)	591,368	(4)
18,000,000 kWh per month (60,000kW)	9.1				9.8	(5)	1,644,633				1,770,312	

- (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, Tukwila, Normandy Park, and unincorporated King County.
- (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.
- (5) Normandy Park only has Residential and Small General Service customers in the Department's service territory

Source: Seattle City Light Department, Finance Division

TABLE 10
ANNUAL BILL COMPARISONS WITH OTHER PUGET SOUND UTILITIES
(AS OF MARCH 15, 2023)

Monthly Use		Seattle	Puget Sound	Snohomish	Tacoma
kWh	kW	City Light (\$) ⁽¹⁾	Energy (\$) ⁽²⁾	County PUD (\$) ⁽³⁾	Power (\$) ⁽⁴⁾
Residential					
100		220	237	205	359
500		785	803	721	761
1,000		1,569	1,609	1,368	1,262
3,000		4,706	4,932	3,956	3,267
Small General Service					
300	1	477	589	562	617
3,000	10	4,051	4,721	3,602	3,294
12,000	40	15,964	18,493	13,733	12,219
Medium General Service					
150,000	500	178,341	239,483	171,077	154,318
200,000	500	227,880	290,864	214,007	187,186
360,000	900	410,505	522,446	385,269	336,139
Large General Service					
300,000	1,000	358,157	477,579	342,224	307,642
1,000,000	5,000	1,276,087	1,868,531	1,282,105	1,205,554
2,500,000	7,500	2,909,395	3,829,726	2,781,793	2,465,194
High Demand General Service					
6,000,000	20,000	6,592,614	9,525,208	6,845,833	6,133,954
18,000,000	60,000	19,735,590	28,572,848	20,537,641	18,399,874
24,000,000	60,000	25,207,878	34,738,588	25,689,241	22,344,034
Last Rate Change		01/01/2023	03/01/2023	04/01/2023	04/01/2023

(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 Department and SPU share the same billing system to generate utility bills. The SPU Contact Center serves as the primary point of contact for both the Department and SPU customer inquiries. Both departments also staff a walk-in center for in-person inquiries. The City's Information Technology Department ("ITD") provides technical support for the billing system and other customer information system applications for the Department and SPU. The Department currently bills the majority of its residential customers and some small commercial customers bi-monthly and all other customers monthly. All bills are due within 21 days of receipt.

The Department has established various payment programs for its customers, including a levelized payment program (to allow for monthly payments) and an Automatic Bill Payment program. The majority of the customers on the levelized payment program are billed bi-monthly; however, they have an option of paying half of the bi-monthly

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

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

Post-pandemic, walk-in payment centers and customer service counters have been reopened to the public. The Department is currently offering short-term and long-term payment plans to assist customers as collections activities have resumed. Short-term payment plans currently require a 25% down payment and the balance to be paid within 60 days. For a limited time, the Department is offering long-term payment plans for residential and commercial customers. Residential customers can enter into a long-term payment plan with a duration of up to three years; small/medium commercial customers with a duration of up to two years, and the largest commercial customers up to one year.

During the pandemic and the moratorium on electricity disconnects, the Department proactively sent letters and emails to delinquent customers encouraging them to reach out to the Department to address their debt. These outreach efforts educated customers on available payment plans, financial assistance programs, and the Utility Discount Program (“UDP”). Customers also received this information when they called the Contact Center along with information on local non-profits, and external federal agencies for further assistance. Post-pandemic, these options are still communicated and are available to income-eligible customers.

Income-eligible customers can apply to the UDP, which would provide a 60% discount on their electric rates. Eligibility is based on household size and a gross household income that is at or below 70% of the State’s median income. Applicants must submit an application along with income documentation to apply.

For a period of time during the pandemic, the Department and SPU allowed customers to self-certify that they met household and household income eligibility to participate in the UDP. However, customers were required to provide proof of identification and income six months from applying. If a customer’s household size and gross household income met the requirements, the customer would be able to continue to receive the discount for two years (three years for seniors). Before the discounted benefit expires, customers receive an email reminder, or a postcard for those customers who do not have email access, requesting them to recertify their household and income information to make sure they still meet the qualifications of the program. If a customer fails to recertify their information, they are removed from the UDP and billed at regular rates. The self-certification process is no longer being offered.

The Department also has programs that provide financial assistance to customers with past due/delinquent accounts. The Department has an Emergency Bill Assistance Program that can assist income eligible customers with up to \$500 towards their electric debt. Eligibility is based on household size and a gross household income that is at or below 80% of the State’s median income. Customers can access these funds once a calendar year. However, if they have children in the home under the age of 18, they can access these funds twice a calendar year for a total of up to \$1000. For 2022 and 2023, the Department is allowing income-eligible customers to access these funds twice in a calendar year even if they do not have children in the home under the age of 18. Lastly, the Department has a program called Project Share, which uses customer-donated funds to assist income-eligible customers with up to \$250 towards their delinquent debt. Eligibility is the same as for the Emergency Bill Assistance Program.

On April 3, 2020, the Department suspended charging late fees to its customers. The late fee represented 1% of a customer’s past due balance and was assessed each billing period that has past due debt. On May 25, 2022, the City Council extended the late-fee waiver through June 2023, after which time late fees are anticipated to resume being charged to customers.

The total balance of residential and commercial 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 \$48.5 million as of March 2022. As of March 2023, the balances overdue for more than 30 days were \$40.4 million (\$26.8 million residential/ \$13.6 million commercial).

As permitted by State law, the Department’s collection policy provides for disconnection of power for nonpayment of amounts due to 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 10, 2020, the Mayor issued Executive Order 2020-03, which prohibited disconnections, among other measures. The Executive Order expired on April 15, 2022. The Department resumed its collections activities including disconnections for its residential customers, in August 2022. With Advanced Meter Infrastructure (“AMI”) technology, the Department is able to conduct residential electric disconnections and reconnections, remotely. The Department is in the process of resuming disconnections for its delinquent commercial customers, as these disconnections and reconnections will still need to occur manually in the field.

Historical Operating Results 2018-2022

Table 11 presents information on operating results for the period 2018-2022, 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, 2022, included herein as Appendix E, 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)

	2018	2019	2020	2021	2022
OPERATING REVENUES:					
Retail power revenues	\$ 868,611	\$ 938,871	\$ 926,678	\$ 964,254	\$ 1,021,455
Short-term wholesale power revenues	61,025	43,223	51,322	66,284	97,661
Other power-related revenues ⁽¹⁾⁽²⁾	45,923	52,183	40,790	59,298	76,590
Transfers from/(to) rate stabilization account ⁽³⁾	(3,518)	22,771	(22,706)	(2,546)	24,407
Other operating revenues	19,573	22,376	19,682	21,687	18,502
Total Operating Revenues	\$ 991,614	\$ 1,079,424	\$ 1,015,766	\$ 1,108,977	\$ 1,238,615
OPERATING EXPENSES:					
Long-term purchased power—Bonneville and other	\$ 217,765	\$ 215,934	\$ 216,635	\$ 207,544	\$ 150,542
Short-term wholesale power purchases	18,524	34,292	10,049	38,479	86,168
Other power expenses	70,243	74,369	72,500	95,210	111,874
Transmission ⁽⁴⁾	54,200	52,450	54,582	55,668	61,078
Distribution	61,927	60,433	56,319	67,971	73,233
Customer service	55,723	33,680	58,606	50,826	42,352
Conservation	32,945	33,377	33,301	28,857	26,347
Administrative and general	96,189	122,853	127,299	97,054	96,604
Taxes	91,766	100,072	101,242	101,478	119,028
Depreciation and amortization	123,956	145,809	149,785	148,590	156,773
Total Operating Expenses	\$ 823,238	\$ 873,269	\$ 880,318	\$ 891,677	\$ 923,999
Net Operating Revenue ⁽⁵⁾	\$ 168,376	\$ 206,155	\$ 135,448	\$ 217,300	\$ 314,616
Adjustments to Net Operating Revenue ⁽⁶⁾					
City Taxes ⁽⁷⁾	\$ 53,410	\$ 58,431	\$ 57,567	\$ 53,614	\$ 66,750
Depreciation and amortization	123,956	145,809	149,785	148,590	156,773
Depreciation and amortization included in operating and maintenance expenses	32,996	30,824	32,476	47,079	49,818
Pension expense ⁽⁹⁾	21,985	33,640	24,655	1,502	(2,519)
Pension contributions ⁽⁹⁾	(24,657)	(24,825)	(28,746)	(28,872)	(29,011)
Valuation on exchange power, net ⁽²⁾	875	0	0	0	0
BPA Conservation Augmentation/Agreement revenue ⁽¹⁰⁾	(1,884)	(2,143)	(2,392)	(2,572)	(2,677)
Investment income ⁽¹¹⁾	10,946	10,731	10,756	8,703	12,132
Non-cash expenses ⁽¹²⁾	841	1,005	3,383	4,401	1,408
Other ⁽¹³⁾	1,564	3,028	3,403	(729)	993
Total Adjustments	\$ 220,032	\$ 256,501	\$ 250,887	\$ 231,716	\$ 253,667
Net Revenue Available for Debt Service	\$ 388,408	\$ 462,656	\$ 386,335	\$ 449,016	\$ 568,283

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.

Note: 2021 was restated due to the implementation of GASB Statement No. 87, Leases. This is a non-cash adjustment, therefore the 2021 financial results presented in Table 11 remained unchanged.

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

Historical Debt Service Coverage. The Bond Ordinance does not define a "coverage requirement" beyond what is necessary to pay all Operating and Maintenance Expense, to pay into the Parity Bond Fund the amounts required to be applied to the payment of debt service on the Outstanding Parity Bonds, to pay into the Junior Lien Debt Service Fund the amounts (if any) required to be paid into that fund in respect of outstanding Junior Lien Bonds, and to pay all other indebtedness to which revenues of the Light System have been pledged. See "Security for the Bonds—Rate Covenant" and Appendix A—Bond Ordinance, as Amended and Restated. 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—Bond Ordinance, as Amended and Restated.

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—Bond Ordinance, as Amended and Restated.

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)

	2018	2019	2020	2021	2022
Net Revenue Available for Debt Service	\$388,408	\$462,656	\$386,335	\$449,016	\$568,283
Debt Service on Parity Bonds ⁽¹⁾	212,427	220,785	223,000	216,307	224,246
Debt Service Ratios-Times Covered on Parity Bonds ⁽²⁾	1.83	2.10	1.73	2.08	2.53

(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 2018-2022

This section provides a discussion of operating results for the period 2018-2022, based on information in Tables 11 and 12, and an expanded discussion for the period 2021-2022, based on a summary of the Management’s Discussion and Analysis included in Appendix E—2022 Audited Financial Statements of the Department.

Summary 2018-2022. Retail revenues increased from \$868.6 million in 2018 to \$1,021.5 million in 2022, 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 461,523 in 2018 to 493,663 in 2022, an increase of 7.0%.

Net wholesale revenue (excluding bookouts) varied during this period, ranging from a high of \$49.9 million in 2018 to a low of \$13.1 million in 2022. 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 \$75.0 million at the end of 2022. See “—Financial Policies—Rate Stabilization Account.”

Debt service on Parity Bonds increased from \$212.4 million in 2018 to \$224.2 million in 2022. Debt service coverage ranged from a high of 2.53x in 2022 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 every year except in 2020.

The majority of the changes in the Department’s billed retail sales from 2018-2022 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.

Operating Revenues—2022 vs. 2021. Retail revenues in 2022 were \$1,021.5 million, which was \$57.2 million or 5.9% higher than in 2021. Higher residential sales were due to colder than normal temperatures during the heating season and warmer than normal temperatures during the cooling season. Nonresidential sales were also higher due to weather, as well as stronger post-pandemic economic activity. There was a retail rate increase on January 1, 2022, of approximately 3.6% on average. The number of retail customers increased to 493,663 in 2022, a 1.8% increase over 2021.

Net wholesale revenue was \$13.1 million, a decrease of \$24.5 million, or 65.2%, from 2021. Wholesale power sales were \$97.7 million in 2022, an increase of \$31.4 million over 2021, and wholesale power purchases increased by \$47.7 million to \$86.2 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.

Other power-related revenues, including valuation of power exchanges, increased by \$17.2 million to \$76.5 million in 2022. Other power-related purchases, including valuation of power exchanges, increased by \$4.2 million to \$38.3 million in 2022, resulting in net other power-related revenues of \$38.2 million in 2022, a net increase of \$13.0 million or 51.6% from net other power-related revenues of \$25.2 million in 2021.

In 2022, net transfers from the RSA unearned revenue account were \$24.4 million. The \$24.4 million transfer reflects a true-up from the previous year, as well as an estimate for the December transfer (which was true-ed up in January 2023). There was no surcharge in effect during 2022. Beginning in 2022, with the adoption of Ordinance No. 126502, interest on the RSA funds is no longer allocated to that account but held in operating cash. In 2021, net transfers to the RSA were \$2.6 million, the net effect of the RSA rate surcharge revenues, transfers from the RSA unearned revenue account for lower wholesale power revenues compared to budget, and interest earnings, and the City Council authorized a \$15.0 million transfer into the RSA from operating funds to prevent an RSA surcharge from triggering.

Revenues from other sources decreased by \$3.0 million, totaling \$18.6 million in 2022.

Operating Expenses—2022 vs. 2021. In 2022, long-term purchased power (BPA and other) decreased by \$57.0 million to \$150.5 million. Other power expenses, including generation, power exchanges, and other at \$111.9 million, were \$16.7 million higher because of lower volumes and higher market prices for exchange contracts and ancillary purchase contracts. Transmission expenses, including wheeling, were \$61.1 million in 2022, an increase of \$5.4 million from 2021. Distribution expenses of \$73.2 million increased by \$5.2 million.

Other operating and maintenance expenses for customer service, conservation, and administrative and general, at \$165.3 million, decreased by \$11.4 million from 2021. Customer service expenses were lower by \$8.4 million. The decrease is the result of (i) lower bad debt expense in 2022 due to resumption of collection efforts and the Utility Residential Customer Arrearages grant (the reinstated disconnect policy encourages customer payments); and (ii) higher labor costs due to a pick-up of normal operations as compared to 2021. Conservation expenses decreased by \$2.5 million, as more than half of the customer agreements were extended. Projects were not able to be completed due to staffing and supply issues.

Taxes in 2022 increased by \$17.5 million as a result of higher revenues.

Depreciation and amortization at \$156.8 million increased by \$8.2 million, primarily due to replacements and additions of conductors, conduits, poles, and software.

Net Operating Revenue—2022 vs. 2021. Net operating revenue in 2022 was \$314.7 million, \$97.5 million higher than the restated \$217.2 million in 2021. The restatement of other operating revenues in 2021 was the result of the Department's implementation of GASB Statement No. 87, Leases. Higher operating revenues, combined with lower operating expenses, partially offset by lower net wholesale revenue, led to increased net operating revenue compared to 2021.

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 \$11.8 million in 2022 from the 2021 restated amount, mainly attributable to GASB 31 fair value adjustment, offset partially by higher interest income and higher non-capital grants. The 2021 restatement includes additional lease interest revenue due to the implementation of GASB Statement No. 87, Leases.

Nonoperating expense decreased a net \$0.1 million year over year due to higher interest because of an increased bonds balance at the end of 2022, \$3.2 million, offset by higher refunding gain amortization, \$3.3 million.

Capital contributions and grants decreased by \$17.1 million, mainly due to the reduced activity in time and materials jobs and joint use.

Expectations for 2023 Operating Results

As of July 2023 the Department's projected 2023 debt service coverage ratio is expected to be 1.85x, exceeding the City Council-adopted financial policy target of 1.80x. Net income for 2023 is expected to be \$137.8 million.

Retail revenue is currently expected to be higher than planned primarily due to much colder than usual temperatures driving up retail heating demand during January through April 2023. Long-term purchased power costs are expected to end the year about \$8 million over planned levels, due mostly to higher BPA purchase volumes starting in October. Operating expenses are forecast to end the year about \$13 million under planned levels, due to a higher than expected vacancy rate and lower than expected project spend. As of August 15, 2023, net wholesale revenue is expected to be -\$49.4 million, \$89.4 million below the budgeted amount of \$40 million. Factors contributing to the lower net wholesale include higher retail demand, sustained high wholesale prices, and lower than normal generation at the Department's generating facilities. 2023 generation year-to-date through August was significantly below average at both of the Department's generating facilities. As of September 7, 2023, inflows for the calendar year 2023 at the Skagit Project are expected to be below normal, at 74% of the historical average, and inflows at the Boundary Project are also expected to be below normal, at 72% of the historical average.

Lower net wholesale revenue resulted in the RSA balance dropping significantly through August 2023. The ending March 2023 RSA balance was \$45.8 million, which, with no action, would trigger a 4.0% RSA surcharge. However, given the strong financial performance in 2022 and the solid outlook in 2023, the Department made a \$30 million discretionary transfer into the RSA at the end of May 2023 to delay or possibly avoid an RSA surcharge. In addition, the Department made another \$30 million transfer in August. The RSA balance at the end of August 2023 was \$28.3 million. The expected 1.85x debt service coverage includes the \$60 million transfers to the RSA. Ordinance 126819 adopted by the City Council on May 16, 2023, authorized the Department to make the May and August transfers into the RSA and canceled the June 1, 2023, RSA surcharge implementation. See “—Financial Policies—Rate Stabilization Account.”

Debt Service Requirements

As of October 1, 2023, the principal amount of Outstanding Parity Bonds (excluding the Bonds and including the Refunded Bonds, which are expected to be defeased on October 26, 2023) totaled \$2,637,470,000. See “Security for the Bonds—Outstanding Parity Bonds.” Principal and interest payments due on the Department's Outstanding Parity Bonds as of October 1, 2023, 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 October 1, 2023, the City has \$188,240,000 in principal amount of variable rate Parity Bonds outstanding, consisting of \$87,620,000 Municipal Light and Power Revenue Bonds, 2018C-1 and 2018C-2 (SIFMA Index) (a portion of which are the Refunded Bonds, which are expected to be defeased on October 26, 2023), and \$100,620,000 Municipal Light and Power Refunding Revenue Bonds, 2021, Series B (SIFMA Index). The outstanding variable rate Parity Bonds are included as part of the total principal amount of Outstanding Parity Bonds shown in Table 13.

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
(AS OF OCTOBER 1, 2023, ADJUSTED FOR THE ISSUANCE OF THE BONDS)

Year	Outstanding Parity Bonds ⁽¹⁾			The Bonds			Total Parity Bonds		
	Principal	Interest ⁽²⁾⁽³⁾	Total	Principal	Interest ⁽³⁾	Total	Principal	Interest ⁽²⁾	Total
2023 ⁽⁴⁾	\$ 2,240,000	\$ 14,269,234	\$ 16,509,234	\$ -	\$ 338,656	\$ 338,656	\$ 2,240,000	\$ 14,607,890	\$ 16,847,890
2024	129,335,000	115,765,929	245,100,929	2,300,000	3,427,653	5,727,653	131,635,000	119,193,581	250,828,581
2025	120,350,000	107,906,848	228,256,848	2,440,000	3,332,027	5,772,027	122,790,000	111,238,875	234,028,875
2026	117,865,000	102,114,188	219,979,188	2,535,000	3,235,666	5,770,666	120,400,000	105,349,854	225,749,854
2027	96,900,000	96,412,966	193,312,966	2,640,000	3,133,921	5,773,921	99,540,000	99,546,886	199,086,886
2028	100,445,000	91,458,913	191,903,913	2,745,000	3,029,410	5,774,410	103,190,000	94,488,323	197,678,323
2029	96,595,000	86,817,230	183,412,230	2,855,000	2,916,455	5,771,455	99,450,000	89,733,685	189,183,685
2030	81,735,000	82,483,903	164,218,903	2,970,000	2,803,236	5,773,236	84,705,000	85,287,139	169,992,139
2031	84,135,000	78,145,582	162,280,582	3,085,000	2,684,058	5,769,058	87,220,000	80,829,640	168,049,640
2032	87,675,000	74,165,041	161,840,041	3,210,000	2,561,469	5,771,469	90,885,000	76,726,510	167,611,510
2033	92,515,000	70,520,538	163,035,538	3,340,000	2,430,286	5,770,286	95,855,000	72,950,823	168,805,823
2034	94,475,000	66,386,588	160,861,588	3,470,000	2,297,392	5,767,392	97,945,000	68,683,980	166,628,980
2035	99,485,000	62,214,840	161,699,840	3,610,000	2,158,131	5,768,131	103,095,000	64,372,972	167,467,972
2036	109,515,000	57,649,928	167,164,928	3,755,000	2,014,229	5,769,229	113,270,000	59,664,156	172,934,156
2037	100,390,000	52,801,352	153,191,352	3,905,000	1,861,691	5,766,691	104,295,000	54,663,043	158,958,043
2038	105,915,000	48,124,777	154,039,777	4,060,000	1,705,852	5,765,852	109,975,000	49,830,629	159,805,629
2039	110,125,000	43,560,334	153,685,334	4,225,000	1,542,910	5,767,910	114,350,000	45,103,243	159,453,243
2040	114,540,000	38,706,468	153,246,468	4,390,000	1,374,051	5,764,051	118,930,000	40,080,518	159,010,518
2041	105,115,000	34,047,763	139,162,763	4,570,000	1,196,613	5,766,613	109,685,000	35,244,375	144,929,375
2042	92,830,000	29,923,642	122,753,642	4,750,000	1,013,784	5,763,784	97,580,000	30,937,425	128,517,425
2043	96,805,000	25,958,683	122,763,683	4,940,000	823,159	5,763,159	101,745,000	26,781,842	128,526,842
2044	91,240,000	21,822,192	113,062,192	5,140,000	625,245	5,765,245	96,380,000	22,447,437	118,827,437
2045	85,995,000	17,895,233	103,890,233	5,345,000	418,425	5,763,425	91,340,000	18,313,658	109,653,658
2046	73,910,000	14,505,133	88,415,133	5,560,000	204,121	5,764,121	79,470,000	14,709,254	94,179,254
2047	69,515,000	11,237,550	80,752,550	-	-	-	69,515,000	11,237,550	80,752,550
2048	58,025,000	8,149,400	66,174,400	-	-	-	58,025,000	8,149,400	66,174,400
2049	45,065,000	5,817,475	50,882,475	-	-	-	45,065,000	5,817,475	50,882,475
2050	33,330,000	4,034,875	37,364,875	-	-	-	33,330,000	4,034,875	37,364,875
2051	27,870,000	2,514,775	30,384,775	-	-	-	27,870,000	2,514,775	30,384,775
2052	19,575,000	1,203,750	20,778,750	-	-	-	19,575,000	1,203,750	20,778,750
2053	8,580,000	214,500	8,794,500	-	-	-	8,580,000	214,500	8,794,500
Total	\$ 2,552,090,000	\$ 1,466,829,629	\$ 4,018,919,629	\$ 85,840,000	\$ 47,128,436	\$ 132,968,436	\$ 2,637,930,000	\$ 1,513,958,065	\$ 4,151,888,065

(1) Excludes the Refunded Bonds, which are expected to be defeased on October 26, 2023.

(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.” See “Capital Requirements—Financing Plans.”

(3) Assumes interest rate of 4.00% on variable rate bonds, per the Department’s financial plan.

(4) Reflects outstanding debt service as of October 1, 2023.

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 2023-2028 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 replacement of fleet equipment (\$59.5 million), transportation electrification projects (\$37.0 million), office furniture and equipment (\$19.7 million), and comprehensive substation improvements (\$15.2 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 (\$302.6 million, of which the Accelerated Pole Replacement Program is \$232.6 million) and underground equipment (\$148.3 million), overhead and underground service connection work for Medium General Service customers (\$136.8 million), pole preparation for the attachment of communication infrastructure owned by other entities (\$104.0 million), software replacement strategy to upgrade or replace components of the Utility Technology Portfolio (\$72.1 million), and network additions and services—Broad Street Substation (\$60.9 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 overhead and underground relocations of electrical lines to accommodate transportation projects (\$64.4 million), ongoing public and private street lighting projects (\$55.8 million), the relocation of streetlights due to transportation projects (\$37.5 million), and the LED streetlight conversion program (\$29.3 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 (\$106.5 million), minor capital improvement projects at the Skagit facilities (\$41.7 million), project overhauls for Gorge U 21-24 (\$29.0 million), and the Tolt relicensing (\$23.3 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 (\$22.8 million) and transmission reliability (\$16.1 million), and the transmission Inter-Agency project (\$3.4 million).

Conservation

Conservation programs offer financial incentives (such as rebates, discounts, and loans) to customers who produce energy savings by installing approved energy-saving equipment or weatherization measures or by designing a building to exceed energy code requirements. Program costs include program administration, audits, and inspections, and the costs of designing and installing energy savings measures. The current expenditure level is expected to achieve approximately 49.4 aMW of cumulative annual energy savings (an average of 8.2 aMW annual achievement per year) between 2023 and 2028.

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 October 17, 2023, 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)

	2023	2024	2025	2026	2027	2028	Total
Uses of Funds							
Central Utility Projects	\$ 42.9	\$ 37.6	\$ 28.4	\$ 25.6	\$ 24.6	\$ 23.1	\$ 182.2
Distribution	186.1	215.1	229.8	240.5	245.5	238.8	1,355.8
External Projects	25.8	27.4	27.8	27.1	28.6	26.2	162.8
Power Supply	77.4	64.0	60.9	53.7	48.9	60.2	365.2
Transmission	10.1	8.6	6.8	6.3	6.1	6.3	44.3
Conservation ⁽¹⁾	26.0	28.6	28.9	29.4	29.4	30.1	172.4
Other Capital Costs ⁽²⁾	5.6	8.3	8.6	7.2	11.3	10.0	51.1
Total Funds Required/CIP	\$ 373.9	\$ 389.7	\$ 391.2	\$ 389.7	\$ 394.5	\$ 394.7	\$ 2,333.8
Sources of Funds							
Cash from Operating Account ⁽³⁾	\$ 175.6	\$ 159.7	\$ 146.0	\$ 149.0	\$ 116.5	\$ 135.7	\$ 882.5
Cash from Contributions	54.3	57.1	58.4	55.8	57.4	62.2	345.3
Cash from Bond Sale ⁽⁴⁾	144.0	172.9	186.8	184.9	220.7	196.8	1,106.1
Total Funds Available	\$ 373.9	\$ 389.7	\$ 391.2	\$ 389.7	\$ 394.5	\$ 394.7	\$ 2,333.8

- (1) 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.
- (2) Includes environmental mitigation and toxic cleanup costs.
- (3) Includes funds that will be utilized for debt retirement.
- (4) 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 \$2,333.8 million from 2023 through 2028 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 2023-2028, 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 used approximately \$99 million of operating cash to defease certain outstanding bonds of the Department in August 2023. In addition, the City expects to issue additional Parity Bonds in an aggregate principal amount of approximately \$250 million in the second half of 2024.

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, 2022, the Department had recorded environmental liability amounts net of recoveries of \$109.1 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 and Feasibility Study ("RI/FS") was completed in 2012 pursuant to an Administrative Settlement Agreement Order on Consent entered into by the City, the County, the Port of Seattle, and The Boeing Company. EPA issued 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, the costs will be greater than the EPA estimate. EPA recently updated its estimate of the cost to implement the remedy to account for inflation. As of the date of this Official Statement, the estimate is \$668 million; the Department's ultimate liability is indeterminate. Pre-design work has been done. Design work for the upper third of the waterway is underway, while design work for the middle section of the waterway is beginning. The City has been participating in a confidential, voluntary allocation process among parties that may be liable for some of the cleanup costs. That process was finished in 2022; however, settlement negotiations among the allocation parties are ongoing. In January 2023, EPA issued Special Notice Letters to five parties, including the City. Since then, the City and other parties have been negotiating the terms of a Consent Decree with EPA and Ecology. The Consent Decree will govern all remaining remedial actions. The Department and SPU have been sharing the City's portion of costs for the Lower Duwamish Waterway work and will continue to do so. See Appendix E—2022 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 Feasibility Study ("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 \$755,000 in 2023 and \$805,000 in 2024. Estimated costs for the alternatives evaluated in the FS range from \$246 million to \$411 million. The Department's ultimate liability is indeterminate. The Department expects

that EPA will publish the proposed plan in 2023. See Appendix E—2022 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 E—2022 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 or 2024.

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 30, 2023, were approximately \$1.22 million.

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.”

On September 21, 2023, the federal government (including the Bureau of Reclamation, USFWS, NOAA Fisheries, the Corps, and BPA) announced an agreement with the Confederated Tribes of the Colville Reservation, the Coeur d'Alene Tribe, and the Spokane Tribe of Indians to fund actions to restore salmon populations in the Upper Columbia River Basin. The funding includes \$200 million from BPA over 20 years and \$8 million from the U.S. Department of the Interior over two years to advance a Tribally-led implementation plan to test the feasibility of and ultimately to reintroduce salmon in blocked habitats in the Upper Basin. The Tribes have agreed not to sue the federal government for the 20-year period while restoration studies and actions are performed and evaluated for effectiveness in a phased approach to reintroduction.

To better address species-recovery needs and increase abundance of the 24 stocks of salmon and steelhead throughout the Columbia Basin, the governors of Washington, Oregon, Idaho, and Montana committed in 2020 to pursuing a collaborative framework working with federal partners, co-manager tribes, and interested stakeholders to advance the goals of the Columbia Basin Partnership Task Force and the measures identified in the most recent Biological Opinion. The Partnership understood that implementation of strategies and actions to achieve the goals would occur within existing management structures administered by the sovereign entities, and that continued regional interaction through a collaborative process would be a constructive, science-based effort to develop those strategies and actions. The outcome of this process is recognized now as the Columbia Basin Collaborative. Within this collaborative structure a series of topic-specific work groups were established following a nomination call in 2022. Topic-specific work groups include: estuary habitat, tributary habitat, hydropower (mainstem), blocked areas, harvest, hatchery, and predation. The working groups will develop recommendations for actions to help achieve goals in consideration of social, cultural, economic, and ecological issues and strive for consensus on recommendations. As recommendations are finalized, they are conveyed to the Science Integration/Recommendations Group. The Science Integration Work Group is looking at impacts from all threat categories at a distinct population segments/evolutionarily significant units ("DPS/ESU") level analysis and working to prioritize actions for implementation. This work is expected to continue through 2023, and likely into 2024. The Department attends meetings of the tributary habitat and science integration work group when possible to track developments of initiatives.

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 and two forks of the Tolt River downstream of the South Fork Tolt Project.

The Skagit River within and 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. Effects of anadromous species' introductions into Skagit Project reservoirs, as is under consideration under the current relicensing effort, will require extensive study of the potential effects of introduction (e.g., disease, competition, etc.) on the reservoir-dependent Bull Trout populations. 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 2022 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 in tributaries below the Skagit dams. Climate change, which can greatly affect streamflow intensities, represents a significant threat to the populations throughout the recovery domain, including the Skagit core populations as it is thought to be a major source of redd (nest) scour.

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 and 2022 are yet to be released, but a recent Departmental analysis using data published by the Puget Sound Partnership and sourced originally from the Pacific Fisheries Management Council (“PFMC”) 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 and not meeting recovery goals, 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. Preliminary PFMC data from 2020 indicate a total Skagit Chinook run size of all six recognized stocks within the basin of 13,494 Chinook, of which over 99% were of natural origin (wild spawning). This return is within the range reported over the past ten years of 9,770 (2010) to 21,210 (2016).

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. More recent data remain to be released.

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 anticipating that its ESA habitat restoration, conservation land acquisition (including approximately 10,800 acres owned and managed by the Department for fish

and wildlife mitigation tied to the Skagit Project FERC license), and research programs will continue under its new FERC licenses that support the recovery and restoration 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 approximately 3,700 acres of high quality habitat for ESA-listed fish species in these watersheds for permanent conservation protection as part of the ESA Lands Program. Both of these acreage figures include approximately 211 acres that were purchased using a combination of ESA Lands Program and Skagit Project mitigation funds. 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, Swinomish, and Sauk-Suiattle Tribes 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 Tulalip 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 settlement 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.

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 2024. The WQIP will identify specific tasks, responsible parties, and timelines for reducing or eliminating pollution sources. The next Water Temperature Attainment Plan that is part of the 401 Certification will need to be consistent with the WQIP. It is unknown at this time what will be in the WQIP; however, it is believed that only minor changes to the existing Water Temperature Attainment approach will be required in the meet the WQIP.

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 of these rule changes is expected to remain minimal for the Department.

In June 2022 Ecology announced its intent to review and revise, as necessary, the State's current aquatic life toxics criteria to ensure consistency with nationally recommended criteria issued by EPA. Under this process Ecology will consider: (i) pollutant protection levels for endangered species in Washington waters; (ii) new scientific data, methods, and modeling tools to update protection levels necessary for aquatic life in the State's surface waters; and (iii) adding new toxic substances to the water quality standards that EPA has recommended or that the State designates as high priority for the protection of aquatic life. A proposed rule is expected in 2023 or 2024, with 2024 anticipated for a decision on rule adoption. The Department is tracking this rule development for its potential impact on 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).

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 State law 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) by 2030, and 100% renewable or non-emitting resources by 2045. See "Power Resources and Cost of Power—Washington's Renewable Portfolio Standard and Regulatory Compliance (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 allows the State to meet its outlined greenhouse gas limits and established a Cap-and-Invest program, which caps and reduces the greenhouse gas emissions associated with the largest emitting sources and industries in the State. Utilities and other entities that are covered under this program are

required to provide eligible instruments to cover its compliance obligations. See “Power Resources and Cost of Power—Washington’s Renewable Portfolio Standard and Regulatory Compliance (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. Building off of this plan, elevating climate equity and customer and employee welfare will be substantive advancements in a new Climate Resilience Strategy currently being developed by the Department. This strategy development during 2023 will operationalize an ongoing pathway to action, including partnerships, governance, engagement, portfolio of actions, information resources, tracking and reporting, and performance evaluation. The Department 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. Collaboration with the University of Washington’s Climate Impacts Group produced future stream flows that are being used in the operations model being applied as part of the Skagit Project relicensing. These university collaborations are being used to support relicensing and other long-term planning and designs related to the Department’s hydroelectric projects.

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.

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, transmission planning, 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. Climate science has also informed federal grant applications supporting climate resilience, including flooding, wildfire, and landslide hazards. The Department was recently awarded a FEMA Hazard Mitigation Grant of over \$1 million to retrofit six transmission towers to reduce damage and restoration time of transmission lines providing approximately 20% of the City’s electricity. The Department monitors 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. Over the past decade, two major fires near the Skagit Project impacted operations. On July 29, 2023, a fire was spotted on Sourdough Mountain above Diablo Dam. Over the next month, the fire spread to 6,300 acres around the Diablo facility, the town of Diablo,

and the Environmental Learning Center. Transmission lines out of the Diablo and Ross facilities were shut down twice, once for seven days and once for six days. During these times, the Diablo and Ross dams spilled water through the spill gates to maintain flow to the Gorge powerhouse and the Skagit River. The estimated cost of purchasing supplemental energy on the wholesale market was approximately \$2.6 million. No facilities or structures were lost to the fire. Normal operations resumed completely August 29, 2023.

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.

The Department integrates 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. The Department initiated a Wildfire Risk Reduction Strategy in 2021 and finalized it in August 2023. These practices are designed to reduce the potential wildfire risk to the Department's remote infrastructure, communities, and service of electricity to customers.

There is also wildfire risk to generation and transmission facilities serving the Department through power and transmission contracts. BPA, which makes up the vast majority of the Department's purchased power and transmission contracts, established a formal wildfire mitigation plan in 2022.

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.

For the purposes of this section, "General Operating Fund" is defined as the financial activity accounted for in the City's General Operating Fund (00100) and does not reflect financial activity outside of this fund. The General Operating Fund is one of a set of more than 20 additional defined funds that are combined into one General Fund for the purposes of reporting in the City's Annual Comprehensive Financial Report.

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 (“CBO”) is within the executive branch and the Budget Director is appointed by the Mayor. 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. 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 CBO pursuant to State statute (chapter 35.32A RCW). In prior years, the City’s annual budget was based in part on revenue forecasts prepared by CBO. In 2022, much of the forecasting function transitioned to the newly created Office of Economic and Revenue Forecasts (the “Forecast Office”). See “—The Office of Economic and Revenue Forecasts.” CBO will continue to be responsible for coordinating with departments to forecast and project all other 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 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.

Municipal Budget. The 2023 budget was adopted by Ordinance 126725, passed by the City Council on November 29, 2022. The City's adopted General Operating Fund budget was approximately \$1.585 billion in 2022 and is approximately \$1.606 billion in 2023.

The Office of Economic and Revenue Forecasts. The Forecast Office, initially created in 2021, 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 prepares three revenue forecasts each year delivered in April, August, and October. 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. Either the Mayor or the City Council may deviate from the official forecasts in balancing the Proposed or Adopted Budget, respectively, but only if they provide a public written explanation to the Forecast Council describing such a deviation.

Beginning with the April 2022 Revenue and Budget Update and the 2023 budget cycle, the official forecasting function transitioned to the Forecast Office. The Forecast Office provides forecasts of 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.

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 its work program.

Fiscal Reserves

Emergency Fund. Under the authority of RCW 35.32A.060, the City maintains the Emergency Fund (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 realized significant expenses to address the response and recovery. Due to the magnitude and prolonged nature of the emergency, it was not possible for the City to make the contributions necessary to meet the fund balance requirements for the EMF in 2020 and 2021. 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.

Prior to the onset of COVID, the Emergency Fund had a fund balance of \$65 million as of year-end 2019. In response to the COVID-19 pandemic, the City withdrew a net \$31.3 million from the EMF in 2020 and 2021. Improving economic conditions allowed for a \$10 million contribution to the reserve in 2022. These uses and subsequent replenishment resulted in an EMF reserve balance of \$43.7 million at the end of 2022, a reduction of \$21.3 million compared to pre-COVID levels.

Revenue Stabilization Fund. The City maintains the Revenue Stabilization Fund (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 Operating 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 Operating Fund tax revenues, and (iii) upon completion of fiscal year accounting, automatic transfer of 50% of the ending balance in the General Operating 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 Operating 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 Operating Fund tax revenues for the year, and when forecasts underlying the adopted budget anticipate a nominal decline in General Operating 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 Operating Fund tax revenues in the first year showing such recovery, followed by 0.50% thereafter.

Prior to the onset of the COVID-19 pandemic, the RSF reported an ending fund balance of \$57.8 million at the end of fiscal year 2019. In response to the COVID-19 pandemic, the City withdrew a net \$51.7 million from the RSF in 2020 and 2021. Based on the automatic transfer mechanism described above, the City made a deposit of \$55.7 million to the RSF in 2022. These uses and subsequent replenishment resulted in an RSF reserve balance of \$61.7 million at the end of 2022, an increase of \$3.9 million over pre-COVID levels.

The City does not plan to draw on either of the reserves in 2023. The City’s 2023 Adopted Budget plans to fund the EMF to \$56.7 million and the RSF to \$67.0 million by year-end 2024, for a combined total of approximately \$124 million. The combined fund balance of these two reserves is projected to reach \$159 million by year-end 2026.

Financial Management

City financial management functions are provided by the Office of City Finance within the Department of Finance and Administrative Services. The Director of Finance is a charter position appointed by the Mayor and reporting directly to the Mayor’s Office, despite being located within 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 Citywide Accounting and Payroll Division of the Office of City Finance within 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. Under chapter 43.250 RCW, local governments may invest in the Washington State Local Government Investment Pool ("LGIP"), managed by the State Treasurer to maximize potential surplus funds while ensuring safety of those funds.

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 Treasury Services Division of the Office of City Finance within the Department of Finance and Administrative Services ("City Treasury"). Investments of temporarily idle cash may be made, according to existing City Council-approved policies, by City Treasury in securities described above under "Authorized Investments."

State statutes, City ordinances, and Office of City Finance 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, 2022, the City's pooled investment portfolio, which excludes pensions, totaled \$3.49 billion market value. The City's investment portfolio consists solely of City funds. As of December 31, 2022, the annualized earnings yield of the City's investment portfolio was 2.81% for the month and 1.80% for the year. As of December 31, 2022, the weighted average maturity of the City's investments was 931 days. Approximately 21%, or \$744 million, was invested in securities with maturities of three months or less.

Investments were allocated as follows, by market value:

U.S. Government Agencies	35%
U.S. Government	34%
State Local Government Investment Pool	12%
U.S. Government Agency Mortgage-Backed	8%
Municipal Bonds	5%
Commercial Paper	2%
Corporate Bonds	2%
Supranational	1%
Repurchase Agreements	1%

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

Interfund Loans. The City is authorized to make interfund loans 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, 2022, the City had outstanding three interfund loans totaling approximately \$53.4 million, including interest, in amounts ranging from \$13.2 million to \$24.5 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.

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, 2022, and DRS's Annual Comprehensive Financial Report for LEOFF for the fiscal year ended June 30, 2022, were prepared in accordance with GASB 67.

The Seattle City Light Fund reported a liability of \$171.7 million and \$199.5 million, representing its proportionate share of net pension liability ("NPL") for SCERS as of December 31, 2022, and December 31, 2021, 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 2022 Audited Financial Statements. The NPL was measured as of December 31, 2021, and December 31, 2020, and the total pension liability ("TPL") used to calculate the NPL was based on the actuarial valuations as of January 1, 2021, and January 1, 2020. The Seattle City Light Fund's proportion of the NPL was based on contributions to SCERS during the fiscal years ended December 31, 2021, and December 31, 2020. The Seattle City Light Fund's proportionate share was 20.72% and 20.38% for the years ended December 31, 2022, and December 31, 2021, 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 2022 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, 2023), which was approved by the Board on June 8, 2023 (the "2022 Actuarial Valuation"), there were 7,513 retirees and beneficiaries receiving benefits, and 9,309 active members of SCERS. There are an additional 1,647 terminated employees in SCERS who are vested and entitled to future benefits and another 1,839 who are not vested and not entitled to benefits beyond contributions and accumulated interest. From January 1, 2022, to January 1, 2023, the net number of active members in SCERS increased by 2.9%, the net number of retirees receiving benefits increased by 2.7%, and the net number of vested terminated members increased by 5.8%.

Certain demographic data from the 2022 Actuarial Valuation are shown below:

TABLE 15
PLAN MEMBER DEMOGRAPHIC INFORMATION, SCERS

<u>Age Range</u>	<u>Retirees and Beneficiaries</u>		<u>Active Employees</u>	
	<u>Number</u>	<u>Percent</u>	<u>Number</u>	<u>Percent</u>
<25	-		126	1.4%
25-39	-		2,553	27.4%
40-49	10 ⁽¹⁾	0.1% ⁽¹⁾	2,454	26.4%
50-59	248	3.3%	2,603	28.0%
60-69	2,379	32.1%	1,439	15.5%
70+	4,776	64.4%	134	1.4%

(1) Includes everyone under the age of 50.

Source: 2022 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 4.36.505.E 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, 2022, and December 31, 2021, was transmitted on June 6, 2023, by CliftonLarsonAllen LLP.

Milliman Inc., as consulting actuary, has evaluated the funding status of SCERS annually since 2010. The most recent actuarial report, the 2022 Actuarial Valuation (with a valuation date as of January 1, 2023), is available on the City’s website at:

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

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 annual actuarial valuations beginning with the 2021 Actuarial Valuation (with a valuation date as of January 1, 2022). The following summarizes some key assumptions utilized in the 2022 Actuarial Valuation and compares those to the assumptions used in the last five actuarial valuations.

TABLE 16
ACTUARIAL ASSUMPTIONS

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Investment return	6.75%	6.75%	7.25%	7.25%	7.25%	7.50%
Price inflation	2.60%	2.60%	2.75%	2.75%	2.75%	3.25%
Wage growth (price inflation plus wage inflation)	3.35%	3.35%	3.50%	3.50%	3.50%	4.00%
Expected annual average membership growth	0.25%	0.25%	0.50%	0.50%	0.50%	0.50%
Interest on member contributions made on or after January 1, 2012 ⁽¹⁾	3.85%	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: 2017-2022 Actuarial Valuations

As of January 1, 2023 (as set forth in the 2022 Actuarial Valuation), the actuarial value of net assets available for benefits was \$3,903.1 million and the actuarial accrued liability was \$5,158.0 million. An Unfunded Actuarial Accrued Liability (“UAAL”) exists to the extent that actuarial accrued liability exceeds plan assets. Per the 2022 Actuarial Valuation, the UAAL increased from \$1,241.8 million as of January 1, 2022, to \$1,254.9 million as of January 1, 2023. The funding ratio increased from 75.0% as of January 1, 2022, to 75.7% as of January 1, 2023, which increase was primarily due to contributions made to pay down the UAAL

and was partially offset by a lower than assumed investment return. For the year ended December 31, 2022, SCERS assets experienced an investment loss of about -9.8% on a market value basis (net of investment expenses), a rate of return that was significantly less than the assumed rate of 6.75% for 2022. The result is an actuarial loss on assets for 2022, but only one-fifth of this loss 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 2022 return was a positive 6.2% on an actuarial value basis.

The following table provides historical plan funding information for SCERS:

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

Actuarial Valuation Date (January 1)	Actuarial Value of Assets (AVA)⁽²⁾	Actuarial Accrued Liability (AAL)⁽³⁾	Unfunded AAL (UAAL)	Funding Ratio	Covered Payroll⁽⁴⁾	UAAL as % of Covered Payroll
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%
2023	3,903.1	5,158.0	(1,254.9)	75.7%	972.6	129.0%

(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 2022 SCERS audited financial statements included a calculation of TPL and NPL based on the actuarial valuation dated as of January 1, 2022, rolled forward using generally accepted actuarial procedures (assuming a 6.75% investment rate of return and 3.35% salary increases) to December 31, 2022, as follows: TPL was calculated to be \$5,152.0 million, plan fiduciary net position (“Plan Net Position”) was calculated to be \$3,638.9 million, and NPL was calculated to be \$1,513.0 million, for a funding ratio (Plan Net Position as a percentage of TPL) of 70.6%. 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 E—2022 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 2022 Actuarial Valuation calculation, a 20-year amortization period was used. This policy may be revised by the City Council in future years. The 2022 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⁽¹⁾	% of Total ARC Contributed
2015	15.73%	10.03%	25.76%	25.76%	100%
2016	15.23%	10.03%	25.26%	25.26%	100%
2017	15.29%	10.03%	25.32%	25.32%	100%
2018	15.23% ⁽²⁾	10.03%	25.26%	25.00%	101% ⁽²⁾
2019	15.26% ⁽²⁾	9.85% ⁽³⁾	25.11%	24.40% ⁽⁴⁾	103% ⁽²⁾
2020	16.14%	9.65% ⁽³⁾	25.79%	25.79% ⁽⁴⁾	100%
2021	16.10%	9.46% ⁽³⁾	25.56%	25.56% ⁽⁴⁾	100%
2022	16.10% ⁽²⁾	9.35% ⁽³⁾	25.45%	24.68% ⁽⁴⁾	103% ⁽²⁾
2023	15.82%	9.24% ⁽³⁾	25.06%	25.06% ⁽⁴⁾	100%
2024	15.17% ⁽⁵⁾	8.95% ⁽³⁾	24.12%	24.12% ⁽⁴⁾	100%

- (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 City contribution rate is intentionally more than the total ARC in these years in an effort to reduce a projected increase in future contribution rates.
- (3) Reflects a blended employee contribution rate based on rates for SCERS 1 and SCERS 2 members.
- (4) Since 2019, the ARC reflects a blended normal cost for SCERS 1 and SCERS 2.
- (5) The 2022 Valuation included an employer contribution rate of 15.17% for 2024. The Board approved a non-binding recommendation to the City Council to instead maintain the 2023 rate of 15.82% for 2024 (see discussion below).

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. Future increases to pension contribution rates will be reflected in the City’s employer contribution.

As indicated in Table 18, the Total ARC is decreasing to 24.12% as a percent of payroll beginning on January 1, 2024. This compares to the 25.06% Total ARC in 2023. The employees’ share averages 8.95% between SCERS 1 and SCERS 2 in 2024. The employer’s share needed to meet the Total ARC is decreasing from 15.82% to 15.17% in 2024; however, in recognition that future employer contribution rates are projected to increase (see Table 19), the Board approved a non-binding recommendation to the City Council to instead

maintain the 2023 rate of 15.82% for 2024. This recommendation will ultimately occur via a resolution submitted by SCERS with budget legislation as part of the Council’s budget process in the fall of 2023.

Projected total actuarially required contribution rates for SCERS reported in the 2022 Actuarial Valuation are shown in the table below:

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

<u>Contribution Year⁽¹⁾</u>	<u>Assuming 6.75% Returns</u>	<u>Confidence Range⁽²⁾</u>
2024	15.17%	15.17-15.17
2025	15.28%	14.01-16.37
2026	15.65%	12.16-18.57
2027	16.46%	10.12-21.60
2028	17.68%	8.95-25.33
2029	17.67%	8.95-28.10

(1) Contribution year lags valuation year by one year. For example, contribution year 2024 is based on the 2022 Actuarial Valuation (as of January 1, 2023) results, amortized over 20 years beginning in 2023 if the contribution rate change takes place in 2024.

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

Source: 2022 Actuarial Valuation

Employer contributions for the City were \$139.5 million in 2021 and \$139.3 million in 2022, of which approximately \$28.9 million and \$29.0 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 decreased by \$495.8 million (-12.0%) during 2022, including member and employer contributions of \$228.3 million and net loss from investment activity totaling -\$452.8 million. Deductions increased by \$20.5 million in 2022, primarily attributed to a \$11.2 million increase in retiree benefit payments and a \$8.3 million increase in the amount of contributions refunded.

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

Year (As of December 31)	Market Value of Assets (MVA)⁽¹⁾
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
2022	3,638.9

(1) In millions.

Source: SCERS Actuarial Valuations

TABLE 21
SCERS INVESTMENT RETURNS

Year (As of December 31)	One-Year Annualized Return⁽¹⁾
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%
2022	-9.8%

(1) Calculated net of fees.

Source: SCERS Annual Reports

Table 22 below shows the historical distribution of SCERS investments for the years 2019-2023.

TABLE 22
HISTORICAL SCERS DISTRIBUTION OF INVESTMENTS BY CLASS

Investment Categories (January 1)	2023	2022	2021	2020	2019
Diversifying Strategies	0.0%	0.0%	0.0%	0.0%	2.0%
Fixed Income	24.7%	23.8%	22.7%	26.7%	28.9%
Infrastructure	2.5%	1.9%	1.5%	1.2%	0.9%
Private Equity	14.7%	13.5%	13.2%	8.6%	8.1%
Public Equity	44.3%	50.1%	53.0%	53.1%	48.8%
Real Estate	13.7%	10.6%	9.7%	10.5%	11.3%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

Source: SCERS Actuarial Valuations

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

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

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

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

These pension plans provide retirement benefits, death benefits, and certain medical benefits for eligible active and retired employees. Retirement benefits are determined under chapters 41.18 and 41.26 RCW for the Firefighters' Pension Fund and under chapters 41.20 and 41.26 RCW for the Police Relief and Pension Fund. As of January 1, 2023, membership in these plans consisted of 508 fire employees and survivors and 587 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, 2023, 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, 5.50%; 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, 3.75%; and projected salary increases of 4.00% in 2024, declining gradually to 3.25% for 2027 and thereafter. Postretirement benefit increases are projected based on salary increase assumptions for benefits that increase based on salary and 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 \$91.3 million as of December 31, 2022, a decrease of \$27.0 million from the TPL of \$118.3 million as of December 31, 2021. As of the January 1, 2023, valuation, the actuarial value of net assets available for benefits in the Firefighters’ Pension Fund was \$29.8 million, and the AAL was \$86.6 million. As a result, the UAAL was \$56.7 million and the funded ratio was 34.4%. In the January 1, 2022, actuarial valuation, the UAAL was \$52.6 million and the funded ratio was 39.3%. The City’s employer contribution to the fund in 2022 was \$5.6 million; there were no current member contributions, as described in the January 1, 2023, actuarial valuation. 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.

In contrast to the Firefighters’ Pension Fund policy of fully funding the AAL, the City funds the Police Relief and Pension Fund as benefits become due. In accordance with GASB 73, the plan had a TPL of \$76.7 million as of December 31, 2022, a decrease of \$24.6 million from the TPL of \$101.3 million as of December 31, 2021. As of the January 1, 2023, valuation, the actuarial value of net assets available for benefits in the Police Relief and Pension Fund was \$23.6 million, and the actuarial value of future benefits was \$74.8 million. As a result, the unfunded actuarial liability was \$51.2 million and the funded ratio was 31.6%. In the January 1, 2022, actuarial valuation, the unfunded actuarial liability was \$74.0 million and the funded ratio was 22.2%. The City’s employer contribution to the fund in 2022 was \$9.6 million; there were no current member contributions, as described in the January 1, 2023, actuarial valuation. The fund also receives police auction proceeds of unclaimed property.

Law Enforcement Officers’ and Fire Fighters’ Retirement System. Substantially all of the City’s current uniformed firefighters and police officers are enrolled in LEOFF. LEOFF is a State-wide, multiple-employer defined benefit plan administered by the DRS. Contributions by employees, employers, and the State are based on gross wages. LEOFF participants who joined the system by September 30, 1977, are Plan 1 members. LEOFF participants who joined on or after October 1, 1977, are Plan 2 members. For all of the City’s employees who are covered under LEOFF, the City contributed \$16.8 million in 2022 and \$17.0 million in 2021, as described in the City’s Annual Report. 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, 2023)

	Plan 1	Plan 2
Employer	0.18% ⁽¹⁾	5.30% ⁽¹⁾
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, 2022, valuation, LEOFF had no UAAL. LEOFF Plan 1 had a funded ratio of 152% and LEOFF Plan 2 had a funded ratio of 104%. The assumptions used by the State Actuary in calculating the accrued actuarial assets and liabilities are a 7.00% annual rate of investment return, 3.25% general salary increases, 2.75% consumer price index increase, and annual growth in membership of 1.00%. 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, 2022, the City reported an asset of \$324.4 million for its proportionate share of the net pension asset as follows: \$102.0 million for LEOFF Plan 1 and \$222.4 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 2022 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 an annual 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. Reports for odd-numbered years are based on a roll-forward of the prior year's valuation. The last valuation was based on a measurement date as of January 1, 2022, and was prepared in accordance with GASB 75. It showed the total OPEB liability for the implicit rate subsidy decreased to \$55.7 million from \$70.3 million in the prior year. The City's GASB 75 annual expense in 2022 was calculated at \$3.1 million, which compares to \$4.8 million in 2021. 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, 2022, the total OPEB liability in the City's Firefighters' Pension Fund decreased to \$243.8 million from \$290.6 million. The annual OPEB expense for 2022 was a negative \$34.3 million and the estimated benefit payments were \$12.5 million. As of December 31, 2022, the total OPEB liability in the Police Relief and Pension Fund decreased to \$238.0 million from \$293.7 million. The annual OPEB expense for 2022 was a negative \$41.2 million and the estimated benefit payments were \$14.4 million. The reduction in total OPEB liability and annual OPEB expense under both of the City's Firefighters' Pension Fund and Police Relief and Pension Fund plans was primarily due to an increase in the discount rate used to value future benefits under GASB 75.

For additional information regarding the City's OPEB liability, see Note 11 to the City's 2022 Annual Comprehensive Financial Report. For additional information regarding the City Light Fund's OPEB liability, see Appendix E—2022 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 provide 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 (“PFML”) 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 \$1,427 per week in 2023, 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.

The City pays the employer share of premiums based on a percentage of wages that are subject to the federal social security tax. This rate is currently 0.8% as of January 1, 2023, and is adjusted periodically in accordance with a formula prescribed in State law. The City will continue to pay only the employer share of the 2023 assessment for most employees, estimated to be \$2.9 million, approximately half of which will be paid from the General Operating Fund and the remainder of which will be paid by other funds.

State Long-Term Care Services and Supports Benefit Program

The Long-Term Services and Supports (“LTSS”) Trust Program (“WA Cares”) was first enacted in 2019 and was adjusted by further legislation in 2021 and 2022. The program is intended to provide certain long-term care benefits to eligible beneficiaries. Benefits may be paid directly to LTSS providers on behalf of eligible beneficiaries. Administration of the LTSS Trust Program is divided among several State Agencies: the Employment Security Department, the Department of Social and Health Services (“DSHS”), the Health Care Authority, the Office of the State Actuary (“OSA”), the Pension Funding Council (“PFC”), and two new bodies: the LTSS Trust Council and the LTSS Trust Commission.

The legislation imposes 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 is scheduled to begin as of July 1, 2023, and benefits are to become available beginning July 1, 2026. 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. Self-employed persons may opt into the program; certain employees (e.g., workers who live out of State, military spouses, workers on non-immigrant visas, and certain veterans with disabilities) may opt out of participation in the program.

Any individual 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. Persons born before 1968 can earn lifetime access to 10% of the full benefit amount for each year they contribute. Program participants eligible to receive benefits must have been assessed by DSHS with needing assistance with at least three daily living tasks, must be at least 18 years old (and must not have been disabled before the age of 18), and must reside in the State. There is a lifetime cap of \$36,500 (adjusted annually for inflation) on the benefit for any individual.

Labor Relations

This information reflects the continued engagement of the Labor Relations Unit within Seattle Human Resources (“Labor Relations”) with union representatives. As of December 31, 2022, the City had 38 separate departments and offices with approximately 15,936 employees (including 11,534 regular and 4,402 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).

The Mayor ended the COVID-19 pandemic emergency declaration in late 2022 and lifted the vaccine mandate in early 2023. Labor Relations continues 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. In addition, Labor Relations continues to work closely with the City Attorney’s Office on the resolution of outstanding vaccine mandate separation arbitrations as well as the outstanding

Seattle Police Officers' Guild ("SPOG") unfair labor practice charge in response to the mandate itself, which is currently before Washington State's Public Employment Relations Commission.

In 2021, multiple unions filed unfair labor practices arising out of the COVID-19 vaccine mandate. All but one of those administrative matters before the State's Public Employment Relations Commission have been mutually resolved and withdrawn. Only one unfair labor practice filed by the Seattle Police Officers' Guild remains unresolved.

In 2022, the City finalized negotiations with the Seattle Police Management Association ("SPMA") for a new agreement to replace the contract that expired December 31, 2019. The new agreement became effective at the end of the second quarter of 2022 and expires on December 31, 2023. The City expects negotiations to begin by the end of 2023.

Labor Relations is in negotiations with SPOG for a new contract to replace its contract that expired on December 31, 2020, and with IAFF Local 27 Fire Fighters for a new contract to replace its contract that expired on December 31, 2021. Labor Relations is also in negotiations for 30 additional labor agreements that expired on December 31, 2022, that are either part of the Coalition of City Unions or "Coalition-Like" unions. All together, these contracts include approximately 61% of the City's represented employees. 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 the WSCCCE, Council 2, AFSCME, for Strategic Advisors and Managers at SPU, and is in active negotiations for a first collective bargaining agreement.

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.

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.

In addition to \$14.3 million in the 2022 Adopted Budget supporting the Green New Deal and climate-related investments in the Duwamish Valley in 2022, revenues from the Payroll Expense Tax continue to fund \$20.5 million in climate-focused investments in the 2023 Adopted Budget. These investments include \$2.8 million to enact emissions performance standards for large commercial and multifamily residential buildings, \$2.6 million to support electric heat pump conversions of oil-heated homes, and \$2 million for decarbonization of libraries and community centers. This funding also supports workforce development for green jobs, vehicle electrification for industrial enterprises, and additional climate resiliency actions 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. This 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. The 2018 Climate Action Plan remains in place as of the date of this Official Statement. In July 2022, the City adopted Resolution 32059 which declares the City's intent to focus on climate change and resiliency as part of the update to the City's Comprehensive Plan. The resolution recognizes the importance of addressing climate change, improving resilience and adaptation to the effects of climate change, reducing greenhouse gas emissions, and centering environmental justice as a core part of the update to the City's plan for growth over the next 20 years.

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 those 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 buildings policies include a number of requirements. These requirements include: the minimum required green building rating is LEED Gold for new construction, additions, and major renovation projects of 5,000 square feet or greater; minimum requirements for energy and water efficiency, construction waste reductions, and bicycle amenities; and the minimum required green building rating is LEED Gold for tenant improvement projects of 5,000 square feet or greater, where the scope includes mechanical, electrical, and plumbing. 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.

In December 2022, Mayor Harrell signed an executive order directing City departments to work together to prioritize and expand actions that equitably reduce or eliminate greenhouse gas emissions within the transportation sector. The actions prompted by this directive are intended to make investments in and build resilience among communities that

are hardest hit by the climate crisis, expand workforce opportunities, and improve the health of City residents and workers by improving air quality and street safety.

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 instituted 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 Risk Management Framework. 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 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.

Public Health Emergencies

Pandemics and other widespread public health emergencies can and do arise from time to time and can affect broader economic conditions and the State’s financial condition.

The COVID-19 pandemic negatively affected local, State, national, and global economic activity beginning in 2020. Certain response costs and other negative revenue impacts were 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 under 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”) to help the City recover from the COVID-19 pandemic. In addition to CLFR funding, the City received other federal grants intended to aid vulnerable populations particularly impacted by the pandemic. At this time, most revenue sources have returned to pre-pandemic levels, but uncertainty resulting from the pandemic’s effects on broader economic forces persists in the economy.

The City cannot predict whether future pandemics and other public health emergencies may arise that could impact the economy generally or the City’s financial condition.

Public Safety

Like many other major metropolitan areas, the City has experienced increased crime, particularly in the downtown core, since the onset of the COVID-19 pandemic. The City has taken steps to increase public safety measures as workers and retail traffic have begun to return to the downtown core. However, the City expects additional efforts will be required over the near and long term. To this end, in April 2023, the Mayor issued an Executive Order implementing a new Downtown Activation Plan that will evolve during the year to provide additional police and non-police resources to address safety and public health needs and increase the vitality of the downtown core.

The City experienced a high level of protest activity in 2020 particularly relating to racial justice and police violence throughout the country. These demonstrations had the effect of placing renewed emphasis on calls to reform the City’s overall approach to public safety. In response, the 2020 and 2021 adopted budgets reflected cuts to the Seattle

Police Department (“SPD”) budget. Many of these reductions were moderated in the City’s 2022 and 2023 Adopted Budgets, which also included expanding the City’s approach to ensuring community safety through programs and approaches that expand beyond a traditional uniformed police response.

SPD has been engaged in various reform efforts for many years and has operated under a consent decree imposed in 2012 (“2012 Consent Decree”) in response to U.S. Department of Justice (“DOJ”) findings of a “pattern or practice” of unconstitutional use of force. In March 2023, the City and DOJ jointly moved to replace the 2012 Consent Decree with a compliance agreement. The parties cited the City’s sustained compliance and its consistency in implementing necessary reforms. The filing recognized that continued oversight was warranted in the areas of (i) ensuring a sustainable system of accountability, and (ii) improving the use, reporting, and review of force in crowd control situations. The federal judge presiding over the Consent Decree litigation issued his ruling on September 6, 2023. The Court terminated large portions of the Consent Decree finding the City in compliance. The Court did not adopt the compliance agreement. Rather, the Court maintained continued oversight via the remaining paragraphs of the Consent Decree as to the two topics enumerated above.

Infrastructure and Capital Projects

The Mayor’s Office has established an interdepartmental steering committee that facilitates coordination, reviews and tracks grant applications, and provides central vision and direction to the City’s efforts relating to federal funding authorized in the Bipartisan Infrastructure Law and Inflation Reduction Act. City departments continue to watch for funding opportunities, respond to Requests for Information, and apply for funding.

The City has been awarded over \$89 million in federal infrastructure grants from the Bipartisan Infrastructure Law to-date, primarily for transportation projects.

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 federal fiscal year (“FFY”) 2029. The only direct impact of sequestration on the Department for FFY 2022 was 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 \$355,000 less in interest subsidies than originally anticipated for 2022, and expects a similar impact in 2023. 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 certain pending 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, including claims under State and federal environmental law. See Appendix E—2022 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. Certain other threatened or pending litigation is described in the City's Annual Comprehensive Financial Report, as of its date.

Sauk-Suiattle Litigation. In 2021 and 2022, the Sauk-Suiattle Indian Tribe (the "Tribe") 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. The Tribe filed an appeal and on December 30, 2022, the 9th Circuit affirmed the federal district court's dismissal of the case for lack of subject matter jurisdiction because the Tribe's complaint was subject to Section 313(b) of the Federal Power Act, which vests exclusive jurisdiction in the federal courts of appeals over all objections to FERC orders by a party to a FERC proceeding. On March 28, 2023, the Tribe filed a petition for writ of *certiorari* with the United States Supreme Court, with a decision on whether to grant the petition expected from the court in October 2023.

In September 2021, the Tribe filed suit in King County Superior Court alleging the Department engaged in violations of the Washington Consumer Protection Act (“CPA”) and nuisance associated with its marketing materials. This case was dismissed on January 14, 2022. The Tribe appealed the dismissal to Division 1 of the Washington Court of Appeals, which dismissed the CPA claims and remanded the nuisance claim to King County Superior Court for further proceedings. The parties have agreed to stay the remanded proceedings to allow time for settlement discussions to occur.

In January 2022, the Tribe filed a lawsuit 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 moved to dismiss these claims in the tribal court and, in tandem, 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. In May 2023, the Department and the Tribe agreed to joint motions for dismissal in both tribal and federal district court. The tribal court vacated its orders and dismissed Sauk-Suiattle’s tribal court complaint, and the federal district court granted the parties’ joint motion and dismissed the case for mootness.

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 Revenue 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 D. 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 D.

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 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. However, it should be noted that for tax years beginning after December 31, 2022, with respect to applicable corporations as defined in Section 59(k) of the Internal Revenue Code of 1986, as amended (the “Code”), generally certain corporations with more than \$1,000,000,000 of average annual adjusted financial statement income, interest on the Bonds might be taken into account in determining adjusted financial statement income for purposes of computing the alternative minimum tax imposed by Section 55 of the Code on such corporations.

Bond Counsel’s opinion as to the exclusion from gross income for federal income tax purposes of interest on the Bonds is based upon certain representations of fact and certifications made by the City and others and is subject to the condition that the City complies with all requirements of the Code that must be satisfied subsequent to the issuance of the Bonds to assure that interest 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 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 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 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 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 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 Parity Bonds then outstanding, 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 2024 with the City’s fiscal year ended

December 31, 2023. 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 assigned short-term ratings of "VMIG 1" and "A-1+" and long-term ratings of "Aa1" and "AA-" by Moody's Investors Service, Inc. and S&P Global Ratings, respectively. In general, rating agencies base their ratings on rating materials furnished to them (which may include information provided by the City that is not included in this Official Statement) and on the rating agency's own investigations, studies and assumptions. The ratings 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.

Underwriter of the Bonds

The Bonds are being underwritten by the Underwriter, BofA Securities, Inc. The Bonds are being purchased at a price of \$85,719,599.62 and will be reoffered at a price of \$85,840,000.00. The Underwriter may offer and sell the Bonds to certain dealers (including dealers depositing Bonds into investment trusts) and others at prices lower than the initial offering price set forth on page i hereof, and such initial offering price may be changed from time to time by the Underwriter. After the initial public offering, the public offering prices may be varied from time to time.

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

BofA Securities, Inc., as Underwriter of the Bonds, has entered into a distribution agreement with its affiliate Merrill Lynch, Pierce, Fenner & Smith Incorporated (“MLPF&S”). As part of this arrangement, BofA Securities, Inc. may distribute securities to MLPF&S, which may in turn distribute such securities to investors through the financial advisor network of MLPF&S. As part of this arrangement, BofA Securities, Inc. may compensate MLPF&S as a dealer for their selling efforts with respect to the Bonds.

Conflicts of Interest

Some of the fees of the Municipal Advisor, Bond Counsel, and Orrick, Herrington & Sutcliffe LLP, as Underwriter’s Counsel, are contingent upon the sale of the Bonds. From time to time Bond Counsel and Underwriter’s Counsel serve 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/ Jamie L. Carnell
 Jamie L. Carnell
 Interim Director of Finance

APPENDIX A
BOND ORDINANCE, AS AMENDED AND RESTATED
(PAYING AGENCY AGREEMENT: EXHIBIT A)

Exhibit A

**TEXT OF AMENDED AND RESTATED
ORDINANCE 125460**

The text below reflects the cumulative effect of amendments to Sections 1 through 31 of Ordinance 125460 that were set forth in and adopted pursuant to (i) Ordinance 125987, (ii) certain amendments permitted by Section 23(b) of the Omnibus Refunding Ordinance that went into effect upon the occurrence of the following: (A) the collection of the requisite percentage of bondholder consents, (B) the occurrence of the Parity Covenant Date, or (C) the occurrence of the Second Parity Covenant Date (as those terms were defined in the Ordinance 125460, as amended by Ordinance 125987), and (iii) certain technical amendments permitted by Section 23(a) of Ordinance 125460. The text set forth below is reflected in a restatement of the entire ordinance submitted to the Seattle City Council for approval in November 2023. A copy of the ordinance in redline format is available from the City Clerk.

BE IT ORDAINED BY THE CITY OF SEATTLE AS FOLLOWS:

Section 1. **Definitions.** In this ordinance, the following capitalized terms shall have the meanings set forth in this section.

“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 12 30-day months, and (B) the difference between the Accreted Values for such Valuation Dates.

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

“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 subsection 18(a)(ii) of this ordinance. In a Junior Lien Coverage Certificate, Adjusted Net Revenue is subject to further adjustment as set forth in subsection 18(b)(ii) of this 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”**) or Junior Lien Bonds (or a series of Junior Lien Bonds) (**“Annual Junior Lien Debt Service”**), as applicable, 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 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 in this definition, 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 or Junior Lien Bonds, as applicable, 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 under 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 five years.

(ii) **Assumed Interest on Variable Interest Rate Junior Lien Bonds.** The amount of interest deemed to be payable on any series of Junior Lien 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 (ending with the month preceding the date of the calculation) of the SIFMA Municipal Swap Index over the preceding five years.

(d) **Interest on Bonds with Respect to Which a Payment Agreement is in Force.** In general, debt service on any bonds (Parity Bonds or Junior Lien Bonds, as applicable) 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 (or Junior Lien Bonds, as applicable) 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 percent 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; Junior Lien Payment Agreements.** For any period during which Payment Agreement Payments under a Parity Payment Agreement (or Junior Lien Payment Agreement, as applicable) are taken into account in determining Annual Debt Service on the related Parity Bonds (or Junior Lien Bonds, as applicable) under subsection (d) of this definition, no additional debt service shall be taken into account with respect to that Parity Payment Agreement (or a Junior Lien Payment Agreement, as applicable). However, for any period during which Payment Agreement Payments are not taken into account under subsection (d) of this definition because the Parity Payment Agreement (or Junior Lien Payment Agreement, as applicable) is not then related to any Outstanding Parity Bonds (or Junior Lien Bonds, as applicable) payments on that Payment Agreement shall be taken into account by assuming:

(i) **If City is Obligated to Make Payments Based on a 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 a 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.

In calculating Annual Debt Service for any series of Junior Lien Bonds, the City may in its discretion treat the debt service requirements with respect to Junior Lien 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 Junior Lien Bonds.

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

(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. If any payment under a Parity Reimbursement Obligation, an Intermediate Lien Reimbursement Obligation, or a Junior Lien 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 Junior Lien Debt Service for purposes of delivering a Junior Lien Coverage 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” means any series of either Parity Bonds or Junior Lien Bonds, as applicable, the aggregate principal amount (including Sinking Fund Requirements) of which becomes due and payable in any calendar year in an amount that constitutes 25 percent or more of the initial aggregate principal amount of such series.

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

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

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

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

“**Bond Owners’ Trustee**” means a bank or trust company organized under the laws of the State, or a national banking association, appointed in accordance with subsection 24(e) of this ordinance to act as trustee on behalf of the owners, from time to time, of either the Outstanding Parity Bonds or the Outstanding Junior Lien Bonds, as the case may be.

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

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

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

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

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

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

amount of a Capital Appreciation Bond shall be deemed to be its Accreted Value at the time that such notice, consent, request, or demand is given or made.

“City” means The City of Seattle, Washington.

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

“Code” means the Internal Revenue Code of 1986, or any successor thereto, as amended at any time, and regulations thereunder.

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

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

“Defeasible Bonds” means the Defeasible Parity Bonds and the Defeasible Junior Lien Bonds.

“Defeasible Junior Lien Bonds” means any outstanding Junior Lien Bonds that are eligible to be defeased pursuant to the Omnibus Defeasance Ordinance.

“Defeasible Parity Bonds” means any outstanding Parity Bonds that are eligible to be defeased pursuant to the Omnibus Defeasance Ordinance.

“Director of Finance” or **“Director”** means the City’s Director of Finance, or such other official who succeeds to substantially all of the responsibilities of that office.

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

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

“Future Junior Lien Bonds” means, with reference to any Series designated as Junior Lien 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 Net Revenue for the payment of the amounts required to be paid into the Junior Lien Debt Service Fund to pay and secure payment of the Junior Lien Bonds (including Junior Lien Payment Agreements and Junior Lien Reimbursement Obligations), in accordance with the priority of payment set forth in Section 14 of this ordinance. Future Junior Lien Bonds may include Junior Lien Payment Agreements issued in compliance with the Junior Lien Additional Bonds Test.

“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 Net 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 in accordance with Section 14 of this ordinance. Future Parity Bonds include Parity Payment Agreements, Parity Reimbursement Obligations, 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 amended at any time.

“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 this 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.

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

“Junior Lien Additional Bonds Test” means the conditions set forth in subsection 18(b) of this ordinance for issuing additional Junior Lien Bonds (including Junior Lien Payment Agreements and Junior Lien Reimbursement Obligations).

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

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

“Junior Lien Bond Ordinance” means this ordinance (if used in connection with the issuance of a series of Junior Lien Bonds authorized hereby) and any future ordinance authorizing the issuance and sale of any Future

Junior Lien Bonds, including any ordinance amending or supplementing the provisions of any Junior Lien Bond Ordinance.

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

“Junior Lien Debt Service Fund” means the special fund of the City known as the Seattle Municipal Light Revenue Junior Lien Debt Service Fund established within the Light Fund pursuant to Ordinance 125459 for the purpose of paying and securing the principal of and interest on Junior Lien Bonds and securing obligations under Junior Lien Payment Agreements and Junior Lien Reimbursement Obligations.

“Junior Lien Payment Agreement” means any Payment Agreement that is entered into in compliance with the Junior Lien Additional Bonds Test, 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 Junior Lien Debt Service Fund to pay and secure the payment of the Junior Lien Bonds in accordance with Section 14 of this ordinance. For purposes of determining percentages of ownership of Junior Lien Bonds under this ordinance or under any Bond Documents, Junior Lien 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 Junior Lien Payment Agreement.

“Junior Lien Reimbursement Obligation” means any reimbursement obligation incurred under a written reimbursement agreement (or similar agreement) entered into in connection with a series of Junior Lien Bonds 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 equal in rank with 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 Junior Lien Bonds under this ordinance or under any Bond Documents, Junior 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 Junior Lien Reimbursement Obligations.

“Letter of Representations” means the Blanket Issuer Letter of Representations between the City and DTC dated October 4, 2006, as amended at any time, or an agreement with a substitute or successor Securities Depository.

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

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

“Maximum Annual Debt Service” means, with respect to Parity Bonds (or Junior Lien Bonds, as applicable), 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 (or Junior Lien Bonds, as applicable) that are outstanding as of the calculation date.

“MSRB” means the Municipal Securities Rulemaking Board.

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

“Omnibus Defeasance Ordinance” means Ordinance 126220, as amended at any time, authorizing the defeasance of Defeasible Bonds, or any future ordinance of the City pursuant to which the Bonds (or any Series of the Bonds) are designated as Defeasible Bonds.

“Omnibus Refunding Ordinance” means this ordinance, which amends and restates Ordinance 125460, as amended by Ordinance 125987, and any other future ordinance of the City pursuant to which the Bonds (or any

Series of the Bonds) are designated as Refundable Bonds.

“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 (as defined in the Outstanding Parity Bond Ordinances), 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.

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

“Outstanding Parity Bond Ordinances” means the ordinances authorizing the various series of Outstanding Parity Bonds.

“Outstanding Parity Bonds” means, when referencing Parity Bonds outstanding as of the date of this ordinance, those outstanding Parity Bonds identified in Exhibit A to this ordinance. When used in reference to a particular date in the future or in reference to a particular series of Parity Bonds, Outstanding Parity Bonds shall mean those Parity Bonds that are outstanding as of that future date or as of the issue date of such series.

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

“Parity Bond” 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 this ordinance. The term Parity Bond may refer to: (a) the Outstanding Parity Bonds identified in Exhibit A to this ordinance; (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 Bond Ordinance” means any ordinance passed by the City Council providing for the issuance and sale of any Series of Parity Bonds, and any other ordinance amending or supplementing the provisions of any Parity Bond Ordinance.

“Parity Certificate” means a certificate delivered pursuant to subsection 18(a)(ii) of this ordinance, and the corresponding provisions of the Outstanding Parity Bond Ordinances, for purposes of satisfying the Parity Conditions in connection with the issuance of the Bonds and any 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 subsection 18(a) of this 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 this ordinance. For purposes of determining percentages of ownership of Parity Bonds under this 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 Obligation.

“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, incurrence, or carrying of particular bonds, notes, bond anticipation notes, commercial paper, or other obligations for borrowed money (which may include leases, installment purchase contracts, or other similar financing agreements or certificates of participation in any of the foregoing).

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

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

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

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

“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.

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

“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 or Junior Lien 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.

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

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

“Refundable Bonds” means the Refundable Parity Bonds and the Refundable Junior Lien Bonds.

“Refundable Junior Lien Bonds” means any then outstanding Junior Lien Bonds that are eligible to be refunded pursuant to the Omnibus Refunding Ordinance.

“Refundable Parity Bonds” means any then outstanding Parity Bonds that eligible to be refunded pursuant to the Omnibus Refunding Ordinance.

“Refunded Bond Documents” means those Bond Documents applicable to the original issuance of a series of Refunded Bonds.

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

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

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

“Refunding Plan” means the plan approved by the Director of Finance pursuant to the delegation set forth herein to accomplish the refunding of Refundable Bonds. Each Refunding Plan must identify the maturities and series of Refundable Bonds to be refunded thereby, and must provide for their defeasance and/or refunding, substantially as follows, with such additional detail and adjustments to be set forth in the Refunding Trust

Agreement (including, without limitation, adjustments to permit a crossover refunding or the refunding of variable rate bonds) as the Director of Finance may deem necessary or desirable:

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

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

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

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

“Refunding Trust Agreement” means an escrow or trust agreement between the City and a Refunding Trustee, as described in Section 25(d) of this ordinance.

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

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

“Reserve Fund” means that special fund of the City known as the Municipal Light and Power Bond Reserve Fund, established pursuant to Ordinance 71917 and maintained pursuant to the Outstanding Parity Bond Ordinances and this Ordinance as a separate account within the Light Fund to secure the payment of the 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 this 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).

“Rule 15c2-12” means Rule 15c2-12 promulgated by the SEC under the Securities Exchange Act of 1934, as amended at any time.

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

“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.

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

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

“Series” means, when capitalized in this ordinance, a series of the Bonds issued pursuant to this ordinance.

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

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

“State” means the State of Washington.

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

“System of Registration” means the system of registration for the City’s bonds and other obligations, established pursuant to Seattle Municipal Code Chapter 5.10, as amended at any time.

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

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

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

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

“Term Bond” means any Parity Bond or Junior Lien Bond that is issued subject to mandatory redemption in periodic Sinking Fund Requirements prior to its maturity date.

“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 or Junior Lien 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 (or Junior Lien Bonds, as applicable), as set forth in the applicable Bond Documents, and (b) either (i) interest rates on another series of Parity Bonds (or Junior Lien Bonds, as applicable) 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 or Junior Lien Bond with respect to which a Payment Agreement is in force shall be treated as a Variable Interest Rate Bond if the net economic effect of the Payment Agreement is to produce an obligation that bears interest at a Variable Interest Rate.

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

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

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

(b) **City Council Finding.** The City Council finds that, in creating the Parity Bond Fund, the Reserve Fund, and the Junior Lien Debt Service Fund (collectively, the “Bond Funds”), and in fixing the amounts to be paid into those funds in accordance with this ordinance and the parameters for the Bond Sale Terms set forth in Section 5 of this ordinance, the City Council has exercised due regard for the cost of operation and maintenance of the Light System, and is not setting aside into such Bond Funds a greater amount than in the judgment of the City Council, based on the rates established from time to time consistent with subsection 17(a)(ii) of this ordinance, will be sufficient, in the judgment of the City Council, to meet all expenses of operation and maintenance of the Light System and to provide the amounts previously pledged for the payment of all outstanding obligations payable out of Gross Revenues and pledged for the payment of the Bonds. Therefore, the City Council finds that the issuance and sale of the Bonds is in the best interest of the City and is in the public interest.

Section 4. **Manner of Sale of the Bonds.** The Director of Finance may provide for the sale of each Series

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

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

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

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

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

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

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

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

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

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

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

(A) **Optional Redemption.** The Director of Finance may designate any Bond as subject to optional redemption prior to its maturity, consistent with subsection 8(a) of this ordinance. Any Bond that is

subject to optional redemption prior to maturity must be callable on at least one or more date(s) occurring not more than 10-1/2 years after the Issue Date.

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

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

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

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

(ix) Other Terms and Conditions.

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

(B) Satisfaction of Parity Conditions or Junior Lien Additional Bonds Test. For each Series of the Bonds, the Director of Finance must designate such Series of the Bonds as a series of either Parity Bonds or Junior Lien Bonds. For a Series to be designated as Parity Bonds, the Director of Finance must find to the Director's satisfaction that, as of the Issue Date, the Parity Conditions have been met or satisfied so that such Series is permitted to be issued as Parity Bonds. For a Series to be designated as Junior Lien Bonds, the Director of Finance must find to the Director's satisfaction that, as of the Issue Date, the Junior Lien Additional Bonds Test has been met or satisfied so that such Series is permitted to be issued as Junior Lien Bonds.

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

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

(E) **Tax Status of the Bonds.** The Director of Finance may designate any Series of the Bonds as Tax-Exempt Bonds, Taxable Bonds, or Tax Credit Subsidy Bonds, consistent with Section 21 of this ordinance.

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

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

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

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

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

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

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

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

Nothing in this ordinance shall prevent the Bond Sale Terms from providing that a Series of the Bonds shall be issued in certificated form without utilizing a Securities Depository, and that the Bonds of such Series shall

be registered as of their Issue Date in the names of the Owners thereof, in which case ownership may be transferred only as provided in this ordinance.

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

Section 7. **Payment of Bonds.**

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

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

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

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

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

(b) **Mandatory Redemption.** All or some of the Bonds of any Series may be designated as Term Bonds, subject to mandatory redemption in Sinking Fund Requirements, as set forth in the applicable Bond Documents. If not redeemed or purchased at the City's option prior to maturity, Term Bonds (if any) must be redeemed, at a price equal to 100 percent of the principal amount to be redeemed, plus accrued interest, on the dates and in the years and Sinking Fund Requirements as set forth in the applicable Bond Documents.

If the City optionally redeems or purchases a principal portion of a Term Bond prior to its maturity, the principal amount that is so redeemed or purchased (irrespective of its redemption or purchase price) shall be credited against the remaining Sinking Fund Requirements for that Term Bond in the manner directed by the Director of Finance. In the absence of direction by the Director of Finance, credit shall be allocated among the remaining Sinking Fund Requirements for that Term Bond on a *pro rata* basis.

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

(d) **Selection of Bonds for Redemption; Partial Redemption.** If fewer than all of the outstanding Bonds of a Series are to be redeemed at the option of the City, the Director of Finance shall select the maturity or maturities

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

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

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

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

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

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

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

If any official whose manual or facsimile signature appears on a Bond ceases to be an official of the City authorized to sign bonds before the Bond bearing that official's manual or facsimile signature is authenticated or delivered by the Bond Registrar or issued by the City, that Bond nevertheless may be authenticated, issued, and delivered and, when authenticated, issued and delivered, shall be as binding on the City as though that person had continued to be an official of the City authorized to sign bonds. Any Bond also may be signed on behalf of the City

by any person who, on the actual date of signing of the Bond, is an official of the City authorized to sign bonds, although that person did not hold the required office on the Issue Date of that Series of the Bonds.

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

The Director of Finance may use the principal proceeds and any net premium to pay for costs of issuance of the Bonds, and the Director of Finance also may incur and account for costs of issuance that are not included as part of the bond proceeds and net premium, including but not limited to any underwriter's discount. Net premium and accrued interest received from the sale and delivery of a Series of the Bonds, if any, that is not necessary to carry out the Refunding Plan, shall be paid or allocated into the Parity Bond Fund (or Junior Lien Bond Fund, as applicable) and used to pay interest on that Series.

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

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

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

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

(b) **Junior Lien Bonds.** Each Series of the Bonds that is designated as Junior Lien Bonds shall be a special limited obligation of the City payable from and secured solely by Net Revenue and by money in the Junior Lien Debt Service Fund. The Net Revenue is pledged to make the payments into the Junior Lien Debt Service Fund required by Sections 14 and 16 of this ordinance, which pledge shall constitute a lien and charge upon such Net Revenue (i.e., Gross Revenues available after payment of Operating and Maintenance Expense of the Light System pursuant to subsection 14(a) of this ordinance) that is (i) subordinate only to the payments to be made into the Parity Bond Fund required by subsections 14(b) through (d) of this ordinance, and (ii) prior and superior to all other charges whatsoever. Each Series of the Bonds designated as Junior Lien Bonds shall be issued on parity with the lien and charge of any then outstanding Junior Lien Bonds and all Future Junior Lien Bonds, without regard to date of issuance or authorization and without preference or priority of right or lien. Nothing in this ordinance prevents the City from issuing revenue bonds or other obligations that are a charge or lien upon Net Revenues subordinate to the payments required to be made into the Junior Lien Debt Service Fund and the Reserve Fund, and any subfund, account, or subaccount within the foregoing funds.

Section 14. **Priority Expenditure of Gross Revenues; Flow of Funds.** 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, and 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 subsection 15(c)(i)(B) of this 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. **Parity Bond Fund; Reserve Fund.** The special funds of the City known as the Parity Bond Fund and the Reserve Fund have been previously created and shall be maintained as special funds for the sole purpose of paying the principal of (including redemption premium, if any) and interest on the Parity Bonds as the same shall become due. The Director of Finance may create subfunds, accounts, or subaccounts in the Parity Bond Fund and the Reserve Fund to pay or secure the payment of Parity Bonds as long as the maintenance of such subfunds, accounts, or subaccounts does not conflict with the rights of the owners of the Parity Bonds. Principal of (including redemption premium, if any) and interest on the Parity Bonds shall be payable solely out of the Parity Bond Fund.

(a) **Required Payments into the Parity Bond Fund and Reserve Fund.** So long as any Parity Bonds (including any Parity Payment Agreements or Parity Reimbursement Obligations) are outstanding, the City shall set aside and pay out of Net Revenue certain fixed amounts, without regard to any fixed proportion, namely:

- (i) Into the Parity Bond Fund, on or prior to the respective dates on which such payments shall become due and payable, an amount sufficient, together with other money on deposit therein, to pay without priority or preference among the following items: (A) the interest (including net payments due under Parity Payment Agreements) then due on the Outstanding Parity Bonds, (B) the maturing principal of the Outstanding Parity Bonds (including any Sinking Fund Requirements then due), and (C) any payments then due in respect of Parity Reimbursement Obligations; and
- (ii) Into the Reserve Fund, an amount necessary to provide for the Reserve Fund Requirement within the time and manner required by this ordinance and the Bond Sale Terms, including all payments required to

be made under subsection 14(c) of this ordinance.

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

(b) **Parity Bond Fund.** The Parity Bond Fund has been previously created for the sole purpose of paying the principal of and interest on the Parity Bonds as the same shall become due. Each Series of the Bonds designated as Parity Bonds shall be payable (including principal, Sinking Fund Requirements, redemption premium (if any), and interest) out of the Parity Bond Fund. Money in the Parity Bond Fund shall, to the fullest extent practicable and reasonable, be invested and reinvested at the direction of the Director of Finance solely in, and obligations deposited in such accounts shall consist of, Permitted Investments. Earnings on money and investments in the Parity Bond Fund shall be deposited in and used for the purposes of that fund.

(c) **Reserve Fund.** The Reserve Fund has been previously created for the purpose of securing the payment of the principal of and interest on all Parity Bonds (including all net payments due under any Parity Payment Agreements, if any). Money held in the Reserve Fund shall, to the fullest extent practicable and reasonable, be invested and reinvested at the direction of the Director of Finance solely in, and obligations deposited in such accounts shall consist of, Permitted Investments. Earnings on money and investments in the Reserve Fund shall be deposited in that fund and credited against amounts required to be deposited therein until the Reserve Fund is fully funded, and thereafter such earnings shall be deposited in the Parity Bond Fund.

(i) **Reserve Fund Requirement.** The Bond Sale Terms for each Series of the Bonds shall establish the amount (if any) to be added to the aggregate Reserve Fund Requirement (if any) for such Series, and the method for providing for such incremental addition to the Reserve Fund deposit, subject to the following:

(A) In connection with the issuance of Future Parity Bonds, the City shall provide the amounts required for deposit into the Reserve Fund (1) at one time on the Issue Date, or (2) in periodic deposits of Net Revenue (or any other legally available source of 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 that, together with the money already on deposit therein, will be at least equal to the Reserve Fund Requirement for the Parity Bonds scheduled to be outstanding at the end of that five-year period.

(B) The City may obtain one or more Alternate Reserve Securities for specific amounts required to be paid into the Reserve Fund. The amount available to be drawn upon under each such Alternate Reserve Security shall be credited against the amounts needed to satisfy the Reserve Fund Requirement. In the event of receipt of any notice of cancellation of an Alternate Reserve Security, the City shall (and, in preparation for the expiration of any such Alternate Reserve Security in accordance with its terms, the City may) either: (1) obtain a substitute Alternate Reserve Security in the amount necessary to satisfy the Reserve Fund Requirement on the date any such cancellation (or expiration) becomes effective, or (2) create a special account in the Light Fund and deposit therein amounts necessary to replace the Alternate Reserve Security upon its expiration or cancellation. In the case of receipt of a notice of cancellation, such periodic deposits are to be made on or before the 25th day of each of the 60 calendar months succeeding receipt of such notice, in an amount equal to 1/60 of the amount necessary (together with other money and investments then on deposit in the Reserve Fund) to satisfy the expected Reserve Fund Requirement on the date such cancellation shall become effective, taking into account scheduled redemptions of Parity Bonds and disregarding any incremental additional amounts that may become necessary due to the issuance of Future Parity Bonds subsequent to the date of such notice of cancellation. Such amounts shall be transferred from Net Revenue available in the Light Fund after making provision for the required payments into the Parity Bond Fund, in accordance with Section 14 of this ordinance. Amounts on deposit in such special account are preliminarily earmarked for the replacement of such Alternate Reserve Security and shall not be available to pay debt service on Parity Bonds or for any other purpose of the City, and shall be transferred to the Reserve Fund on the effective date of any cancellation or expiration of the Alternate Reserve Security to make up the deficiency caused thereby. In the event that the Reserve Fund is completely depleted and all Alternate Reserve Securities have been fully drawn, the

amounts in that special account may be withdrawn and treated as Gross Revenues available to be used in accordance with the flow of funds set forth in Section 14 of this ordinance. If and when a substitute Alternate Reserve Security having a sufficient value or policy limit is obtained, amounts held in that special account may be transferred back to the Light Fund and treated as Gross Revenues available to be used in accordance with the flow of funds set forth in Section 14 of this ordinance.

(C) If the amount on deposit in the Reserve Fund is less than the Reserve Fund Requirement (taking into account the five-year period referred to in paragraph (A) of this subsection), the City shall 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 shall transfer such amount first from Net Revenue available in accordance with the priority of payment in Section 14 of this ordinance, 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, the City may then withdraw such excess from the Reserve Fund and deposit such excess in the Light Fund.

(ii) **Use of Reserve Fund to Refund Parity Bonds.** If any Parity Bonds are to be refunded, the money set aside in the Reserve Fund to secure the payment of such Parity Bonds may be used to retire such Parity Bonds, or may be transferred to any reserve fund or account which may be created to secure the payment of any bonds issued to refund such Parity Bonds, as long as the money left remaining in the Reserve Fund is at least equal, together with all Alternate Reserve Securities, to the Reserve Fund Requirement.

(iii) **Use of Reserve Fund to Pay Debt Service.** If the money in the Parity Bond Fund is insufficient to meet maturing installments of either interest on or principal of and interest on the Parity Bonds (including net amounts payable under any Parity Payment Agreements), such deficiency shall be made up from the Reserve Fund by the withdrawal of money or proceeds of Alternate Reserve Securities, as the case may be. Any deficiency created in the Reserve Fund by reason of any such withdrawal or claim against an Alternate Reserve Security shall then be made up out of Net Revenue or out of any other legally available funds of the City.

(iv) **Withdrawals From Reserve Fund.** Money in the Reserve Fund may be withdrawn by the City for any lawful purpose as long as the aggregate of any money and Alternate Reserve Securities remaining on deposit in the Reserve Fund is at least equal to the Reserve Fund Requirement for the Parity Bonds then outstanding. The City reserves the right to substitute one or more Alternate Reserve Securities for money previously deposited in the Reserve Fund and to withdraw such excess to the extent described in the preceding sentence. Any withdrawals from subaccounts within the Reserve Fund shall be made on a *pro rata* basis, except when the terms of an Alternate Reserve Security require all cash and investments in the Reserve Fund to be withdrawn before any draw or claim is made on the Alternate Reserve Security, or unless the City receives an opinion of Bond Counsel to the effect that such *pro rata* withdrawal is not required to maintain the federal tax benefits (if any) of any then outstanding Parity Bonds issued as Tax-Exempt Bonds or Tax Credit Subsidy Bonds. If multiple Alternate Reserve Securities are on deposit in the Reserve Fund, draws on such Alternate Reserve Securities shall be made on a *pro rata* basis.

Section 16. **Junior Lien Debt Service Fund.**

(a) **Use of Junior Lien Debt Service Fund.** The Director of Finance is authorized (and, in conjunction with the issuance of Junior Lien Bonds, is directed) to create and maintain a special fund of the City known as the Junior Lien Debt Service Fund for the sole purpose of paying the principal of (including redemption premium, if any) and interest on the Junior Lien Bonds as the same shall become due. The Junior Lien Debt Service Fund shall consist of a Principal and Interest Account and such additional subfunds, accounts, or subaccounts as the Director of Finance may find it necessary or convenient to create in order to pay or secure the payment of Junior Lien Bonds, as long as the maintenance of such subfunds, accounts, or subaccounts does not conflict with the rights of the owners of the Junior Lien Bonds or the Parity Bonds.

Each Series of the Bonds designated as Junior Lien Bonds shall be payable (including principal, Sinking Fund Requirements, redemption premium (if any), and interest) out of the Junior Lien Debt Service Fund. Money in the Junior Lien Debt Service Fund shall, to the fullest extent practicable and reasonable, be invested and reinvested at the direction of the Director of Finance solely in, and obligations deposited in such accounts shall consist of,

Permitted Investments. Earnings on money and investments in the Junior Lien Debt Service Fund shall be deposited in and used for the purposes of that fund.

(b) **Required Payments Into the Junior Lien Debt Service Fund.** So long as any Junior Lien Bonds (including any Junior Lien Payment Agreements) are outstanding, the City shall set aside and pay out of Net Revenue certain fixed amounts, without regard to any fixed proportion, namely, into the Principal and Interest Account of the Junior Lien Debt Service Fund, on or prior to the respective dates on which such payments shall become due and payable, an amount sufficient, together with other money on deposit therein, to pay the interest on and the principal of the Junior Lien Bonds, including net payments due on Junior Lien Payment Agreements and all payments under Junior Lien Reimbursement Obligations, as the same shall become due. To meet the required payments to be made into the Junior Lien Debt Service Fund, the Director of Finance may transfer any money from any funds or accounts of the City legally available therefor, except the Parity Bond Fund, the Reserve Fund, other bond redemption funds, refunding escrow funds, or defeasance funds. The Director of Finance may provide for the purchase, redemption or defeasance of any Junior Lien Bonds by the use of money on deposit in any subfund, account, or subaccount in the Junior Lien Debt Service Fund, so long as the money remaining in those subfunds, accounts, or subaccounts is sufficient to satisfy the required deposits with respect to the remaining Junior Lien Bonds.

Section 17. **Bond Covenants.**

(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 percent 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 subsection 17(a)(ii) of this ordinance, in which the Professional Utility Consultant may make those assumptions permitted in delivering a Parity Certificate under subsection 18(a) of this 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 this 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 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.

(b) **Junior Lien Bond Covenants.** The City covenants with the Owner of each Bond that is designated as a Junior Lien Bond, for so long as such Junior Lien Bond remains outstanding, as follows:

(i) **Sale or Disposition of the Light System.** The City may dispose of all or substantially all of the Light System only if the City simultaneously causes all of the Junior Lien Bonds to be, or be deemed to be, no longer outstanding. The City will not dispose of any part of the Light System in excess of 5 percent of the value of the net utility plant of the Light System in service except upon compliance with the covenant set forth in subsection 17(a)(i)(B) of this ordinance. 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, material to, or useful in the operation of the Light System.

(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 this 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; to pay into the Junior Lien Debt Service Fund the amounts that are required by this ordinance to be paid into such fund, in accordance with the priority of payment set forth in Section 14 of this ordinance, until the Junior Lien Bonds (including Junior Lien Payment Agreements and Junior Lien Reimbursement Obligations) shall have been paid in full; and to pay all other 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 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 Junior Lien Bonds. A copy of such financial statements shall be sent to any owner of Junior Lien Bonds upon request in writing setting forth the name and address to which such financial statements may be sent.

Section 18. **Additional Bonds.**

(a) **Future Parity Bonds.** The City reserves the right to issue Future Parity Bonds (which includes entering into Future Parity Payment Agreements or Future Parity Reimbursement Obligations) for any lawful purpose of the City's Light System if the Parity Conditions are met and complied with as of the date of issuance of such Future Parity Bonds, or as of the effective date of the Parity Payment Agreement or Parity Reimbursement Obligation, as appropriate.

If the Parity Conditions are met and complied with, then payments into the Parity Bond Fund with respect to such Future Parity Bonds shall rank equally with the payments out of the Net Revenue required to be made into the Parity Bond Fund by this ordinance. Nothing in this subsection 18(a) shall prevent the City from (i) issuing revenue bonds or other obligations that are a charge upon Net Revenue junior and inferior to the payments required to be made therefrom into the Parity Bond Fund for the payment of the Parity Bonds, provided that such subordinate obligations may not be subject to acceleration under any circumstances; or (ii) issuing Refunding Parity Bonds to refund maturing Parity Bonds of the City for the payment of which money is not otherwise available.

(i) **Parity Conditions.** The Parity Conditions are as follows:

(A) No deficiency may then exist in the Parity Bond Fund or in any of the accounts therein; and

(B) Provision must be made to satisfy the Reserve Fund Requirement for the Parity Bonds then outstanding plus any additional amount required (if any) in connection with the issuance and sale of the proposed Future Parity Bonds in accordance with subsection 15(c) of this ordinance; and

(C) There must be on file with the City a Parity Certificate as described in subsection 18(a)(ii) of this ordinance. 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 shall be 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.

(ii) **Parity Certificate.** A Parity Certificate required by subsection 18(a)(i) of this ordinance may be provided by either the Director of Finance or by a Professional Utility Consultant, as follows:

(A) 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 percent 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 subsection (A), the Director of Finance shall reflect in that certificate any adjustment in the rates, fees, and charges for the services of the Light System that will become effective at any time prior to or within six months after the delivery of the proposed Future Parity Bonds, by including in the amount of Adjusted Net Revenue the amount that the Director estimates would have been collected in the Base Period if such new rates, fees, and charges had been in effect for the entire Base Period.

(B) A Parity Certificate may be prepared by a Professional Utility Consultant, demonstrating that the amount of Adjusted Net Revenue (which may be further adjusted as provided in paragraphs (a)(ii)(B)(1) through (5) of this section) 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 percent of the

amount of Maximum Annual Debt Service in any future calendar year on all Parity Bonds then outstanding and the proposed Future Parity Bonds. For the purposes of a certificate delivered under this subsection (a)(ii), Adjusted Net Revenue may be further adjusted by the Professional Utility Consultant using any or all of the following methods reflecting the conditions and requirements as may be appropriate to the circumstances:

(1) If the purpose for which the proposed Future Parity Bonds are being issued is to acquire operating electric utility properties having an earnings record, the Professional Utility Consultant shall estimate the effect on Adjusted Net Revenue for the Base Period of the acquisition of such electric utility properties and the integration thereof into the Light System, and shall further adjust Adjusted Net Revenue for the Base Period to give effect to such estimate. Any such estimate shall be based upon the operating experience and records of the City and upon any available financial statements and records relating to the earnings of such electric utility properties to be acquired.

(2) If any changes to rates, fees, or charges imposed by the City on sales of power, energy, or other services furnished by the Light System that were not in effect during the entire Base Period have been adopted by the City Council and are in effect on the date of sale of the proposed Future Parity Bonds (or effective date of the proposed Parity Payment Agreement) or are to go into effect not later than 12 months after such date, the Professional Utility Consultant may, if such changes resulted in increases in such rates, fees, or charges, and shall, if such changes resulted in reductions in such rates, fees, or charges, further adjust Adjusted Net Revenue for the Base Period to reflect any change in such Adjusted Net Revenue that would have occurred if the changed rates, fees, or charges had been in effect during the entire Base Period.

(3) If the purpose for which the proposed Future Parity Bonds are being issued is to acquire or construct generation or transmission facilities required to furnish or make available to the Light System additional power and energy, or transmission facilities required to enable the City to sell additional power and energy, the Professional Utility Consultant may further adjust Adjusted Net Revenue for the Base Period by (I) deducting the amount of the estimated increase in Operating and Maintenance Expense resulting from the acquisition or construction of such facilities in their first year of full operation, (II) adding any additional revenues to be derived from the sale or transmission of such additional power and energy pursuant to executed power sales contracts, and (III) adding an amount equal to the estimated cost of the power and energy that would have been replaced or displaced by such facilities had such additional power and energy in excess of the power and energy to be sold pursuant to paragraph (a)(ii)(B)(2) of this section been used in the Light System during the Base Period.

(4) If any customers were added to the Light System during the Base Period or thereafter (and prior to the date of the Professional Utility Consultant's certificate), Adjusted Net Revenue may be further adjusted as if such added customers were customers of the Light System during the entire Base Period.

(5) If extensions of or additions to the Light System (not described in paragraph (a)(ii)(B)(3) of this section) are in the process of construction on the date of the Professional Utility Consultant's certificate, or if the proceeds of the proposed Future Parity Bonds are to be used to acquire or construct extensions of or additions to the Light System (not described in paragraph (a)(ii)(B)(3) of this section), Adjusted Net Revenue for the Base Period may be further adjusted by adding any additional revenues not included in the preceding paragraphs that will be derived from such additions and extensions, and deducting the estimated increase in Operating and Maintenance Expense resulting from such additions and extensions.

In rendering any Parity Certificate under this subsection (a)(ii)(B), the Professional Utility Consultant may rely upon the following documents, which shall be attached to the Parity Certificate: financial statements of the Light System, certified by the Director of Finance, showing income and expenses for the period upon which the same are based and a balance sheet as of the end of such period; financial statements of the Light System certified by the Office of the State Auditor of the State (or any successor thereto); or financial statements of the Light System certified by a certified public accountant for as much of such period as any examination by such accountant has been made and completed. If two or more of such statements are inconsistent with each other, the Professional Utility Consultant shall rely on the statements certified by the Director of Finance.

(b) Future Junior Lien Bonds. The City reserves the right to issue Future Junior Lien Bonds (which term includes Junior Lien Payment Agreements and Junior Lien Reimbursement Obligations) for any lawful purpose of

the City's Light System if the Junior Lien Additional Bonds Test is met and complied with as of the date of issuance of such Future Junior Lien Bonds, or as of the effective date of the Junior Lien Payment Agreement or Junior Lien Reimbursement Obligation, as appropriate.

If the Junior Lien Additional Bonds Test is met and complied with, then payments into the Junior Lien Debt Service Fund with respect to such Future Junior Lien Bonds shall rank equally with the payments out of Net Revenue required to be made into the Junior Lien Debt Service Fund by this ordinance. Nothing in this subsection (b) shall prevent the City from (i) issuing revenue bonds or other obligations that are a charge upon Net Revenue junior and inferior to the payments required to be made therefrom into the Junior Lien Debt Service Fund for the payment of the Junior Lien Bonds, provided that such subordinate obligations may not be subject to acceleration under any circumstances; or (ii) issuing Refunding Junior Lien Bonds for the purpose of refunding Outstanding Junior Lien Bonds to fund or refund maturing Junior Lien Bonds of the City for the payment of which money is not otherwise available.

(i) **Junior Lien Additional Bonds Test.** The Junior Lien Additional Bonds Test is as follows:

(A) No deficiency may then exist in the Junior Lien Debt Service Fund or in any of the accounts therein; and

(B) No default may have occurred that is then continuing with respect to any then outstanding Parity Bonds or Junior Lien Bonds; and

(C) There must be on file with the City a Junior Lien Coverage Certificate as described in subsection 18(b)(ii) of this ordinance. If the proposed Future Junior Lien Bonds (or any portion thereof) are to be issued for the purpose of refunding outstanding Junior Lien Bonds and the Annual Debt Service on the refunding portion of the proposed Future Junior Lien Bonds is not more than \$5,000 greater than the Annual Debt Service on the Junior Lien Bonds to be refunded thereby, then no Junior Lien Coverage Certificate shall be required as to that portion issued for refunding purposes. If the requirements of the preceding sentence are not satisfied, Refunding Junior Lien Bonds may alternatively be issued upon delivery of a Junior Lien Coverage Certificate.

(ii) **Junior Lien Coverage Certificate.** A Junior Lien Coverage Certificate required by subsection 18(b)(i) may be provided by either the Director of Finance or by a Professional Utility Consultant, as follows:

(A) A Junior Lien Coverage 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 Junior Lien Bonds (the "Base Period") was not less than 115 percent of Maximum Annual Debt Service in any future calendar year on all Parity Bonds, Intermediate Lien Reimbursement Obligations (if any), and Junior Lien Bonds then outstanding plus the proposed Series of Future Junior Lien Bonds. For the purposes of a Junior Lien Coverage Certificate delivered under this subsection (A), the Director of Finance shall reflect in that certificate any adjustment in the rates, fees, and charges for the services of the Light System that will become effective at any time prior to or within six months after the delivery of the proposed Future Junior Lien Bonds, by including in the amount of Adjusted Net Revenue the amount that the Director estimates would have been collected in the Base Period if such new rates, fees, and charges had been in effect for the entire Base Period.

(B) A Junior Lien Coverage Certificate may be prepared by a Professional Utility Consultant, demonstrating that the amount of Adjusted Net Revenue (which may be further adjusted as provided in subsection 18(a)(ii)(B)(1) through (B)(5) of this ordinance) in any 12 consecutive months out of the most recent 24 months preceding the delivery of the proposed Future Junior Lien Bonds (the "Base Period") not less than 115 percent of Maximum Annual Debt Service in any future calendar year on all Parity Bonds and Junior Lien Bonds then outstanding plus the proposed Future Junior Lien Bonds.

Section 19. **Rate Stabilization Account.** 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.

Section 20. **Refunding or Defeasance of Bonds.**

(a) **Bonds Designated as Refundable Bonds and as Defeasible Bonds.** Each Series of the Bonds authorized by this ordinance is designated as “Refundable Bonds” and as “Defeasible Bonds” for purposes of this ordinance and the Omnibus Defeasance Ordinance, respectively.

(b) **Refunding; Defeasance.** 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 redemption premium, if any) and interest on any Bond, or any portion thereof, included in a refunding or defeasance plan (the “Defeased Bonds”); (ii) to redeem and retire, release, refund, or defease the Defeased Bonds; and (iii) to pay the costs of such refunding or defeasance. If money and/or Government Obligations maturing at a time or times and in an amount sufficient (together with known earned income from the investment thereof) to redeem and retire, release, refund, or defease the Defeased Bonds in accordance with their terms, is set aside in a special trust fund or escrow account irrevocably pledged to such redemption, retirement, or defeasance (the “Trust Account”), then all right and interest of the Owners of the Defeased Bonds in the covenants of this ordinance and in Net Revenue and the funds and accounts pledged to the payment of such Defeased Bonds, other than the right to receive the funds so set aside and pledged, thereafter shall cease and become void. Such Owners thereafter shall have the right to receive payment of the principal (or redemption price) of and interest on the Defeased Bonds from the Trust Account. After such a Trust Account is established and funded as set forth above, the Defeased Bonds shall be deemed to be no longer outstanding and the Director of Finance may then apply any money in any other fund or account established for the payment or redemption of the Defeased Bonds to any lawful purpose.

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

(d) **Annual Debt Service Calculation Adjustments for Defeased Bonds.** If the refunding or defeasance plan provides (i) that the Defeased Bonds (or the refunding 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.

Section 21. **Federal Tax Matters.** The Bond Documents may include such additional terms and covenants relating to federal tax matters as the Director of Finance deems necessary or appropriate, including the following:

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

(b) **Taxable Bonds; Tax Credit Subsidy Bonds.** For each Series of the Bonds issued as Taxable Bonds or as Tax Credit Subsidy Bonds, the Director of Finance is authorized to make provision in the Bonds and other Bond Documents, to execute additional written agreements, and to make additional covenants on behalf of the City, all as

the Director may deem necessary or appropriate in order to obtain, maintain, and administer such tax status. In the case of Tax Credit Subsidy Bonds, such additional covenants and agreement may include (without limiting the generality of the foregoing) those necessary in order for the City (i) to receive from the United States Treasury the applicable Tax Credit Subsidy Payments in respect of such Tax Credit Subsidy Bonds, and (ii) to ensure that such Tax Credit Subsidy Bonds otherwise become and remain eligible for tax benefits under the Code.

Section 22. **Official Statement; Continuing Disclosure.**

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

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

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

Section 23. **Supplemental or Amendatory Bond Documents.** This ordinance and the other applicable Bond Documents for any Series of the Bonds may not be supplemented or amended in any respect subsequent to the Issue Date of such Series, except in accordance with and subject to the provisions of this section.

(a) **Amendments Without Bond Owners' Consent.** From time to time and at any time, without the consent of or notice to the owners of any Parity Bonds or Junior Lien 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 or Junior Lien 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 this 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 (or to any Junior Lien Bond Documents, as applicable) additional covenants and agreements that do not adversely affect the interests of the owners of any Parity Bonds (or, as to Junior Lien Bond Documents, the interests of the owners of any Junior Lien 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 this ordinance, and which do not materially adversely affect the interests of the owners of any Parity Bonds or Junior Lien 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 percent 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 23(c)(i) of this ordinance.

(ii) **Junior Lien Bond Documents.** With the consent of the registered owners representing not less than 60 percent in aggregate principal amount of the Junior Lien Bonds then outstanding, the City may pass, adopt, or otherwise approve in writing 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 Junior Lien Bonds in any manner other than a supplement or amendment effecting a change described in subsection 23(c)(ii) of this ordinance.

(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 23(b)(i) of the ordinance to approve any supplement or amendment.

(ii) **Amendments to Junior Lien 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 Junior Lien Bonds so affected, extend the fixed maturity of any Junior Lien Bond, reduce the rate of interest on any Junior Lien Bond (other than a change in interest rate permitted under the applicable Junior Lien Bond Documents then in effect), extend the times of payment of interest from their respective due dates, reduce the principal amount of any Junior Lien Bond, or reduce any redemption premium; or

(B) Except upon consent from the registered owners of or on behalf of all of the Junior Lien Bonds then outstanding, reduce the percentage of ownership required under subsection 23(b)(ii) of the ordinance 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 23(b) or 23(c) of this ordinance, 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 or Junior Lien 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 23(a) of this ordinance 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 this ordinance.

(ii) A supplement or amendment permitted under subsection 23(b) or 23(c) of this ordinance 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 or Junior Lien 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.

Section 24. Defaults and Remedies.

(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 24(c) of this ordinance:

(i) If a default is made in the payment of the principal of (including Sinking Fund Requirements and any redemption premium thereon, if any) 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 this 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 percent in principal amount of the Parity Bonds then outstanding (or from a Bond Owners’ Trustee duly appointed as set forth in subsection 24(e) of this ordinance) 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.** Each of the following shall constitute an Event of Default with respect to the Bonds designated as Junior Lien Bonds, except as set forth in subsection 24(c) of this ordinance:

(i) If a default is made in the payment of the principal of (including Sinking Fund Requirements and any redemption premium thereon, if any) or interest on any Junior Lien 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 Junior Lien Bond covenants, conditions, or agreements on the part of the City set forth in this ordinance or the applicable Junior Lien Bond Documents (except as otherwise provided for in this ordinance or in such Junior Lien 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 percent in principal amount of the Junior Lien Bonds then outstanding (or from a Bond Owners’ Trustee duly appointed as set forth in subsection (e) of this section) 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 shall not be an Event of Default with respect to the Bonds as long as the City has taken active steps within the cure period to remedy the default and is diligently pursuing such remedy.

(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 subsection 17(a)(ii) or 17(b)(ii) of this 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 this ordinance and in the applicable Parity Bond Documents, as limited by subsection 24(e) of this ordinance. In the case of a Junior Lien Bond Event of Default, the owner of a Junior Lien Bond shall have the remedies set forth in Section 10 of this ordinance and in the applicable Junior Lien Bond Documents, as limited by subsection 24(e) of this ordinance. Nothing contained in this ordinance shall, 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.

(e) **Bond Owners’ Trustee.** 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) or all of the owners of the Junior Lien Bonds (in the case of a Junior Lien Bond Event of Default), as applicable, 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 24(a) of this ordinance, the registered owners of 25 percent in principal amount of the then outstanding Parity Bonds (or upon the occurrence and continuance of an Event of Default described in subsection 24(b) of this ordinance, the registered owners of 25 percent in principal amount of the then outstanding Junior Lien 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 percent in principal amount of the Parity Bonds then outstanding (in the case of a Parity Bond Event of Default) or 50 percent in principal amount of the Junior Lien Bonds then outstanding (in the case of a Junior Lien Bond Event of Default), as applicable, 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 or Junior Lien Bonds, as applicable, 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 percent in principal amount of the Parity Bonds (or Junior Lien Bonds, as applicable) 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 (or Junior Lien Bonds, as applicable), to collect any amounts due and owing to or from the City, or to obtain other appropriate

relief, and may enforce the specific performance of any covenant, agreement or condition contained in this ordinance or set forth in any of the 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 Junior Lien Bonds, as applicable) or the provisions of this ordinance may be enforced by the Bond Owners' Trustee without the possession of any of those Parity Bonds (or Junior Lien Bonds, as applicable) 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 (or Junior Lien Bonds, as applicable), subject to the provisions of this 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 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 (or Junior Lien Bonds, as applicable), any plan of reorganization or adjustment affecting the Parity Bonds (or Junior Lien Bonds, as applicable) 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 percent in aggregate principal amount of the Parity Bonds (or Junior Lien Bonds, as applicable) 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 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.** No owner of a Parity Bond, in the case of a Parity Bond Event of Default (or owner of a Junior Lien Bond, in the case of a Junior Lien Bond Event of Default) shall have any right in any manner whatever by its action to affect, disturb, or prejudice the security pledged in this 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 (or Junior Lien Bonds, as applicable), subject to the provisions of this ordinance.

(vii) **Limitations on Individual Actions.** No owner of a Parity Bond (or Junior Lien Bond, as applicable) 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 percent in aggregate principal amount of the then-outstanding Parity Bonds (in the case of a Parity Bond Event of Default) or 50 percent in aggregate principal amount of the then outstanding Junior Lien Bonds (in the case of a Junior Lien 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) or by any owner of a Junior Lien Bond (in the case of a Junior Lien 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 in this ordinance. During any period in which an Event of Default has occurred and is continuing as to the Parity Bonds (or the Junior Lien Bonds, as applicable) the Bond Owners’ Trustee shall exercise such of the rights and powers vested in it by this ordinance, 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 that person’s own affairs. The Bond Owners’ Trustee shall have no liability for any act or omission to act hereunder except for the Bond Owners’ Trustee’s own negligent action, its own negligent failure to act or its own willful misconduct. The duties and obligations of the Bond Owners’ Trustee shall be determined solely by the express provisions of this ordinance, and no implied powers, duties or obligations of the Bond Owners’ Trustee shall be read into this ordinance. The Bond Owners’ Trustee shall not be required to expend or risk its own funds or otherwise incur individual liability in the performance of any of its duties or in the exercise of any of its rights or powers as the Bond Owners’ Trustee, except as may result from its own negligent action, its own negligent failure to act or its own willful misconduct. The fees and expenses of the Bond Owners’ Trustee shall be borne by the owners of the Parity Bonds (or Junior Lien Bonds, as applicable) 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 (or Junior Lien Bond, as applicable) until their 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.

Section 25. **The Refunding Plan.**

(a) **Approval of Refunding Plan; Appointment of Refunding Trustee.** The Director of Finance is authorized and directed to select a Refunding Trustee and execute a Refunding Trust Agreement setting forth a Refunding Plan for each series of Refundable Bonds (or portion thereof) to be refunded pursuant to this ordinance, in accordance with subsection 25(d). Multiple Refunding Plans may be combined in a single Refunding Trust Agreement. The Refunding Plan shall be carried out, and proceeds of the Bonds shall be applied, in accordance with this ordinance, the respective Refunded Bond Documents, the Refunding Trust Agreement, and the laws of the State. Nothing in this ordinance shall prevent the issuance of Refunding Parity Bonds for the purpose of refunding Refundable Junior Lien Bonds, or the issuance of Refunding Junior Lien Bonds for the purpose of refunding Refundable Parity Bonds, provided that the requirements of Section 18 of this ordinance and the Parity Conditions (if the Refunding Bonds are designated as Parity Bonds) or Junior Lien Additional Bonds Test (if the Refunding Bonds are designated as Junior Lien Bonds) are met as of the Issue Date of such series of Refunding Bonds.

(b) **Acquisition of Acquired Obligations.** To the extent practicable and desirable, the Refunding Plan shall provide for the Refunding Trustee’s purchase of Acquired Obligations bearing such interest and maturing as to principal and interest in such amounts and at such times as to provide (together with a beginning cash balance, if necessary) for the timely payment of the amounts required to be paid by the Refunding Plan. The Acquired Obligations shall be listed and more particularly described in a schedule attached to the Refunding Trust Agreement, subject to substitution as set forth in subsection 25(c).

(c) **Substitution of Acquired Obligations.** The City reserves the right at any time to substitute cash or other Government Obligations (as defined in the applicable Refunded Bond Documents) for the Acquired Obligations if the City obtains a verification by a nationally recognized independent certified public accounting firm reasonably acceptable to the Refunding Trustee confirming that the payments of principal of and interest on the substitute obligations, if paid when due, together with the cash to be held by the Refunding Trustee, will be sufficient to carry out the Refunding Plan. If the applicable Series of the Bonds (or the applicable Refunded Bonds) were issued as Tax-Exempt Bonds, then prior to such substitution, the City must also obtain an opinion from Bond Counsel to the effect that the disposition and substitution or purchase of such securities will not cause the interest on the applicable Series of the Bonds (or of the applicable Refunded Bonds) issued as Tax-Exempt Bonds to be included in gross income for federal income tax purposes and that such disposition and substitution or purchase is in compliance with the statutes and regulations applicable to the Series of the Bonds. Any surplus money resulting from the sale, transfer, other disposition or redemption of the Acquired Obligations and the substitutions therefor

shall be released from the trust estate and may be used for any lawful City purpose.

(d) **Refunding Trust Agreement.** In connection with any Series of the Bonds, the Director of Finance is authorized to execute one or more Refunding Trust Agreements with one or more Refunding Trustees, setting forth the duties, obligations and responsibilities of the Refunding Trustee in connection with carrying out the applicable Refunding Plan. Each Refunding Trust Agreement and Refunding Plan must, among other things: (1) identify the Refundable Bonds to be refunded thereby; (2) contain the elements set forth in the definition of Refunding Plan set forth in this ordinance, including provide for the issuance of the Series of the Bonds and describing the method for carrying out the refunding of the Refunded Bonds (including authorizing and directing the Refunding Trustee to use the money deposited with it to purchase the Acquired Obligations (or substitute obligations) and to apply such money along with the maturing principal of and interest on such obligations to make the payments required to be made by the Refunding Plan); and (3) shall provide for the giving of notices of defeasance and redemption, as required under the Refunded Bond Documents. The Refunding Trust Agreement may additionally provide for the payment of the costs of issuance of the Series and the costs of administering the Refunding Plan (including without limitation, all necessary and proper fees, compensation, and expenses of the Refunding Trustee and all other costs incidental to the setting up of the escrow to accomplish the Refunding Plan), and for such other related matters as the Director of Finance may deem necessary or expedient.

Section 26. **Redemption of the Refunded Bonds.** The Director of Finance is authorized on behalf of the City to take such actions as may be necessary or convenient to call the Refunded Bonds for redemption. Such call for redemption of the Refunded Bonds shall identify the Refunded Bonds, redemption dates, and redemption prices (expressed as a percentage of the stated principal amount) and shall be irrevocable after the Issue Date of the applicable Series of the Bonds. The dates on which the Refunded Bonds are to be called for redemption shall be, in the judgment of the Director of Finance, the earliest practical dates on which those Refunded Bonds may be called for redemption. The proper City officials are authorized and directed to give or cause to be given such notices as required, at the times and in the manner required pursuant to the Refunded Bond Documents, in order to carry out the Refunding Plan.

Section 27. **Effect on Prior Omnibus Refunding Ordinance; Outstanding Bonds Declared Refundable.** It is the intent of the City Council that this ordinance reflect the fact that the holders of more than 60 percent of the currently outstanding Parity Bonds have consented to the amendments previously designated as becoming effective on the Parity Covenant Date and on the Second Parity Covenant Date as those terms are defined in Ordinance 125460, as amended by Ordinance 125987 (as amended, the “2018 Omnibus Refunding Ordinance”). To avoid ambiguity and for ease of reference, Sections 1 through 26 of the 2018 Omnibus Refunding Ordinance are amended and restated as set forth in Sections 1 through 26 of this ordinance. As of the effective date of this ordinance, this ordinance shall be referred to as the “Omnibus Refunding Ordinance” and future Refunding Bonds shall be issued under this ordinance. All outstanding Parity Bonds previously designated as “Refundable Bonds” under the 2018 Omnibus Refunding Ordinance are hereby designated as Refundable Bonds under this ordinance. If any provision of this ordinance is found by a court of law to be inapplicable to any bonds outstanding as of the effective date of this amendatory ordinance, the amendments contained herein shall be of no force or effect with respect to those outstanding bonds, and the provisions of the ordinance under which those outstanding Bonds were issued shall continue in effect with respect to those bonds only.

Section 28. **General Authorization.** In addition to the specific authorizations in this ordinance, the Mayor and the Director of Finance and each of the other appropriate officials of the City are each authorized and directed to do everything as in the judgment of such official may be necessary, appropriate, or desirable in order to carry out the terms and provisions of, and complete the transactions contemplated by, this ordinance. In particular and without limiting the foregoing:

(a) The Director of Finance, in the Director’s discretion and without further action by the City Council, (i) may issue requests for proposals to provide underwriting services or financing facilities (including, without limitation, Qualified Insurance, a Qualified Letter of Credit, or other credit support or liquidity facility) and may execute engagement letters and other agreements with underwriters and other financial institutions (including providers of liquidity or credit support) based on responses to such requests; (ii) may select and make decisions regarding the Bond Registrar, fiscal or paying agents, and any Securities Depository for each Series of the Bonds; (iii) may take any and all actions necessary or convenient to provide for the conversion of interest rate modes for

any Series in accordance with the applicable Bond Documents; and (iv) may take such actions on behalf of the City as are necessary or appropriate for the City to designate, qualify, or maintain the tax-exempt treatment with respect to any Series issued as Tax-Exempt Bonds, to receive from the United States Treasury the applicable Tax Credit Subsidy Payments in respect of any Series issued as Tax Credit Subsidy Bonds, and to otherwise receive any other federal tax benefits relating to any Series of the Bonds that are available to the City; and

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

Section 29. **Severability.** The provisions of this ordinance are declared to be separate and severable. The invalidity of any clause, sentence, paragraph, subdivision, section, subsection, or portion of this ordinance, or the invalidity of its application to any person or circumstance, does not affect the validity of the remainder of this ordinance or the validity of its application to other persons or circumstances.

Section 30. **Ratification of Prior Acts.** Any action consistent with the authority of this ordinance taken prior to its effective date is ratified and confirmed.

Section 31. **Section Headings.** Section headings in this ordinance are nonsubstantive.

Section 32. **Exhibits.** Exhibit A to the Omnibus Refunding Ordinance is replaced in its entirety, as set forth in Exhibit A to this ordinance. Exhibit B to the Omnibus Refunding Ordinance is replaced in its entirety, as set forth in Exhibit B to this ordinance. Exhibit C to this ordinance shows the cumulative amendments to the original text of Ordinance 125460, as enacted, using double underlining to indicate added text and using double parentheses and strikethrough formatting to indicate deleted text.

Section 33. **Effective Date.** This ordinance shall take effect and be in force 30 days after its approval by the Mayor, but if not approved and returned by the Mayor within ten days after presentation, it shall take effect as provided by Seattle Municipal Code Section 1.04.020.

APPENDIX B
FORM OF ADDENDUM TO THE PAYING AGENCY AGREEMENT
(ADDENDUM TO PAYING AGENCY AGREEMENT: EXHIBIT E)

Exhibit E
ADDENDUM TO
PAYING AGENCY AGREEMENT
regarding
DETERMINATION OF INTEREST RATE MODES AND RELATED PROVISIONS

This **Addendum to the Paying Agency Agreement** (the “Agreement”) is entered into as of October 1, 2023, by and between The City of Seattle, Washington (the “Issuer”) and U.S. Bank Trust Company, National Association, as Bond Registrar/Paying Agent (the “Bond Registrar/Paying Agent”), in connection with the Issuer’s Bonds (defined herein), pursuant to Ordinance 125460 of the Issuer, as amended by Ordinance 125987 (as amended, the “Bond Ordinance”).

Section 1. Definitions. The meanings of capitalized terms used and not otherwise defined in this Addendum shall be as set forth in the Bond Ordinance. In addition, the following terms as used in this Addendum shall have the following meanings:

“**Addendum**” means this Addendum to the Paying Agency Agreement regarding Determination of Interest Rate Modes and Related Provisions.

“**Adjusted SIFMA Rate**” means a per annum rate of interest established on each Interest Determination Date that is (a) during any Index Floating Rate Period other than a Direct Purchase Period, equal to the sum of (1) the SIFMA Index floating rate issued on Wednesday of each week, or if any Wednesday is not a Business Day, the succeeding Business Day multiplied by the Index Floating Rate Percentage (which may be equal to 100%), and (2) the Index Floating Rate Spread; and (b) during any Direct Purchase Period, as determined pursuant to the applicable Direct Purchase Agreement.

“**Alternate Credit Facility**” means a letter of credit, insurance policy, line of credit, surety bond or security, or other credit and/or liquidity facility issued as a replacement or substitute for any Credit Facility then in effect.

“**Authorized Denomination**” means (a) during any Daily Interest Rate Period or Weekly Interest Rate Period, \$100,000 or any integral multiple of \$5,000 in excess of \$100,000; (b) during any Long-Term Interest Rate Period, \$5,000 or any integral multiple thereof; (c) during any Index Floating Rate Period that is not a Direct Purchase Period, \$5,000 or any integral multiple thereof; and (d) during any Direct Purchase Period, \$250,000, or any integral multiple of \$5,000 in excess of \$250,000 or such other minimum denomination as may be set forth in the applicable Direct Purchase Agreement.

“**Bank Bond**” means a Bond (or portion thereof in any Authorized Denomination) that is purchased by the Bond Registrar/Paying Agent on behalf of a Credit Provider using amounts paid or provided by a Credit Provider under a Credit Facility.

“**Bank Rate**” means that rate of interest borne by a Bank Bond, as specified or determined in accordance with a Credit Facility and/or Reimbursement Agreement, as applicable.

“**Bond Documents**” means, together, the Bond Ordinance, the Bond Purchase Agreement and the Paying Agency Agreement (including, without limitation, this Addendum).

“**Bond Ordinance**” means Ordinance 125460 of the City, approved by the City Council on November 20, 2017 and signed by the Mayor on November 22, 2017, as amended by Ordinance 125987, approved by the City Council on November 25, 2019 and signed by the Mayor on November 27, 2019, and as further amended by certain springing covenants set forth therein. *For purposes of clarity, the parties acknowledge and agree that Exhibit A to this Paying Agency Agreement*

sets forth the complete text of the Bond Ordinance, as it has been amended to date, including incorporating those springing covenants that have become effective.

“**Bond Purchase Agreement**” means that certain agreement by and between the City and the Underwriter, dated as of October 25, 2023, regarding the issuance, sale and delivery of the Bonds. The Bond Purchase Agreement is not a Direct Purchase Agreement.

“**Bond Purchase Fund**” means the fund established with the Bond Registrar/Paying Agent pursuant to the Paying Agency Agreement, including without limitation, this Addendum.

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

“**Bonds**” means the Municipal Light and Power Refunding Revenue Bonds, 2023B (Variable Rate Demand Bonds), issued pursuant to the Bond Ordinance with such additional or alternative naming conventions as may be necessary or convenient.

“**Business Day**” means any day other than a Saturday or Sunday that is not: (a) a legal holiday; (b) a day on which banking institutions are authorized or required by law or regulation to close in Seattle, Washington or the city or cities in which the principal office of the Remarketing Agent, Bond Registrar/Paying Agent, or Calculation Agent (if any) is located; (c) a day on which the New York Stock Exchange is closed or the payment system of the Federal Reserve Bank is not operational; or (d) a day on which banking institutions are authorized or required by law or regulation to close or remain closed in the city in which is located the office of a Credit Provider at which drawings under a Credit Facility are to be honored.

“**Calculation Agent**” means the Bond Registrar/Paying Agent. However, during a Direct Purchase Period, the City may appoint the Index Floating Rate Holder to act as Calculation Agent during such period pursuant to a Direct Purchase Agreement.

“**Conversion**” means a conversion of all of the then-outstanding Bonds from one Interest Rate Period to another Interest Rate Period (including the establishment of a new Long-Term Interest Rate Period or Index Floating Rate Period). The following events shall not be deemed Conversions for purposes of the Bond Documents: (a) the continuation of a Daily Interest Rate at the end of a Daily Interest Rate Period, (b) the continuation of a Weekly Interest Rate at the end of a Weekly Interest Rate Period, (c) the imposition of a Delayed Remarketing Period as described in Section 8(f) of this Addendum, (d) during a Direct Purchase Period, a renewal or extension of the term of such Direct Purchase Period then in effect or a conversion from one Direct Purchase Period to another Direct Purchase Period whether or not the holder of the Bonds is the same Index Floating Rate Holder, and (e) an Extraordinary Mandatory Redemption of the Bonds pursuant to a Term-Out Provision.

“**Conversion Date**” means the effective date of a Conversion.

“**Credit Facility**” means any letter of credit, insurance policy, line of credit, surety bond, or other security or other credit and/or liquidity facility, if any, to be issued or executed, as applicable, by the Credit Provider in connection with the issuance of the Bonds in a Daily Interest Rate mode, or a Conversion to a new Daily Interest Rate, to a Weekly Interest Rate, or to another interest rate mode covered by such facility, that secures or supports the payment when due of the principal and Purchase Price of and interest on a Bond, including any Alternate Credit Facility, or any extensions, amendments or replacements thereof pursuant to its terms. The *initial Credit Facility* is that certain Irrevocable Transferable Direct Pay Letter of Credit No. 2001394, established by TD Bank, N.A. (the “*initial Credit Provider*”) and delivered as of October 26, 2023 pursuant to the initial Reimbursement Agreement.

“**Credit Facility Purchase Account**” means each account with that name established within the Bond Purchase Fund pursuant to Section 12 of this Addendum.

“**Credit Provider**” means any bank, insurance company, pension fund or other financial institution that provides a Credit Facility or Alternate Credit Facility for the Bonds. The *initial Credit Provider* for the Bonds is TD Bank, N.A.

“**Custody Agreement**” means a written agreement between the Bond Registrar/Paying Agent and the Credit Provider providing instructions relating to the purchase and custody of Bank Bonds and related matters.

“**Daily Interest Rate**” means a variable interest rate established in accordance with Section 4(a)(1) of this Addendum.

“**Daily Interest Rate Period**” means each period during which a Daily Interest Rate is in effect.

“**Default Rate**” as used in connection with any Direct Purchase Period, has the meaning set forth in the applicable Direct Purchase Agreement.

“**Delayed Remarketing Period**” means the period as set forth in Section 8(f) of this Addendum applicable to Unremarketed Bonds.

“**Designated Representative**” means the Director of Finance.

“**Direct Purchase Agreement**” means a written agreement (including a continuing covenant agreement or other similar agreement) between the City and the direct purchaser for the purchase of the Bonds during a Direct Purchase Period. The Bond Purchase Agreement is not a Direct Purchase Agreement.

“**Direct Purchase Period**” means each Index Floating Rate Period during which the Bonds are purchased and held pursuant to a Direct Purchase Agreement, including any Term-Out Period or other period during which Unremarketed Bonds continue to be outstanding while a Direct Purchase Agreement is in effect.

“**Elect**” or “**Election**” means the election by the Designated Representative of a new Interest Rate Period.

“**Event of Default**” as used in connection with any Direct Purchase Period, has the meaning set forth in the applicable Direct Purchase Agreement.

“**Extraordinary Event**” means, if used in connection with any Interest Rate Period in which a Direct Purchase Agreement or a Credit Facility is in effect, the occurrence of an extraordinary event identified under the applicable provisions of the Direct Purchase Agreement, Reimbursement Agreement or similar agreement with the Index Floating Rate Holder or provider of the Credit Facility.

“**Extraordinary Mandatory Redemption**” means the periodic redemption of principal of Unremarketed Bonds or Bank Bonds in the amounts and on the dates set forth in a Term-Out Provision of a Direct Purchase Agreement or agreement relating to a Credit Facility.

“**Favorable Opinion of Bond Counsel**” means a written legal opinion of Bond Counsel addressed to the City, the Bond Registrar/Paying Agent, the Credit Provider (if any), the Index Floating Rate Holder (if any), and the Remarketing Agent (if any), to the effect that a specified action is permitted under the Bond Documents and will not impair the exclusion of interest on the affected Bonds from gross income for purposes of federal income taxation (subject to customary exceptions).

“**Index**” means any of (a) the SIFMA Index, (b) SOFR, or (c) any alternate index selected by the Designated Representative, conditioned upon the delivery to the Bond Registrar/Paying Agent on or prior to the applicable Conversion Date of a Favorable Opinion of Bond Counsel.

“**Index Floating Rate**” means a per annum rate of interest, established in accordance with Section 4(a)(4) of this Addendum on each Interest Determination Date during an Index Floating Rate Period, equal to the sum of (A) the Index Floating Rate Spread and (B) the product of Index and the Index Floating Rate Percentage.

“**Index Floating Rate Holder**” means, during any Direct Purchase Period, (a) during which the Bonds are not held in Book-Entry Form, (1) if there is a single Registered Owner of all Bonds, the Registered Owner, or (2) if there is more than one Registered Owner of the Bonds, Registered Owners owning a majority of the aggregate principal amount of the then outstanding Bonds; and (b) during which the Bonds are held in Book-Entry Form, (1) if there is a single Beneficial Owner of all Bonds, the Beneficial Owner, or (2) if there is more than one Beneficial Owner of the Bonds, Beneficial Owners of a majority of the aggregate principal amount of the then outstanding Bonds.

“**Index Floating Rate Percentage**” means during an Index Floating Rate Period, the percentage of the Index Floating Rate selected by the Designated Representative pursuant to Section 5(a)(4) of this Addendum.

“**Index Floating Rate Period**” means each period during which an Index Floating Rate is in effect (including, without limitation, any Direct Purchase Period).

“**Index Floating Rate Spread**” means during an Index Floating Rate Period, the spread determined on or prior to the Conversion Date that marks the beginning of such period, pursuant to Section 5(a)(4) of this Addendum.

“**Initial Issue Date**” means the date on which the Bonds are delivered to the Underwriter pursuant to the Bond Purchase Agreement.

“**Interest Accrual Date**” means (a) for any Daily Interest Rate Period, the first day thereof and, thereafter, the first day of each calendar month during such Daily Interest Rate Period; (b) for any Weekly Interest Rate Period, the first day thereof and, thereafter, the first Wednesday of each calendar month during such Weekly Interest Rate Period; (c) for any Long-Term Interest Rate Period, the first day thereof and, thereafter, each Interest Payment Date during that Long-Term Interest Rate Period, other than the last such Interest Payment Date; and (d) for each Index Floating Rate Period, the first day thereof and, thereafter, the first Business Day of each calendar month during such Index Floating Rate Period, unless otherwise specified in a Direct Purchase Agreement in effect for such period.

“**Interest Determination Date**” means, for each Index Floating Rate Period, (a) if the Index is the SIFMA Index, the first day of such Index Floating Rate Period and, thereafter, each Wednesday (or, if any such Wednesday is not a Business Day, the succeeding Business Day); (b) if the Index is SOFR, the second New York Business Day preceding the first day of such Index Floating Rate Period and, thereafter, the second New York Business Day preceding each Interest Reset Date during such Index Floating Rate Period; and (c) if any other Index has been selected by the Designated Representative, the date(s) selected by the Designated Representative in connection with the selection of such Index. Notwithstanding the foregoing, a Direct Purchase Agreement may provide for alternate Interest Determination Dates to be in effect during a Direct Purchase Period.

“**Interest Payment Date**” means (a) for interest accrued in (1) any Daily Interest Rate Period, the first Business Day of the next succeeding calendar month; (2) any Weekly Interest Rate Period, the first Wednesday of each calendar month, or, if the first Wednesday is not a Business Day, the next

succeeding Business Day; (3) any Long-Term Interest Rate Period, each May 1 and November 1, or if any May 1 or November 1 is not a Business Day, the next succeeding Business Day; or (4) any Index Floating Rate Period, (i) the first Business Day of each calendar month, (ii) each Purchase Date, and (iii) each date on which all or a portion of the Bonds are redeemed, unless otherwise specified in a Direct Purchase Agreement in effect for such period; (b) without duplication, the first Business Day succeeding the last day of each Interest Rate Period; and (c) with respect to any Bank Bonds and Bonds during a Term-Out Period, the dates set forth in the Term-Out Provision of the applicable Direct Purchase Agreement, Reimbursement Agreement, or Credit Facility for the payment of interest on such Bonds.

“Interest Rate Period” means each Daily Interest Rate Period, Weekly Interest Rate Period, Long Term Interest Rate Period, or Index Floating Rate Period (including, without limitation, any Direct Purchase Period).

“Interest Reset Date” means (a) for each Index Floating Rate Period that is not a Direct Purchase Period (1) if the Index is SOFR, the first Business Day of each calendar month; (2) if the Index is the SIFMA Index, Thursday of each week, or if not a Business Day, the next succeeding Business Day; and (3) if any other Index has been selected by the Designated Representative, the date(s) selected by the Designated Representative in connection with selecting the Index; and (b) for each Direct Purchase Period, either (1) the Interest Reset Dates set forth in the Direct Purchase Agreement or (2) if none are specified, the dates set forth in subsection (a) of this definition.

“Long-Term Interest Rate” means a long-term, fixed (non-variable) interest rate established in accordance with Section 4(a)(3) of this Addendum.

“Long-Term Interest Rate Period” means each period during which a Long-Term Interest Rate is in effect.

“Mandatory Tender Date” means each Purchase Date on which the Bonds are required to be tendered for purchase as set forth in Section 8(b) of this Addendum.

“Maturity Date” means the final date on which the principal of a Bond is stated on its face to become due and payable as provided in this Addendum, regardless of any Sinking Fund Requirement or optional or mandatory redemption prior to maturity.

“Maximum Interest Rate” means (a) with respect to the Bonds (other than Bank Bonds), 12% per annum, calculated in the same manner as interest is calculated for the interest rate then in effect for the Bonds, and (b) with respect to Bank Bonds, the maximum interest rate permitted by applicable law from time to time. In no event shall the maximum interest rate exceed the maximum rate permitted by applicable law from time to time.

“Par Call Date” means with respect to an Index Floating Rate Period, the date established by the Designated Representative and set forth in the applicable Direct Purchase Agreement or Remarketing Agreement, and if none is established, the first Business Day after the end of the Index Floating Rate Period. Notwithstanding the foregoing, during any Delayed Remarketing Period, the Par Call Date for any Unremarketed Bond shall mean the first Business Day on which the Bond is subject to call for optional redemption at a price of 100% of the principal amount thereof plus interest accrued to the date fixed for redemption.

“Participant” means, with respect to the Securities Depository, a member of or participant in the Securities Depository.

“Paying Agency Agreement” means that certain agreement entered into by the City, as Issuer, and U.S. Bank Trust Company, National Association, as Bond Registrar/Paying Agent, dated as of

October 1, 2023, providing for certain supplemental duties of the Bond Registrar/Paying Agent relating to the Bonds, into which this Addendum is incorporated.

“**Purchase Date**” means each date on which the Bonds are required to be purchased pursuant to Section 8 of this Addendum.

“**Purchase Price**” means the purchase price to be paid to the Registered Owner(s) of Bonds purchased pursuant to Section 8 of this Addendum, which shall be equal to the principal amount of the Bonds so tendered for purchase, without premium, plus accrued interest from the immediately preceding Interest Accrual Date to the Purchase Date (if such date is not an Interest Payment Date), plus any other accrued and unpaid interest. However, in the case of a Conversion from a Long-Term Interest Rate Period on a date on which the Bonds being converted would otherwise be subject to optional redemption pursuant to Section 7(a) of this Addendum if such Conversion did not occur, the Purchase Price shall also include the optional redemption premium, if any, provided for such date under Section 7(a)(2) of this Addendum.

“**Record Date**” means (a) with respect to any Interest Payment Date in a Daily Interest Rate Period, the last Business Day of each calendar month or, in the case of the last Interest Payment Date in a Daily Interest Rate Period, the Business Day immediately preceding such Interest Payment Date, (b) with respect to any Interest Payment Date in any Long-Term Interest Rate Period, the 15th day immediately preceding that Interest Payment Date, (c) with respect to any Interest Payment Date in any Weekly Interest Rate Period, the Business Day preceding the Interest Payment Date, and (d) with respect to any Interest Payment Date in any Index Floating Rate Period, the 15th day immediately preceding that Interest Payment Date, unless otherwise provided in a Direct Purchase Agreement then in effect.

“**Reimbursement Agreement**” means any agreement between the City and a Credit Provider, pursuant to which a Credit Facility or Alternate Credit Facility is issued by the Credit Provider, as the same may be amended, restated, supplemented, or otherwise modified pursuant to the terms thereof.

“**Remarketing Account**” means each account with that name established within the Bond Purchase Fund pursuant to Section 12 of this Addendum.

“**Remarketing Agent**” means each remarketing firm qualified under Section 10 of this Addendum to act as Remarketing Agent for the Bonds and appointed by the Designated Representative on behalf of the City.

“**Remarketing Agreement**” means any remarketing agreement between the City and the Remarketing Agent whereby the Remarketing Agent undertakes to perform the duties of the Remarketing Agent as provided in this Addendum.

“**SIFMA**” means the Securities Industry and Financial Markets Association.

“**SIFMA Index**” means the seven-day high-grade market index of tax-exempt variable rate demand obligations produced by Municipal Market Data and published or made available by SIFMA or any person acting in cooperation with or under the sponsorship of SIFMA. If such index is no longer published or otherwise not available, the SIFMA Index for any day will mean the level of the “S&P Weekly High Grade Index” (formerly the J.J. Kenny Index) maintained by Standard & Poor’s Securities Evaluations Inc. for a 7-day maturity as published on the Interest Reset Date or most recently published prior to the Interest Reset Date. If at any time neither such index is available, the Calculation Agent shall use instead an index that the Remarketing Agent (if any) and the Designated Representative determine most closely approximates the SIFMA Index.

“**SOFR**” means the Secured Overnight Financing Rate published by the Federal Reserve and described as the broad measure of the cost of borrowing cash overnight collateralized by US Treasury securities. It is calculated as a volume-weighted median of transaction-level tri-party repo data. Each business day, the New York Fed publishes the SOFR on the New York Fed website at approximately 8:00 a.m. (New York time). The Federal Reserve notes on its publication page for SOFR that use of SOFR is subject to important limitations and disclaimers, including that the Federal Reserve may alter the methods of calculation, publication schedule, rate revision practices, or availability of SOFR at any time without notice.

“**Scheduled Mandatory Tender Date**” shall mean the date scheduled to be the last day of the Index Floating Rate Period, selected by the Designated Representative pursuant to Section 5(a)(4), as applicable.

“**Stepped Interest Rate**” means (a) a per annum interest rate or rates as determined by the Remarketing Agent prior to the first Interest Determination Date for such period pursuant to Section 4(a)(4)(E) of this Addendum; and (b) for any Direct Purchase Period, the per annum interest rate or rates identified in the Direct Purchase Agreement.

“**Term-Out Period**” means a period, as determined in accordance with a Direct Purchase Agreement, Reimbursement Agreement, or Credit Facility, as applicable, then in effect, during which Unremarketed Bonds become subject to Extraordinary Mandatory Redemption in periodic, approximately equal installments of principal.

“**Term-Out Provision**” means a provision in a Direct Purchase Agreement or in a Reimbursement Agreement (or similar agreement related to a Credit Facility) that requires the Extraordinary Mandatory Redemption of principal of Unremarketed Bonds in installments payable in accordance with a scheduled amortization of such principal over a Term-Out Period, to be determined as set forth in the applicable Direct Purchase Agreement or Reimbursement Agreement (or other similar agreement related to a Credit Facility).

“**Undelivered Bond**” means any Bond which constitutes an Undelivered Bond under the provisions of Section 8(d) of this Addendum.

“**Underwriter**” means the initial purchaser identified in the Bond Purchase Agreement.

“**Unremarketed Bond**” means any Bond (or principal portion of a Bond) that is not purchased when tendered for purchase and which becomes an Unremarketed Bond pursuant to Section 4(e) of this Addendum.

“**Weekly Interest Rate**” means a variable interest rate for a Bond established in accordance with Section 4(a)(2) of this Addendum.

“**Weekly Interest Rate Period**” means each period during which a Weekly Interest Rate is in effect.

Section 2. Reserve Fund Requirement.

(a) **Amount of the Reserve Fund Requirement for the Bonds.** With respect to the Bonds, (1) at all times required by the 2005 Reserve Surety, the Reserve Fund Requirement for the Bonds shall mean the additional amount necessary, if any, to provide an overall level of funding in the Reserve Fund equal to the maximum amount permitted by the Code as a “reasonably required reserve or replacement fund,” calculated as of the Initial Issue Date based on the debt service requirements for all Parity Bonds then outstanding; and (2) at any time not required by the 2005 Reserve Surety, the Reserve Fund Requirement for the Bonds shall be zero and the debt service requirements for the Bonds

will thereafter be excluded from calculation of the Reserve Fund Requirement for the then-Outstanding Parity Bonds. For purposes of this paragraph, the “2005 Reserve Surety” means the Alternate Reserve Security (FSA Policy No. 205674-S) purchased pursuant to Ordinance 121812, passed on May 16, 2005, as it may be amended from time to time.

(b) **Method of Funding the Reserve Fund Requirement.** Prior to the Initial Issue Date, the City shall deposit into the Reserve Fund an amount sufficient to satisfy the Reserve Fund Requirement for the Bonds from amounts already on deposit in the Reserve Fund or from Net Revenue or other funds of the City available from sources other than proceeds of the Bonds.

Section 3. Accrual and Payment of Interest.

(a) **Accrual Dates.** Each Bond shall bear interest from its date of issuance, including the Interest Accrual Date preceding the date of authentication thereof or, if such date of authentication is an Interest Accrual Date to which interest on such Bond has been paid in full or duly provided for, from such date of authentication, as further set forth in subsection (c) of this section. However, a Bond issued in exchange for a Bond that is surrendered for transfer or exchange shall bear interest from the date to which interest on such surrendered Bond had been paid or duly provided for (or, if no interest has been paid on such surrendered Bond, from the date of authentication of such surrendered Bond). All dollar amounts are to be rounded to the nearest cent, with one-half cent being rounded upward.

(b) **Payment of Interest.** Interest shall be payable on each Interest Payment Date, on each redemption date, on each Purchase Date and on the Maturity Date, and shall be payable for the final Interest Rate Period to the date on which the Bonds are paid in full, all in accordance with the following:

(1) Interest on each Bond held in Book-Entry Form will be payable in the manner set forth in the Letter of Representations.

(2) Interest on each Bond not held in Book-Entry Form will be payable by electronic transfer on the interest payment date, or by check or draft of the Bond Registrar/Paying Agent mailed on the interest payment date to the Registered Owner at the address appearing on the Bond Register on the Record Date, as defined herein. The City, however, is not required to make electronic transfers except pursuant to a request by a Registered Owner in writing received by the Bond Registrar/Paying Agent at least ten days prior to the Record Date and at the sole expense of the Registered Owner.

(3) Notwithstanding the foregoing, interest payments on Bank Bonds shall be made at the times, on the dates, at the rates and in the manner set forth in the related Reimbursement Agreement and/or Credit Facility, as applicable.

(c) Provisions Specific to Each Interest Rate Period.

(1) **Daily Interest Rate Period.** Interest during any Daily Interest Rate Period shall accrue on the basis of the actual number of days elapsed in a 365-day year (or a 366-day year in a leap year) and shall be payable on each Interest Payment Date for the period commencing on the Interest Accrual Date preceding the prior Interest Payment Date and ending on the last day of the month in which such Interest Accrual Date occurs. On each Interest Payment Date during a Daily Interest Rate Period, the Bond Registrar/Paying agent shall (i) make all payments of interest on the Bonds from proceeds of a draw made on the Credit Facility as set forth in Section 9 hereof and in accordance with the terms of the Credit Facility, and (ii) serve as the City’s Paying Agent in administering timely payment from the City’s Parity Bond Fund to the Credit Provider of the amount due and payable as a Parity Reimbursement Obligation under the Reimbursement Agreement.

(2) **Weekly Interest Rate Period.** Interest during any Weekly Interest Rate Period shall accrue on the basis of the actual number of days elapsed in a 365-day year (or a 366-day year in a leap

year) and shall be payable on each Interest Payment Date for the period commencing on the preceding Interest Accrual Date (or, if any such Interest Payment Date is not a Wednesday, commencing on the second preceding Interest Accrual Date) and ending on and including the Tuesday preceding such Interest Payment Date (or, if sooner, the last day of such Weekly Interest Rate Period). On each Interest Payment Date during a Weekly Interest Rate Period, the Bond Registrar/Paying Agent shall (i) make all payments of interest from proceeds of a draw made on the Credit Facility as set forth in Section 9 hereof and in accordance with the terms of the Credit Facility, and (ii) serve as the City's Paying Agent in administering timely payment from the City's Parity Bond Fund (and such other sources as the City may direct) to the Credit Provider of the amount due and payable as a Parity Reimbursement Obligation under the Reimbursement Agreement.

(3) Long-Term Interest Rate Period. Interest during any Long-Term Interest Rate Period shall accrue on the basis of a 360-day year composed of twelve 30-day months and shall be payable on each Interest Payment Date for the period commencing on the Interest Accrual Date of the preceding month and ending on the day preceding the next Interest Accrual Date.

(4) Index Floating Rate Period. Unless otherwise specified in a Direct Purchase Agreement then in effect, during an Index Floating Rate Period:

(A) If the applicable Index is (i) the SIFMA Index, interest shall accrue on the basis of the actual number of days elapsed in a 365-day year (or a 366-day year in a leap year); (ii) SOFR, interest shall accrue on the basis of the actual number of days elapsed in a 360-day year, or (iii) another index selected by the Designated Representative, interest shall accrue as determined by the Designated Representative in connection with the selection of such other index in consultation with the Remarketing Agent; and

(B) Interest shall be payable on each Interest Payment Date for the period commencing on the preceding Interest Accrual Date and ending on the day preceding the next Interest Accrual Date.

Section 4. Determination of Interest Rates.

(a) **Determination of Interest Rates.** The Bonds shall bear interest in one of the following interest rate modes: Daily Interest Rate, Weekly Interest Rate, Long-Term Interest Rate, Bank Rate, or Index Floating Rate. The interest rate shall be periodically reset as follows:

(1) Determination of Daily Interest Rate. When a Daily Interest Rate Period has been selected, the Bonds shall bear interest at the Daily Interest Rate, which shall be determined by the Remarketing Agent by 10:30 a.m., New York time, on each Business Day. The Daily Interest Rate for any day that is not a Business Day shall be the same as the Daily Interest Rate for the preceding Business Day. Each Daily Interest Rate shall be the rate of interest per annum determined by the Remarketing Agent (based on an examination of tax-exempt obligations comparable, in the judgment of the Remarketing Agent, to the Bonds and known by the Remarketing Agent to have been priced or traded under then-prevailing market conditions) to be the minimum interest rate that, if borne by such Bonds, would enable the Remarketing Agent to sell all of the Bonds on such Business Day at a price (without regard to accrued interest) equal to the principal amount thereof. If no Daily Interest Rate is established by the Remarketing Agent, then the Daily Interest Rate for such Business Day shall be the same as the preceding Daily Interest Rate, and such Daily Interest Rate shall continue to be in effect until the earlier of (A) the date on which the Remarketing Agent determines a new Daily Interest Rate or (B) the seventh day succeeding the first day on which the Daily Interest Rate was not determined by the Remarketing Agent. If the Daily Interest Rate is held to be invalid or unenforceable by a court

of law, or if the Remarketing Agent fails to determine the Daily Interest Rate for a period of seven days as described in clause (B) of the preceding sentence, then the Daily Interest Rate, as determined by the Remarketing Agent, shall be equal to 110% of the SIFMA Index, or if such index is no longer available, 85% of the interest rate on 30-day high grade unsecured commercial paper notes sold through dealers by major corporations as reported in The Wall Street Journal on the Business Day such Daily Interest Rate would otherwise have been determined, until the Daily Interest Rate is again validly determined by the Remarketing Agent.

(2) Determination of Weekly Interest Rate. When a Weekly Interest Rate Period has been selected, the Bonds shall bear interest at the Weekly Interest Rate, which shall be determined by the Remarketing Agent by 5:00 p.m., New York time, on Tuesday of each week, or if such day is not a Business Day, then on the succeeding Business Day. The first Weekly Interest Rate for each Weekly Interest Rate Period shall be determined on or prior to the first day of such Weekly Interest Rate Period and shall be in effect for the period commencing on and including the first day of such Weekly Interest Rate Period and ending on and including the succeeding Tuesday. Thereafter, each Weekly Interest Rate shall be in effect for the period commencing on and including Wednesday and ending on and including the succeeding Tuesday, unless such Weekly Interest Rate Period ends on a day other than Tuesday, in which event the last Weekly Interest Rate for such Weekly Interest Rate Period shall be in effect for the period commencing on and including the Wednesday preceding the last day of such Weekly Interest Rate Period and ending on and including the last day of such Weekly Interest Rate Period. Each Weekly Interest Rate shall be the rate of interest per annum determined by the Remarketing Agent (based on an examination of tax-exempt obligations comparable, in the judgment of the Remarketing Agent, to the Bonds and known by the Remarketing Agent to have been priced or traded under then-prevailing market conditions) to be the minimum interest rate which, if borne by the Bonds, would enable the Remarketing Agent to sell all of the Bonds on the effective date of that rate at a price (without regard to accrued interest) equal to the principal amount thereof. If no Weekly Interest Rate is established by the Remarketing Agent, then the Weekly Interest Rate shall be the same as the preceding Weekly Interest Rate if such Weekly Interest Rate was determined by the Remarketing Agent. If the preceding Weekly Interest Rate was not determined by the Remarketing Agent, or if the Weekly Interest Rate determined by the Remarketing Agent is held to be invalid or unenforceable by a court of law, then the Weekly Interest Rate, as determined by the Remarketing Agent, shall be equal to 110% of the SIFMA Index, or if such index is no longer available, 85% of the interest rate on 30-day high grade unsecured commercial paper notes sold through dealers by major corporations as reported in The Wall Street Journal on the day such Weekly Interest Rate would otherwise have been determined, until the Weekly Interest Rate is again validly determined by the Remarketing Agent.

(3) Determination of Long-Term Interest Rate. When a Long-Term Interest Rate Period has been selected, the Bonds shall bear interest at the Long-Term Interest Rate, which shall be determined by the Remarketing Agent on a Business Day on or prior to the first day of such Long-Term Interest Rate Period. The Long-Term Interest Rate shall be the rate of interest per annum determined by the Remarketing Agent (based on an examination of tax-exempt obligations comparable, in the judgment of the Remarketing Agent, to the Bonds and known by the Remarketing Agent to have been priced or traded under then-prevailing market conditions) to be the minimum interest rate at which the Remarketing Agent will agree to purchase the Bonds on the effective date of that rate for resale at a price (without regard to accrued interest) equal to the principal amount thereof. If, by the second Business Day preceding the 29th day prior to the last day of any Long-Term Interest Rate Period, the Bond Registrar/Paying Agent has not received notice from the City pursuant to Section 5 of this Addendum of an Election by the Designated Representative to effect a Conversion, the succeeding Interest Rate Period shall be a Weekly Interest Rate Period until Conversion to another

Interest Rate Period, and the Bonds shall be subject to mandatory tender for purchase as provided in Section 8(b) of this Addendum on the first day of such Weekly Interest Rate Period.

(4) Determination of Index Floating Rate. When an Index Floating Rate Period has been selected, the Bonds shall bear interest at the Index Floating Rate, determined as follows:

(A) *Direct Purchase Period*. In the case of an Index Floating Rate Period subject to a Direct Purchase Agreement, the Index Floating Rate, Index Floating Rate Percentage and Index Floating Rate Spread and other adjustment factors shall be set forth in the Direct Purchase Agreement.

(B) *Index Floating Rate Periods (Other than a Direct Purchase Period)*. The Index Floating Rate for any Index Floating Rate Period other than a Direct Purchase Period shall be determined by the Remarketing Agent after consultation with and approval by the Designated Representative on the first Interest Determination Date for such Index Floating Rate Period, in accordance with the following:

- (i) If the Index selected by the Designated Representative is the SIFMA Index, the Index Floating Rate shall be the Adjusted SIFMA Rate.
- (ii) If the Index selected by the Designated Representative is SOFR or an alternate index, the Index Floating Rate shall be the sum of (i) the Index multiplied by the Index Floating Rate Percentage, plus (ii) the Index Floating Rate Spread.
- (iii) The Index Floating Rate Percentage shall be selected by the Designated Representative in connection with the Conversion to each Index Floating Rate Period (and if not so selected, shall be equal to 100%) and shall remain in effect throughout such period.
- (iv) The Index Floating Rate Spread shall be determined on the first Interest Determination Date with respect to an Index Floating Rate Period and shall remain in effect throughout such period. The Index Floating Rate Spread shall be the spread determined by the Remarketing Agent (based on an examination of tax-exempt obligations comparable, in the judgment of the Remarketing Agent, to the Bonds and known by the Remarketing Agent to have been priced or traded under then-prevailing market conditions) to be the minimum spread which, when added to the Index (multiplied by the Index Floating Rate Percentage), equals the interest rate which, if borne by the Bonds, would enable the Remarketing Agent to sell all of the Bonds on the effective date of that rate at a price (without regard to accrued interest) equal to the principal amount thereof.

(C) *Calculation of Index Floating Rate Reset on Interest Determination Dates*. The first Index Floating Rate for any Index Floating Rate Period shall be in effect for the period commencing on the first day of such Index Floating Rate Period to but excluding the first Interest Reset Date of such Index Floating Rate Period. With respect to each Interest Reset Date, the Index Floating Rate shall be calculated by the Calculation Agent on each Interest Determination Date, and such Index Floating Rate shall be in effect for the period commencing on each Interest Reset Date to but excluding the following Interest Reset Date.

(D) *Delayed Remarketing Period; Stepped Interest Rate.* During an Index Floating Rate Period, the Stepped Interest Rate during a Delayed Remarketing Period shall be determined by the Remarketing Agent, after consultation with and approval by the Designated Representative. For any Index Floating Rate Period, the Stepped Interest Rate shall be determined on or prior to the first Interest Determination Date for such Index Floating Rate Period and shall remain in effect throughout such period.

(b) **Determinations of Calculation Agent and Remarketing Agent Binding.** The Calculation Agent or the Remarketing Agent (as applicable) shall provide prompt notice of each determination of the interest rate for the Bonds to the City, Bond Registrar/Paying Agent, Remarketing Agent (if any), and Credit Provider (if any). The Bond Registrar/Paying Agent shall provide notice of such interest rate determination to the Registered Owner of any Bond upon request. Absent manifest error, each such determination shall be conclusive and binding upon the City, the Bond Registrar/Paying Agent, the Remarketing Agent (if any), the Credit Provider (if any), and the Owner of each Bond.

(c) **Rounding Convention.** All percentages resulting from any calculation of any interest rate for the Bonds shall be rounded upward to the second decimal place, unless otherwise provided during a Direct Purchase Period.

(d) **Maximum Interest Rate; Excess Interest.** Notwithstanding any provision in this Addendum to the contrary, at no time shall the Bonds bear interest at a rate higher than the Maximum Interest Rate.

(e) **Unremarketed Bonds; Delayed Remarketing Period.** Bonds in an Index Floating Rate mode that are subject to a Delayed Remarketing Period as set forth in Section 8(f) of this Addendum shall be deemed to be Unremarketed Bonds. Unless otherwise provided in a Direct Purchase Agreement applicable to such Bonds, each Unremarketed Bond shall bear interest at the Stepped Interest Rate until such Bond ceases to be an Unremarketed Bond. A Bond shall cease to be an Unremarketed Bond only if such Unremarketed Bond is remarketed and transferred, or such Unremarketed Bond is redeemed in full. Unremarketed Bonds may become subject to Extraordinary Mandatory Redemption in accordance with a Direct Purchase Agreement then in effect.

(f) **Bank Bonds.** Bonds (or any principal portion thereof) that become Bank Bonds as set forth in Section 9(d) shall bear interest at the Bank Rate until such Bonds are no longer Bank Bonds. Bank Bonds shall become subject to Extraordinary Mandatory Redemption in accordance with the related Reimbursement Agreement or other agreement relating to the applicable Credit Facility.

Section 5. Election of Interest Rate Periods. The Interest Rate Period for the Bonds may be adjusted pursuant to an Election by the Designated Representative, pursuant to this section, to effect a Conversion in accordance with Section 6 of this Addendum. The Interest Rate Period for the Bonds may not be adjusted prior to a Purchase Date, except for a Conversion of all outstanding Bonds.

(a) **Available Interest Rate Modes.** The Bonds shall bear interest in one of the following interest rate modes: Daily Interest Rate, Weekly Interest Rate, Long-Term Interest Rate or Index Floating Rate. All Bonds must be in the same interest rate mode.

(1) **Election of Daily Interest Rate Period.** The Designated Representative, on behalf of the City may, from time to time, by written notice to the Bond Registrar/Paying Agent, Calculation Agent, Credit Provider (if any) and Remarketing Agent (if any), Elect that the Bonds bear interest at a Daily Interest Rate. The notice of Election given by the Designated Representative shall (A) specify the proposed Conversion Date, which shall be (i) in each case, a Business Day not earlier than the 30th

day following the second Business Day after receipt by the Bond Registrar/Paying Agent of such notice; (ii) in the case of a Conversion from a Long-Term Interest Rate Period, the day following the last day of such Long-Term Interest Rate Period or a day on which the Bonds would otherwise be subject to optional redemption pursuant to Section 7(a) of this Addendum if such Conversion did not occur; and (iii) in the case of a Conversion from an Index Floating Rate Period, the day following the last day of such Index Floating Rate Period or on or after a Par Call Date; and (B) state whether a Credit Facility is to be in effect on the Conversion Date.

(2) Election of Weekly Interest Rate Period. The Designated Representative, on behalf of the City, may, from time to time, by written notice to the Bond Registrar/Paying Agent, Calculation Agent, Credit Provider (if any), and Remarketing Agent (if any), Elect that the Bonds bear interest at a Weekly Interest Rate. The notice of Election given by the Designated Representative shall (A) specify the proposed Conversion Date, which shall be (i) in each case, a Business Day not earlier than the 30th day following the second Business Day after receipt by the Bond Registrar/Paying Agent of such notice; (ii) in the case of a Conversion from a Long-Term Interest Rate Period, the day following the last day of such Long-Term Interest Rate Period or a day on which the Bonds would otherwise be subject to optional redemption pursuant to Section 7(a) of this Addendum if such Conversion did not occur; and (iii) in the case of a Conversion from an Index Floating Rate Period, the day following the last day of such Index Floating Rate Period or on or after a Par Call Date; and (B) state whether a Credit Facility is to be in effect on the Conversion Date.

(3) Election of Long-Term Interest Rate Period. The Designated Representative, on behalf of the City may, from time to time, by written notice to the Bond Registrar/Paying Agent, Calculation Agent, Credit Provider (if any) and Remarketing Agent (if any), Elect that the Bonds bear, or continue to bear, interest at the Long-Term Interest Rate. The notice of Election given by the Designated Representative shall (A) specify the proposed Conversion Date, which shall be (i) in each case, a Business Day not earlier than the 30th day following the second Business Day after receipt by the Bond Registrar/Paying Agent of such notice; (ii) in the case of a Conversion from a Long-Term Interest Rate Period, the day following the last day of such Long-Term Interest Rate Period or a day on which the Bonds would otherwise be subject to optional redemption pursuant to Section 7(a) of this Addendum if such Conversion did not occur; and (iii) in the case of a Conversion from an Index Floating Rate Period, the day following the last day of such Index Floating Rate Period or on or after a Par Call Date; and (B) the last day of the Long-Term Interest Rate Period, which shall be either the day prior to the Maturity Date or a day that both immediately precedes a Business Day and is at least 181 days after the proposed Conversion Date.

(4) Election of Index Floating Rate Period. The Designated Representative, on behalf of the City may, from time to time, by written notice to the Bond Registrar/Paying Agent, Calculation Agent, Credit Provider (if any) and Remarketing Agent (if any), Elect that the Bonds bear, or continue to bear, interest at an Index Floating Rate. The notice of Election given by the Designated Representative shall (A) specify the proposed Conversion Date, which shall be (i) in each case, a Business Day not earlier than the 30th day following the second Business Day after receipt by the Bond Registrar/Paying Agent of such notice; (ii) in the case of a Conversion from a Long-Term Interest Rate Period, the day following the last day of such Long-Term Interest Rate Period or a day on which the Bonds would otherwise be subject to optional redemption pursuant to Section 7(a) of this Addendum if such Conversion did not occur; and (iii) in the case of a Conversion from an Index Floating Rate Period, the day following the last day of such Index Floating Rate Period or on or after a Par Call Date (or, if applicable, the day specified pursuant to a Direct Purchase Agreement then in effect); (B) the date on which the Index Floating Rate Period is to end (which date shall be a Scheduled Mandatory Tender Date) or, if applicable, a statement that the Index Floating Rate Period is to end on the day prior

to the Maturity Date; (C) the Index that is to be in effect, the Index Floating Rate Percentage (if other than 100%); and (D) the Par Call Date for such Index Floating Rate Period.

(b) **Rescission of Election to Effect a Conversion.** The Designated Representative may rescind any Election to effect a Conversion by delivering to the Bond Registrar/Paying Agent, Calculation Agent, Credit Provider (if any) and Remarketing Agent (if any), on or prior to 10:00 a.m., New York time, on the second Business Day preceding a proposed Conversion Date, a notice to the effect that the City has determined to rescind its Election to effect such Conversion. If the City rescinds its Election to effect a Conversion, the Bonds shall bear interest as follows: (1) if a Daily Interest Rate Period is in effect immediately prior to the proposed Conversion, the Bonds shall continue to bear interest at the Daily Interest Rate; (2) if a Weekly Interest Rate Period or a Long-Term Interest Rate Period is in effect immediately prior to the proposed Conversion, the Bonds shall bear interest at a Weekly Interest Rate commencing on the proposed Conversion Date; (3) if an Index Floating Rate Period (A) other than a Direct Purchase Period is in effect immediately prior to the proposed Conversion, the Bonds shall continue to bear interest at the applicable Index Floating Rate, or (B) that is a Direct Purchase Period is in effect immediately prior to the proposed Conversion, the effect of a rescission shall be that the Bonds remain outstanding under and subject to the terms of such Direct Purchase Agreement. Unless otherwise provided in a Direct Purchase Agreement then in effect, if notice of a Conversion of the Bonds to an Index Floating Rate Period has been mailed to the Registered Owner(s) of the Bonds as provided in Section 6(d), and the City subsequently rescinds its Election to effect such Conversion, the Bonds shall nevertheless be subject to mandatory tender for purchase on the proposed Conversion Date.

(c) **Provisions Applicable to Index Floating Rate Periods.**

(1) End of Index Floating Rate Period Other than Direct Purchase Period. If, by the second Business Day preceding the 29th day prior to the last day of any Index Floating Rate Period (other than a Direct Purchase Period), the Bond Registrar/Paying Agent has not received notice of the City's Election to effect a Conversion, then (A) the next Interest Rate Period shall be an Index Floating Rate Period, which shall begin on the Business Day following the last day of the prior Index Floating Rate Period; (B) the Index, Index Floating Rate Percentage, and Index Floating Rate Spread shall remain unchanged; (C) the term of such Index Floating Rate Period shall be the same as the preceding Index Floating Rate Period (but shall not extend beyond the day prior to the Maturity Date); and (D) the Par Call Date shall be (i) if the Index Floating Rate Period is two years or longer in duration, the first Business Day that is on or after the date that is six months prior to the end of such Index Floating Rate Period (or another date established by the Designated Representative with a Favorable Opinion of Bond Counsel); and (ii) during an Index Floating Rate Period of any shorter duration, the first Business Day after the end of such Index Floating Rate Period. The first day of such new Index Floating Rate Period shall be a Conversion Date on which the Bonds shall be subject to mandatory tender on in accordance with Section 8(b)(1) of this Addendum, and the Bond Registrar/Paying Agent shall provide notice of such mandatory tender in accordance with Section 8(c) of this Addendum.

(2) Amendment, Renewal or Extension of (or Conversion from) Direct Purchase Period. In connection with any Election to effect a Conversion to a Direct Purchase Period or to amend, extend or renew a Direct Purchase Agreement then in effect, the Designated Representative, on behalf of the City may negotiate, execute and deliver a Direct Purchase Agreement (or an agreement amending, renewing, extending, restating or otherwise modifying a Direct Purchase Agreement then in effect) on behalf of the City, consistent with the Bond Documents, in such form as shall be approved by the Designated Representative, which approval shall be evidenced by such execution and delivery, and a copy of which shall be provided to the Bond Registrar/Paying Agent at least 5 business days prior to the effective date of such amended and/or restated Direct Purchase Agreement.

Section 6. Conversion of Interest Rate Periods. The Bond Registrar/Paying Agent shall provide notice of the City's Election to effect a Conversion to a new interest rate mode, not less than 20 days prior to the proposed Conversion Date. At the Designated Representative's direction and in their sole discretion, the notice of Conversion may be combined with the notice of mandatory tender by inclusion of the information required under Section 8(c) of this Addendum. The notice to be provided by the Registered Owner(s) of the Bonds (at their addresses as they appear on the Bond Register as of the date of such notice) must state that the Beneficial Owners may not elect to retain ownership of the Bonds and must provide the following information:

(a) **Notice of Conversion to Daily Interest Rate Period.** In connection with a Conversion to a Daily Interest Rate Period pursuant to Section 5(a)(1) of this Addendum, the notice of the Bond Registrar/Paying Agent must state: (1) that the interest rate will be converted to a Daily Interest Rate unless the City rescinds its Election pursuant to Section 5(b) of this Addendum; (2) the proposed Conversion Date; (3) that the Bonds shall be subject to mandatory tender for purchase on the proposed Conversion Date after the giving of a notice of mandatory tender pursuant to Section 8(c) of this Addendum; (4) the Purchase Price; and (5) the place of delivery for purchase of the Bonds.

(b) **Notice of Conversion to Weekly Interest Rate Period.** In connection with a Conversion to a Weekly Interest Rate Period pursuant to Section 5(a)(2) of this Addendum, the notice of the Bond Registrar/Paying Agent must state: (1) that the interest rate will be converted to a Weekly Interest Rate unless the City rescinds its Election pursuant to Section 5(b) of this Addendum; (2) the proposed Conversion Date; (3) that the Bonds shall be subject to mandatory tender for purchase on the proposed Conversion Date; (4) the Purchase Price; and (5) the place of delivery for purchase of the Bonds.

(c) **Notice of Conversion to Long-Term Interest Rate Period.** In connection with a Conversion to a Long-Term Interest Rate Period pursuant to Section 5(a)(3) of this Addendum, the notice of the Bond Registrar/Paying Agent must state: (1) that the interest rate will be converted to, or continue to be, the Long-Term Interest Rate unless either (A) the City rescinds its Election pursuant to Section 5(b) of this Addendum, or (B) all of the Bonds is not remarketed on the proposed Conversion Date; (2) the proposed Conversion Date; (3) the last day of the new Long-Term Interest Rate Period (or, if applicable, that the Long-Term Interest Rate Period is to end on the day prior to the Maturity Date); (4) that the Bonds shall be subject to mandatory tender for purchase on the proposed Conversion Date; (5) the Purchase Price; and (6) the place of delivery for purchase of the Bonds.

(d) **Notice of Conversion to Index Floating Rate Period.** In connection with a Conversion to an Index Floating Rate Period pursuant to Section 5(a)(4) of this Addendum, the notice of the Bond Registrar/Paying Agent must state: (1) that the interest rate will be converted to, or continue to be, an Index Floating Rate, unless the City rescinds its Election pursuant to Section 5(b) of this Addendum; (2) the proposed Conversion Date; (3) the last day of the new Index Floating Rate Period (or, if applicable, that the Index Floating Rate Period is to end on the day prior to the Maturity Date); (4) that the Bonds shall be subject to mandatory tender for purchase on the proposed Conversion Date; (5) the Purchase Price; and (6) the place of delivery for purchase of the Bonds.

(e) **Certain Additional Conditions.** No Conversion shall take effect unless each of the following conditions, to the extent applicable, has been satisfied and the Bond Registrar/Paying Agent may conclusively assume, without inquiry, investigation or notice to any other party, that each such condition has been satisfied in connection with any notice of Conversion it is instructed to provide under this Section 6:

(1) If the notice of the Designated Representative's Election to convert indicates that a Credit Facility will be in effect during the subsequent Interest Rate Period, such Credit Facility must be in effect on the Conversion Date;

(2) If a Direct Purchase Agreement or an agreement entered into in connection with a Credit Facility is in effect prior to the Conversion and requires consent of the Index Floating Rate Holder or Credit Provider, such consent must have been obtained or waived as of the Conversion Date;

(3) The City must obtain a Favorable Opinion of Bond Counsel with respect to such Conversion dated as of the Conversion Date; and

(4) Except as provided in Section (4)(e) with respect to Unremarketed Bonds, the Bond Registrar/Paying Agent must have sufficient funds on hand from remarketing or refunding proceeds, proceeds of a draw on the Credit Facility or other funds made available by the City, to pay the Purchase Price of the Bonds on the Conversion Date.

Section 7. Redemption and Payment of Bonds.

(a) **Optional Redemption.** The Bonds are subject to optional redemption as set forth in this section and in accordance with the Bond Ordinance, including the establishment of a defeasance trust account or refunding trust account held separate and apart from the funds and accounts created under this Addendum. For purposes of funding any such trust account, interest shall be deemed to accrue at the Maximum Interest Rate during any period for which the interest rate has not been determined. The City, in adopting its refunding or defeasance plan, shall cause tender or redemption to occur on the earliest possible tender, redemption or interest readjustment date occurring after the establishment of such trust account.

(1) **Daily or Weekly Interest Rate Periods.** During a Daily Interest Rate Period or a Weekly Interest Rate Period, the Bonds shall be subject to optional redemption at the written direction of the Designated Representative on any Business Day, in whole or in part, at a redemption price of 100% of the principal amount thereof plus interest, if any, accrued to the date fixed for redemption. On each Optional Redemption Date during a Daily or Weekly Interest Rate Period, the Bond Registrar/Paying Agent shall (i) make all payments of the redemption price and any related Sinking Fund Requirements from proceeds of a draw made on the Credit Facility as set forth in Section 9 hereof and in accordance with the terms of the Credit Facility, and (ii) serve as the City’s Paying Agent in administering timely payment from the City’s Parity Bond Fund (and such other sources as the City may direct) to the Credit Provider of the amount due and payable as a Parity Reimbursement Obligation under the Reimbursement Agreement.

(2) **Long-Term Interest Rate Period.** During a Long-Term Interest Rate Period, the Bonds shall be subject to optional redemption at the written direction of the Designated Representative, (A) on the first day of such Long-Term Interest Rate Period, in whole or in part, at a redemption price of 100% of the principal amount thereof plus interest accrued to the date fixed for redemption, and (B) thereafter, on any day during the periods specified below in whole or in part, at the redemption prices (expressed as a percentage of principal amount) specified in the schedule of redemption prices set forth below (plus interest, if any, accrued to the date fixed for redemption):

Length of Long-Term Interest Rate Period (years)	Redemption Prices
Greater than 15	after 10 years at 101%, declining by 0.5% every year to 100%
Less than or equal to 15 and greater than 10	after 7 years at 101%, declining by 0.5% every year to 100%
Less than or equal to 10 and greater than 7	after 5 years at 101%, declining by 0.5% every year to 100%
Less than or equal to 7 and greater than 4	after 3 years at 100.5%, declining by 0.5% after one year to 100%
Less than or equal to 4	after 2 years at 100%

The Designated Representative may select an alternate schedule of redemption prices by delivery to the Bond Registrar/Paying Agent, prior to the Conversion Date of (A) a certificate of the Designated Representative or other agreement setting forth the alternate schedule of redemption prices to apply during such Long-Term Interest Rate Period, and (B) a Favorable Opinion of Bond Counsel.

If the Conversion Date to a Long-Term Interest Rate Period is other than a day that would be an Interest Payment Date during such Long-Term Interest Rate Period, then the date on which the Bonds are first subject to redemption pursuant to the foregoing table (after the first day of such Long-Term Interest Rate Period) shall be the first Interest Payment Date succeeding the date on which the Bonds otherwise would be subject to redemption, and the redemption price shall be adjusted on each anniversary of that Interest Payment Date as provided in such table.

(3) Index Floating Rate Period. During an Index Floating Rate Period, the Bonds shall be subject to optional redemption at the written direction of the Designated Representative on any Business Day on or after the Par Call Date, in whole or in part, at a redemption price of 100% of the principal amount thereof plus interest, if any, accrued to the date fixed for redemption.

(4) During Delayed Remarketing Period. Unremarketed Bonds in a Delayed Remarketing Period and Bank Bonds shall remain subject to optional redemption upon the written direction of the Designated Representative, on any Business Day, in whole or in part, at a redemption price of 100% of the principal amount thereof plus interest, if any, accrued to the date fixed for redemption. Bank Bonds shall be redeemed before other Bonds are optionally redeemed.

(b) **Mandatory Sinking Fund Redemption.** The Bonds shall be designated as Term Bonds and, if not redeemed or purchased at the City's option prior to the Maturity Date, shall be redeemed at a price equal to the principal amount thereof to be redeemed plus accrued interest on the dates in each of the years and the Sinking Fund Requirements set forth in **Exhibit B** to the Paying Agency Agreement. On each date on which principal is due during a Daily or Weekly Interest Rate Period, the Bond Registrar/Paying Agent shall (i) make all payments of Sinking Fund Requirements (including principal due on the Maturity Date) from proceeds of a draw made on the Credit Facility as set forth in Section 9 hereof and in accordance with the terms of the Credit Facility, and (ii) serve as the City's Paying Agent in administering timely payments from the City's Parity Bond Fund (or such other sources as the City may direct) to the Credit Provider of the amount due and payable as a Parity Reimbursement Obligation under the Reimbursement Agreement.

(c) **Extraordinary Mandatory Sinking Fund Redemption.** If the Bonds (including, without limitation, Bank Bonds) are subject to a Direct Purchase Agreement, Reimbursement Agreement, and/or Credit Facility, as applicable, with a Term-Out Provision, Unremarketed Bonds and Bank Bonds shall be subject to Extraordinary Mandatory Redemption during the Term-Out Period and the City shall redeem the Unremarketed Bonds or Bank Bonds, as applicable, in the amounts, on the dates and in the manner as set forth in the Term-Out Provision of the applicable Direct Purchase Agreement, Reimbursement Agreement, or Credit Facility, in each case at a price equal to 100% of the principal amount thereof plus interest (if any) accrued thereon to the redemption date from the most recent Interest Payment Date to which interest has been paid or duly provided for on or after such Interest Payment Date.

Section 8. Optional and Mandatory Tender and Purchase.

(a) **Optional Tender for Purchase.** During any Weekly Interest Rate Period or Daily Interest Rate Period, the Bonds shall be subject to tender for purchase at the option of the Registered Owner

(or Beneficial Owner, if the Bonds are held in Book Entry Form) as set forth below, and if tendered in accordance with this subsection (a), shall be payable as set forth in subsection (e).

(1) Daily Interest Rate Period. During a Daily Interest Rate Period, Bonds may be tendered for purchase in any Authorized Denomination (provided that the amount that is not tendered for purchase must also be in an Authorized Denomination) upon delivery by a Registered Owner of such Bonds to the Bond Registrar/Paying Agent and Remarketing Agent at or prior to 11:00 a.m., New York time, on any Business Day, of an irrevocable written notice (or an irrevocable telephonic notice, promptly confirmed by email or other written notice), which states (A) the principal amount of Bonds to be purchased, and (B) the Purchase Date. Any such notice delivered to the Bond Registrar/Paying Agent or the Remarketing Agent after 11:00 a.m., New York time, shall be deemed to have been received on the succeeding Business Day. If the Bonds so tendered for purchase are not registered in the name of the Securities Depository, the Registered Owner must deliver the Bonds to the Bond Registrar/Paying Agent at its designated office for delivery of Bonds at or prior to 12:00 noon, New York time, on the Purchase Date, accompanied by an instrument of transfer in form satisfactory to the Bond Registrar/Paying Agent.

(2) Weekly Interest Rate Period. During a Weekly Interest Rate Period, Bonds may be tendered for purchase in any Authorized Denomination (provided that the amount that is not tendered for purchase must also be in an Authorized Denomination) upon delivery by the Registered Owner to the Bond Registrar/Paying Agent and to the Remarketing Agent of an irrevocable written notice which states (A) the principal amount of Bonds to be purchased, and (B) the Purchase Date, which may be any Business Day not prior to the seventh day after the date of the delivery of such notice to the Bond Registrar/Paying Agent and the Remarketing Agent. Any such notice delivered to the Bond Registrar/Paying Agent or the Remarketing Agent after 4:00 p.m., New York time, shall be deemed to have been received on the succeeding Business Day. If the Bonds so tendered for purchase are not registered in the name of the Securities Depository, the Registered Owner shall deliver the Bonds to the Bond Registrar/Paying Agent at its designated office for delivery of Bonds at or prior to 10:00 a.m., New York time, on the Purchase Date, accompanied by an instrument of transfer in form satisfactory to the Bond Registrar/Paying Agent.

(3) Irrevocable Notice Deemed to be Tender of Bonds. The giving of notice of optional tender for purchase by a Registered Owner or Participant as provided in this subsection (a) shall constitute the irrevocable tender for purchase of those Bonds with respect to which such notice is given regardless of whether such Bonds are delivered to the Bond Registrar/Paying Agent for purchase on the applicable Purchase Date. If after giving notice, a Registered Owner or Participant fails to deliver such Bonds on the Purchase Date, such Bonds shall constitute Undelivered Bonds for purposes of subsection (g), below. If Bonds tendered for purchase are registered in the name of the Securities Depository, such tender is subject to confirmation by the Securities Depository to the Bond Registrar/Paying Agent that the Participant has the required Ownership interest in those Bonds.

(b) Mandatory Tender for Purchase.

(1) Bonds Subject to Mandatory Tender. The Bonds shall be subject to mandatory tender for purchase at the Purchase Price on the following Purchase Dates (without duplication):

- (A) on any Scheduled Mandatory Tender Date;
- (B) on each Conversion Date;
- (C) during any Interest Rate Period in which the Bonds are subject to a Credit Facility, in the event that the Bonds cease to be subject to that Credit Facility, as set forth in subsection (b)(2) of this section;

(D) at any time during a Delayed Remarketing Period, upon notice given by the Remarketing Agent to the Bond Registrar/Paying Agent in accordance with Section 11 of this Addendum of a successful remarketing and the availability of funds sufficient to pay the Purchase Price for all or any portion of such Bonds (in Authorized Denominations), without regard to any notice requirements set forth in subsection (c) of this section; and

(E) during any Direct Purchase Period, as specified in a Direct Purchase Agreement then in effect.

(2) Mandatory Tender of Bonds Upon Expiration or Termination of Credit Facility. In addition, if a Credit Facility is then in effect, the Bonds shall be subject to mandatory tender for purchase if at any time the Bond Registrar/Paying Agent receives notice that the Bonds will cease to be subject to purchase pursuant to such Credit Facility as a result of (A) the termination, replacement or expiration of such Credit Facility (including termination at the option of the City in accordance with the terms of any Reimbursement Agreement or upon receipt of a Notice of Default under the Reimbursement Agreement), or (B) a Conversion. The Purchase Date for such mandatory tender shall be (A) the fifth Business Day preceding any such expiration or termination of such Credit Facility (if no Alternate Credit Facility is to be delivered to the Bond Registrar/Paying Agent), (B) the Business Day on which such Alternate Credit Facility is delivered to the Bond Registrar/Paying Agent, or (C) the Conversion Date.

(c) **Notice of Mandatory Tender for Purchase.** In connection with any mandatory tender for purchase pursuant to subsection (b) of this section, the Bond Registrar/Paying Agent shall give notice to the Registered Owner(s) of the affected Bonds (at their addresses as they appear on the Bond Register as of the date of such notice) seven days prior to the Purchase Date. A notice of mandatory tender must contain the following information (and may, at the direction of the Designated Representative and in their sole discretion, be combined with a notice of Conversion delivered to the Registered Owner(s) under Section 6):

(1) Each notice shall state that if the Purchase Price is provided to the Bond Registrar/Paying Agent from remarketing or refunding proceeds, proceeds of a draw on the Credit Facility or other funds made available by the City, such Bonds will be purchased on the Purchase Date, and, in the case of an Index Floating Rate Period only, any Bond (or portion thereof) that is not purchased will be subject to a Delayed Remarketing Period and will bear interest at the Stepped Interest Rate as set forth in subsection (f) of this section; and

(2) In the case of a mandatory tender for purchase pursuant to subsection (b)(1), the notice shall state (A) the Purchase Date, and (B) if in conjunction with a Conversion, the type of Interest Rate Period to which the Bonds will be converted on the Purchase Date;

(3) In the case of a mandatory tender for purchase pursuant to subsection (b)(2), the notice shall state (A) that the Credit Facility will expire, terminate or be replaced, (B) that after the Purchase Date, the Bonds will no longer be purchased pursuant to the Credit Facility then in effect, and (C) that the short-term ratings applicable to the Bonds may be lowered or withdrawn; and

(4) If the Bonds are not in Book-Entry Form, the notice shall state that (A) the Purchase Price will be payable only upon surrender of such Bonds to the Bond Registrar/Paying Agent at its designated office for delivery of Bonds, accompanied by an instrument of transfer, in form satisfactory to the Bond Registrar/Paying Agent, executed in blank by the Registered Owner or its duly authorized representative, with such signature guaranteed by a commercial bank, trust company or member firm of the New York Stock Exchange, and (B) if the Registered Owner of any such Bond does not surrender

that Bond to the Bond Registrar/Paying Agent for purchase on the Purchase Date, then that Bond shall be deemed to be an Undelivered Bond, no interest shall accrue on such Bond on and after the Purchase Date and the Registered Owner shall have no rights under the Bond Documents other than to receive payment of the Purchase Price for such Undelivered Bond.

(d) **Delivery of Bonds Subject to Mandatory Tender.** Payment of the Purchase Price of any Bonds that are subject to mandatory tender and for which a notice has been given in accordance with subsection (c) shall be as set forth in subsection (e), below. Bonds to be so purchased that are not registered in the name of the Securities Depository must be delivered at or prior to 10:00 a.m., New York time, on the Purchase Date to the Bond Registrar/Paying Agent at its designated office for delivery of Bonds, accompanied by an instrument of transfer in form satisfactory to the Bond Registrar/Paying Agent and satisfying the conditions set forth in the notice of mandatory tender. If the Registered Owner of a Bond subject to mandatory tender for purchase that is not registered in the name of the Securities Depository fails to deliver its Bond to the Bond Registrar/Paying Agent at the place and on the Purchase Date and by the time specified, or fails to deliver its Bond properly endorsed, such Bond shall constitute an Undelivered Bond under subsection (g), below.

(e) **Payment of Purchase Price.** Bonds tendered for purchase under subsection (a) or (b) of this section shall be purchased on the Purchase Date specified in the applicable notice by payment of the Purchase Price made by the Bond Registrar/Paying Agent, from the sources specified in this subsection, payable in immediately available funds to the Registered Owner (and not to any Participant), at 2:50 p.m., New York time, on the Purchase Date, or as soon as practicable thereafter upon the receipt by the Bond Registrar/Paying Agent of the Purchase Price in the Bond Purchase Fund as set forth in Section 12. The Purchase Price of any Bonds to be purchased on any Purchase Date shall be made from the following sources in the following order of priority: (1) proceeds of the remarketing of such Bonds; (2) proceeds of a draw on a Credit Facility; and (3) other funds made available by the City.

(f) **Failure to Pay Purchase Price of Bonds in Index Floating Rate Period; Unremarketed Bonds.** During any Index Floating Rate Period, if the entire Purchase Price for the Bonds subject to mandatory tender for purchase under subsection (b)(1) of this section cannot be paid on the applicable Purchase Date, then only a portion of the Bonds in an amount equal to the funds available to pay the full Purchase Price thereof will be purchased on such Purchase Date. Those Bonds to be purchased shall be selected in Authorized Denominations, as provided for partial redemption in Section 8(d) of the Bond Ordinance, unless otherwise provided in a Direct Purchase Agreement then in effect. The remainder of the Bonds shall not be purchased and shall become Unremarketed Bonds, subject to the following:

(1) **Delayed Remarketing Period – No Direct Purchase Agreement in Effect.** With respect to Unremarketed Bonds for which no Direct Purchase Agreement is in effect, a Delayed Remarketing Period will commence on the Purchase Date with respect to the Bonds (or portion thereof) for which funds were insufficient to pay the entire Purchase Price. During a Delayed Remarketing Period, the following will apply: (A) the Unremarketed Bonds will bear interest at the Stepped Interest Rate; (B) interest shall continue to be due and payable on each Interest Payment Date and also shall be payable on the last day of the Delayed Remarketing Period and the Unremarketed Bonds; (C) the Remarketing Agent (if any) will continue to be obligated to remarket the applicable Bonds; (D) the Unremarketed Bonds will continue to be subject to optional redemption by the City as described in Section 7(a); (E) the Designated Representative on behalf of the City, by notice to the Bond Registrar/Paying Agent and the Remarketing Agent, may Elect to effect a Conversion of the Unremarketed Bonds as described in Sections 5 and 6; and (F) if and when the Unremarketed Bonds

are successfully remarketed as described in Section 11, the Registered Owner(s) of the Unremarketed Bonds will be obligated to tender their Bonds to the Bond Registrar/Paying Agent for purchase.

(2) Delayed Remarketing Period When Direct Purchase Agreement in Effect. If a Direct Purchase Agreement is then in effect, then the Unremarketed Bonds shall remain subject to the provisions of the Direct Purchase Agreement then in effect, which may include Extraordinary Mandatory Redemption of such Unremarketed Bonds in the amounts and on the dates as set forth in a Term-Out Provision (if any) if the failure to purchase the Unremarketed Bonds occurred on a Mandatory Tender Date. To the extent not inconsistent with the Direct Purchase Agreement then in effect, Unremarketed Bonds shall otherwise be subject to subsection (f)(1), above, provided that Unremarketed Bonds will continue to be subject to optional redemption by the City pursuant to Section 7(a) of this Addendum and the Designated Representative may Elect to effect a Conversion pursuant to Sections 5 and 6 of this Addendum.

(g) **Undelivered Bonds.** Failure of a Registered Owner or Participant to tender Bonds subject to tender for purchase under subsection (a) or (d) on the Purchase Date at or prior to the time specified shall result in such Bonds being treated as Undelivered Bonds. If funds in the amount of the Purchase Price of an Undelivered Bond are available for payment to the Registered Owner or Participant on the Purchase Date at the time specified, then from and after the Purchase Date and time of that required delivery (1) the Undelivered Bond shall be deemed to be purchased and shall no longer be deemed to be outstanding under the Bond Documents; (2) interest shall no longer accrue on the Undelivered Bond; and (3) funds in the amount of the Purchase Price of the Undelivered Bond shall be held uninvested and without liability for interest by the Bond Registrar/Paying Agent for the benefit of the Registered Owner or Participant, to be paid on delivery (and proper endorsement) of the Undelivered Bond to the Bond Registrar/Paying Agent at its designated office for delivery of Bonds.

Section 9. Credit Facility; Bank Bonds.

(a) **Draws on a Credit Facility.** On each Interest Payment Date and on each other date on which any portion of the interest on or the principal or Purchase Price of the Bonds shall become due for payment, the City hereby requests the Bond Registrar/Paying Agent to process a draw on the Credit Facility on the Issuer's behalf for such amounts as are necessary, after receipt of remarketing proceeds, if applicable, to make such payment then coming due. Each draw shall be made by delivering to the Credit Provider a draw request in accordance with the terms of the Credit Facility and the related Reimbursement Agreement then in effect. Proceeds of such draws shall be deposited and applied into the funds and accounts established pursuant to and solely for the purposes set forth in Section 12. Proceeds of a draw shall not be applied (1) to payments made in respect of Parity Bonds other than the Bonds or (2) to payment of Reimbursement Obligations with respect to Bank Bonds. Proceeds of any draw held by the Bond Registrar/Paying Agent shall be held uninvested unless otherwise directed in writing by the City.

(b) **Delivery of Alternate Credit Facility.** If at any time there are delivered to the Bond Registrar/Paying Agent (1) an Alternate Credit Facility, (2) all required legal opinions and information (if any), and (3) all information required to give the notice of mandatory tender for purchase of the Bonds, then the Bond Registrar/Paying Agent shall (i) draw upon such Credit Facility as is then in effect, as set forth in Section 9(a), and (ii) after the date of the mandatory tender for purchase established pursuant to Section 8(b), promptly surrender such Credit Facility then in effect to the issuer thereof for cancellation in accordance with its terms.

(c) **Notice of Termination of Credit Facility.** The Bond Registrar/Paying Agent shall give notice to the Remarketing Agent, the Rating Agencies, and the Registered Owner(s) of the termination or expiration of any Credit Facility (or Alternate Credit Facility) in accordance with its terms.

(d) **Bank Bonds.** A Credit Facility (or the Reimbursement Agreement applicable to a Credit Facility) may provide that a Bond that is purchased by the Bond Registrar/Paying Agent with amounts paid or provided by a Credit Provider under a Credit Facility shall become a Bank Bond and shall bear interest at the Bank Rate for each day from and including the day such Bank Bond becomes a Bank Bond to and excluding the day such Bank Bond ceases to be a Bank Bond or is paid in full. Interest on each Bank Bond shall be calculated and be payable on the dates and in the manner specified in the Credit Facility and/or Reimbursement Agreement, as applicable. To the extent there are not remarketing proceeds or refunding bond proceeds available to pay a Bank Bond on any interest or principal payment date for those Bank Bonds, the City shall make such payment to the Bond Registrar/Paying Agent from the Parity Bond Fund. Upon receipt of such payment from the City, the Bond Registrar/Paying Agent shall apply such amounts to the payment of the Parity Reimbursement Obligations (as that term is defined in the Bond Ordinance) that are then due and owing in respect of those Bank Bonds, if any. Prior to release of any Bank Bonds pursuant to a remarketing of those Bank Bonds, the Bond Registrar/Paying Agent must have received written confirmation or notice from the Credit Provider that the amount available under the Credit Facility then in effect has been reinstated in an amount equal to the principal of the remarketed Bank Bonds. A Credit Facility may include a Term-Out Provision applicable to Bank Bonds, providing for the Extraordinary Mandatory Redemption of such Bank Bonds in accordance with the Sinking Fund Requirements (as defined in the Bond Ordinance) specified in the Credit Facility or Reimbursement Agreement. The duties of the Bond Registrar/Paying Agent with respect the purchase and custody of Bank Bonds shall be set forth in a Custody Agreement between the Bond Registrar/Paying Agent and the then-current Credit Provider, if any.

(e) **Liability.** The City acknowledges the Paying Agent agrees to process such draws solely as an accommodation to City and that City shall remain solely responsible for ensuring that funds equal to the unpaid principal of and interest on the Bonds are timely deposited and under no circumstance will the Bond Registrar/Paying Agent be responsible to the City for the failure of such timely deposit either by the City or the Credit Provider, whether due to the Bond Registrar/Paying Agent 's failure to properly or timely process such draw or for any other reason except to the extent that such failure is directly caused by the Bond Registrar/Paying Agent. Any obligations of the Bond Registrar/Paying Agent to the Credit Provider shall be set forth in the Credit Facility and related agreements (such as a Reimbursement Agreement or a Custody Agreement with respect to the handling of Bank Bonds) and the Credit Provider shall have no rights against the Bond Registrar/Paying Agent under this Addendum or the Paying Agency Agreement.

Section 10. Remarketing Agent. Upon issuance of the Bonds, the Remarketing Agreement, dated October 26, 2023 (the “Initial Remarketing Agreement”), between the Issuer and BofA Securities Inc. shall be in effect.

If at any time the Bonds are subject to an interest mode that does not require a Remarketing Agent and the Designated Representative subsequently elects to effect a Conversion to a mode that does require a Remarketing Agent (i.e., a Daily Interest Rate Period, Weekly Interest Rate Period, Long-Term Interest Rate Period or an Index Floating Rate Period (other than a Direct Purchase Period)), the Designated Representative shall appoint and enter into a Remarketing Agreement with a Remarketing Agent to carry out the remarketing on the Purchase Date.

To be eligible to serve as Remarketing Agent, an institution must be a member of the Financial Industry Regulatory Authority, Inc. (FINRA), having a combined capital stock, surplus and undivided profits of at least \$50,000,000, and be authorized by law to perform all the duties imposed upon it by the Bond Documents and the Remarketing Agreement. The Remarketing Agent must also be acceptable to the relevant Credit Provider (if any). The Remarketing Agent shall designate its principal office in the Remarketing Agreement. The Remarketing Agent shall signify its acceptance of the duties and obligations imposed upon it under the Bond Documents by a written instrument of acceptance (which may be the Remarketing Agreement) delivered to the City, the Bond Registrar/Paying Agent and the Credit Provider (if any), under which the Remarketing Agent shall agree to keep such books and records related to the remarketing of the Bonds as is consistent with prudent industry practice and to make such books and records related to the remarketing available for inspection by the City, the Bond Registrar/Paying Agent, and the Credit Provider (if any), at all reasonable times.

The Remarketing Agent may at any time resign and be discharged of the duties and obligations created by this Addendum by giving notice to the City, Bond Registrar/Paying Agent, and Credit Provider (if any). Such resignation shall take effect on the 30th day after the receipt by the City of the notice of resignation; provided however, that if any of the events in Section 10 of the Initial Remarketing Agreement shall have occurred, the initial Remarketing Agent shall have the right in its sole discretion to immediately terminate or suspend its obligations under the Initial Remarketing Agreement by notifying the Issuer and the Bond Registrar/Paying Agent in accordance with the Initial Remarketing Agreement. The Remarketing Agent may be removed at any time on 15 days prior written notice, by an instrument signed by the Designated Representative, approved by the Credit Provider (if any), and delivered to the Remarketing Agent, Bond Registrar/Paying Agent and Credit Provider (if any).

Section 11. Remarketing of Bonds; Notice of Interest Rates.

(a) **Remarketing.** Upon a mandatory tender for purchase as required by Section 8(b) or notice of optional tender for purchase under Section 8(a), the Remarketing Agent shall offer for sale and use its best efforts to sell such Bonds on the Purchase Date and, if not remarketed on the Purchase Date, thereafter until sold, at the Purchase Price.

(b) **Notice of Purchase and Remarketing.** The Remarketing Agent shall give notice to the Bond Registrar/Paying Agent and the City by facsimile transmission, telephone, e-mail or similar electronic means promptly confirmed by a written notice, at or prior to (i) 11:45 a.m., New York time (during a Daily Interest Rate Period), or (ii) 11:15 a.m., New York time (during a Weekly Interest Rate Period), on each Purchase Date on which Bonds are purchased pursuant to a tender for purchase under Section 8, specifying the principal amount of such Bonds successfully remarketed. If such Bonds are not in Book-Entry Form, the Remarketing Agent shall also provide a list of the purchasers showing the names and Authorized Denominations in which such Bonds are to be registered and the addresses and taxpayer identification numbers of such purchasers.

(c) **During a Delayed Remarketing Period.** During a Delayed Remarketing Period, in accordance with Section 8(f) of this Addendum, the Registered Owner(s) of Unremarketed Bonds will be obligated to tender their Bonds to the Bond Registrar/Paying Agent for purchase upon notice given as set forth in subsection (b) of this section, on any date on which any of the Unremarketed Bonds have been successfully remarketed, on any redemption date or any Conversion Date.

Section 12. Funds and Accounts; VRDO P&I Account, Bond Purchase Fund, Remarketing Account, and Credit Facility Purchase Account. In conjunction with any remarketing, the Bond Registrar/Paying Agent agrees to establish and maintain on behalf of the City a separate trust

fund to be designated the “Bond Purchase Fund” and another to be designated the VRDO P&I Account. The Bond Registrar/Paying Agent further agrees to establish within the Bond Purchase Fund a separate trust account to be designated the “Remarketing Account” and a separate trust account to be designated the “Credit Facility Purchase Account.” Proceeds of any remarketing or of any draw on the Credit Facility held by the Bond Registrar/Paying Agent pursuant to this Addendum shall be held uninvested unless otherwise directed in writing by the City.

(a) **Remarketing Account.** Upon receipt of the proceeds of a remarketing, and at or prior to (i) 12:00 noon, New York time (during a Daily Interest Rate Period), or (ii) 11:30 a.m., New York time (during a Weekly Interest Rate Period), the Bond Registrar/Paying Agent shall deposit such proceeds in the Remarketing Account of the Bond Purchase Fund for application to the Purchase Price of the Bonds. Only remarketing proceeds shall be deposited to the Remarketing Account and such proceeds shall be applied only to the Purchase Price of the Bonds.

(b) **Credit Facility Purchase Account.** Upon receipt of the proceeds of the remarketing, the Bond Registrar/Paying Agent shall demand payment from the Credit Provider in immediately available funds sufficient to supplement the remarketing proceeds in order to fully fund the Purchase Price of the Bonds tendered for purchase. The demand for payment from the Credit Provider shall be made at or prior to (i) 12:15 p.m., New York time (during a Daily Interest Rate Period), or (ii) 11:45, a.m., New York time (during a Weekly Interest Rate Period). Immediately upon receipt of such funds, which are to be received at or prior to 2:15 p.m., New York time, the Bond Registrar/Paying Agent shall deposit such funds in the Credit Facility Purchase Account of the Bond Purchase Fund for application to the Purchase Price of such Bonds required to be purchased on a Purchase Date to the extent that the money on deposit in the Remarketing Account of the Bond Purchase Fund is not sufficient. Any amounts deposited in the Credit Facility Purchase Account and not needed on any Purchase Date for the payment of the Purchase Price for any Bonds shall be immediately returned to the Credit Provider. Any amounts in the Credit Facility Purchase Account shall be used only to purchase such Bonds.

(c) **VRDO P&I Account.** For draws made in connection with the payment of interest on an Interest Payment Date or of principal and interest on a scheduled date for payment of mandatory Sinking Fund Requirements or at maturity, the Bond Registrar/Paying Agent shall deposit the draw proceeds to the VRDO P&I Account and shall apply those draw proceeds solely to pay interest on or principal (including Sinking Fund Requirements) of the Bonds as the same shall become due and payable.

(d) **Other City Funds.** If the City opts to redeem Bonds by contributing amounts to the Purchase Price as provided in Section 8(e)(3), such City contribution shall be transferred from the Parity Bond Fund (or such other source as the City identifies) to the Bond Registrar/Paying Agent and deposited into a segregated account within the Bond Purchase Fund for use in the same manner as remarketing proceeds, as described in subsection (a) of this section.

Section 13. Time. Time is of the essence of every provision herein contained. In the computation of any period of time provided for in this Addendum or by law, the day of the act or event from which said period of time runs shall be excluded, and the last day of such period shall be included, unless it is not a Business Day, in which case the period shall be deemed to run until 5:00 p.m. (New York time) of the next day that is a Business Day. Except as otherwise expressly provided herein, all time periods expiring on a specified date or period herein shall be deemed to expire at 5:00 p.m. (New York time) on such specified date or period.

Section 14. Bond Registrar/Paying Agent; Calculation Agent. Neither the Bond Registrar/Paying Agent nor the Calculation Agent shall be under any obligation (i) to select, determine

or designate any alternate index, or whether any conditions to the designation of such alternate index have been satisfied, (ii) to select, determine or designate any Index Floating Rate Spread or Index Floating Rate Percentage, or other modifier to any alternate index, or (iii) to determine whether or what changes or amendments to the Agreement, this Addendum or any Bond Documents are necessary or advisable, if any, in connection with any of the foregoing. Neither the Bond Registrar/Paying Agent nor the Calculation Agent shall be liable for any inability, failure or delay on its part to perform any of its duties set forth in the Agreement or this Addendum as a result of the unavailability of any Index and absence of a designated alternate index, including as a result of any inability, delay, error or inaccuracy on the part of any other transaction party, including without limitation the Designated Representative or Remarketing Agent, in providing any direction, instruction, notice or information required or contemplated by the terms of the Agreement or this Addendum and reasonably required for the performance of such duties. In the event that any Index is not available on any determination date, then unless the Calculation Agent is notified of an alternate index in accordance with this Addendum, the Calculation Agent shall use the interest rate in effect for the immediately prior interest period. Neither the Bond Registrar/Paying Agent nor the Calculation Agent shall be under any duty to succeed to, assume or otherwise perform any of the duties of the Remarketing Agent or the Designated Representative, or to appoint a successor or replacement in the event of its resignation or removal, or to remove and replace the Remarketing Agent or the Designated Representative in the event of a default, breach or failure of performance on the part of the Remarketing Agent or the Designated Representative with respect to its duties and obligations under the terms of the governing documents. Neither the Bond Registrar/Paying Agent nor the Calculation Agent shall have any liability for any interest rate published by any publication that is the source for determining the interest rates of the Bonds or for any delay, error or inaccuracy in the publication of any such rates, or for any subsequent correction or adjustment thereto. The Calculation Agent shall be entitled to all of the rights, immunities and protections of the Bond Registrar/Paying Agent under the Agreement, which are incorporated by reference into this Addendum as being applied to the Calculation Agent as though fully set forth herein.

Section 15. Notice to Rating Agencies. In addition to all other notice requirements set forth above, the Bond Registrar/Paying Agent shall provide notice to each Rating Agency of each of the following events:

- (a) Expiration, termination, extension or substitution of the Credit Facility;
- (b) Redemption (other than the scheduled payment of Sinking Fund Requirements) or defeasance of the Bonds;
- (c) A Conversion;
- (d) Material changes to the Bond Documents or the Credit Facility;
- (e) Any change to the Bond Registrar/Paying Agent or other agent instructed to draw on the Credit Facility.

APPENDIX C
FORM OF LETTER OF CREDIT

IRREVOCABLE TRANSFERABLE DIRECT-PAY LETTER OF CREDIT
NO. [_____]

October 26, 2023

U.S. Bank National Association, as bond registrar
(the "*Bond Registrar/Paying Agent*")

Attention: _____

Ladies and Gentlemen:

TD Bank, N.A. (the "*Bank*") hereby establishes in your favor as Bond Registrar/Paying Agent under the Paying Agency Agreement dated as of October 26, 2023 (as amended, restated, supplemented or otherwise modified from time to time in accordance with the terms thereof and of the Reimbursement Agreement, the "*Paying Agency Agreement*"), between The City of Seattle, Washington (the "*City*") and the Bond Registrar/Paying Agent and pursuant to Ordinance 125460, approved by City Council on November 20, 2017 and signed by the Mayor on November 28, 2017, as amended by Ordinance 125987, approved by City Council on November 25, 2019 and signed by the Mayor on November 27, 2019 (as each may be amended, restated, supplemented or otherwise modified from time to time in accordance with the terms thereof and of the Reimbursement Agreement, collectively, the "*Ordinance*"), for the benefit of the holders of the City's Municipal Light and Power Refunding Revenue Bonds, Series 2023B (Variable Rate Demand Bonds) (the "*Bonds*") our Irrevocable Transferable Direct-Pay Letter of Credit No. [_____] (this "*Letter of Credit*") for the account of the City, in the amount of U.S. \$87,251,069 (the "*Original Stated Amount*") to pay principal of and accrued interest on, or the purchase price of, the Bonds in accordance with the terms hereof (said U.S. \$87,251,069 having been calculated to be equal to U.S. \$85,840,000, the principal amount of the Bonds, plus U.S. \$1,411,069 which is at least 50 days' accrued interest on said principal amount of the Bonds at the rate of 12% per annum (the "*Cap Interest Rate*") and assuming a year of 365 days. We hereby irrevocably authorize you to draw on us from time to time, from and after the date hereof to and including the earliest to occur of our close of business on: (a) October 25, 2028 (as extended from time to time, the "*Stated Expiration Date*"); (b) the earlier of (i) the date which is one (1) Business Day (as hereinafter defined) following the date on which the Bonds have been converted to a rate other than the Daily Interest Rate or Weekly Interest Rate (the "*Conversion Date*") as such date is specified in your certificate in the form of Exhibit A hereto (the "*Notice of Conversion Date*"), or (ii) the date on which the Bank honors a Drawing under the Letter of Credit on or after the Conversion Date; (c) the date of receipt from you of a certificate in the form set forth as Exhibit B hereto (the "*Notice of Termination*"); (d) the date of a Stated Maturity Drawing (as hereinafter defined) hereunder; and (e) the date which is fifteen (15) days following receipt by you of a Notice of Default from us in the form of Exhibit B to the Reimbursement Agreement dated as of October

1, 2023 (together with any amendments, restatements, supplements or other modifications thereto, the "*Reimbursement Agreement*"), between the City and the Bank, stating that an Event of Default as defined in the Reimbursement Agreement has occurred and directing you to cause a mandatory tender of the Bonds (the earliest of such dates is referred to herein as the "*Termination Date*"). All defined terms used herein which are not otherwise defined herein shall have the same meaning as in the Reimbursement Agreement.

Payments under this Letter of Credit are available to you against presentation of the following documents (the "*Payment Documents*") presented to the Bank as described below:

A certificate (with all blanks appropriately completed) (i) in the form attached as Exhibit C hereto (an "*Interest Drawing*"), (ii) in the form attached as Exhibit D hereto (a "*Redemption Drawing*"), (iii) in the form attached as Exhibit E hereto (a "*Liquidity Drawing*"), or (iv) in the form attached as Exhibit F hereto (a "*Stated Maturity Drawing*" and together with Interest Drawings, Redemption Drawings and Liquidity Drawings collectively referred to herein as "*Drawings*" and individually as a "*Drawing*"), each certificate to state therein that it is given by your duly authorized officer and to be dated the date such certificate is presented hereunder. No Drawings shall be made under this Letter of Credit for (i) Bonds bearing interest at a rate other than the Weekly Interest Rate or the Daily Interest Rate ("*Converted Bonds*"), (ii) Bonds purchased with the proceeds of a Liquidity Drawing and registered in the name of the Bank or its nominee (the "*Bank Bonds*") or (iii) Bonds owned by or held for the account of or on behalf of the City or any Affiliate thereof ("*City Bonds*" and, together with the Converted Bonds and the Bank Bonds, collectively referred to herein as the "*Ineligible Bonds*").

All Drawings shall be made by presentation of each Payment Document to the Bank by facsimile (facsimile number _____), Attention: _____, or at such other address or facsimile number as we may specify to you in writing, without further need of documentation, including the original of this Letter of Credit, it being understood that each Payment Document so submitted is to be the sole operative instrument of a Drawing. You shall use your best efforts to give telephonic notice of a Drawing to the Bank at _____ on the Business Day of such Drawing (but such notice shall not be a condition to a Drawing hereunder and you shall have no liability for not doing so).

We agree to honor and pay the amount of any Drawing if presented in compliance with all of the terms of this Letter of Credit. If such Drawing, other than a Liquidity Drawing, is presented at or prior to 2:00 p.m., New York time, on a Business Day, payment shall be made in immediately available funds, by 11:00 a.m., New York time, on the following Business Day. If any such Drawing, other than a Liquidity Drawing, is presented after 2:00 p.m., New York time, on a Business Day, payment shall be made in immediately available funds, by 2:15 p.m., New York time, on the following Business Day. (i) Solely with respect to Bonds bearing interest at a Weekly Interest Rate, if a Liquidity Drawing is presented at or prior to 11:45 a.m., New York time, on a

Business Day, and (ii) solely with respect to Bonds bearing interest at a Daily Interest Rate, if a Liquidity Drawing is presented at or prior to 12:15 p.m., New York time, payment shall be made, in each case, in immediately available funds, by 2:15 p.m., New York time, on the same Business Day. (x) Solely with respect to Bonds bearing interest at a Weekly Interest Rate, if a Liquidity Drawing is presented after 11:45 a.m., New York time and (ii) solely with respect to Bonds bearing interest at a Daily Interest Rate, if a Liquidity Drawing is presented after 12:15 p.m., New York time, payment shall be made, in each case, in immediately available funds, by 2:15 p.m., New York time, on the following Business Day. Payment under this Letter of Credit shall be made by the Bank by wire transfer of immediately available funds to the following account: _____ . Such account may be changed only by communication to the Bank in a form satisfactory to the Bank specifying a different account with the Bond Registrar/Paying Agent and executed by the Bond Registrar/Paying Agent and authenticated to our satisfaction. “*Business Day*” means any day other than a Saturday or Sunday that is neither a legal holiday nor a day on which banking institutions are authorized or required by law or regulation to close in Seattle, Washington, or the city or cities in which the principal office of the Remarketing Agent or the Bond Registrar/Paying Agent is located nor a day on which the New York Stock Exchange is closed or the payment system of the Federal Reserve Bank is not operational nor a day on which banks located in the city in which the office of the Bank at which drawings under this Letter of Credit are to be honored is located are required or authorized to remain closed.

The Available Amount (as hereinafter defined) of this Letter of Credit will be reduced automatically by the amount of any Drawing honored by us hereunder; *provided, however*, that the amount of any Interest Drawing hereunder, less the amount of the reduction in the Available Amount attributable to interest as specified in a certificate in the form of Exhibit D or Exhibit G (each a “*Reduction Certificate*”) hereto, shall be automatically reinstated effective as of the opening of business on the sixth (6th) day after the date of such Drawing unless you shall have received from us by telecopy or in writing (or other electronic telecommunication) on or before the close of business on the fifth (5th) day after the date of such Drawing notice that the Bank has not been reimbursed in full for such Drawing and as a result an Event of Default under the Reimbursement Agreement has occurred or any other Event of Default under the Reimbursement Agreement has occurred and as a consequence thereof the Letter of Credit will not be so reinstated and we shall direct you to cause a mandatory tender of the Bonds. After payment by the Bank of a Liquidity Drawing, the obligation of the Bank to honor Drawings under this Letter of Credit will be automatically reduced by the amount of such Liquidity Drawing. In addition, prior to the Conversion Date, in the event of the remarketing of the Bonds (or portions thereof) previously purchased with the proceeds of a Liquidity Drawing, the Bank’s obligation to honor Drawings hereunder will be automatically reinstated concurrently with receipt by the Bank of a certificate in the form of Exhibit J (the “*Notice of Reinstatement*”) hereto and an amount equal to the amount stated in such Exhibit J.

Upon receipt by the Bank of a certificate of the Bond Registrar/Paying Agent in the form of Exhibit D or Exhibit G hereto, the amount available to be drawn hereunder will automatically and permanently reduce by the amount specified in such certificate. Such reduction shall be effective as of the next Business Day following the date of delivery of such certificate.

The “*Available Amount*” shall mean the Original Stated Amount less (a) the amount of all prior reductions pursuant to Drawings and less (b) the amount of any reduction thereof pursuant to a reduction certificate in the form of Exhibit D or Exhibit G hereto to the extent such reduction is not already accounted for by a reduction in the Available Amount pursuant to clause (a) above; plus (c) the amount of all reinstatements as above provided.

Prior to the Stated Expiration Date, we may extend the Stated Expiration Date from time to time at the request of the City by delivering to you an amendment to this Letter of Credit in the form of Exhibit I (the “*Notice of Extension*”) hereto designating the date to which the Stated Expiration Date is being extended. All references in this Letter of Credit to the Stated Expiration Date shall be deemed to be references to the date designated as such in such notice. Any date to which the Stated Expiration Date has been extended as herein provided may be extended in a like manner.

Upon the Termination Date, this Letter of Credit shall automatically terminate.

This Letter of Credit is transferable in whole only to your successor as Bond Registrar/Paying Agent. Any such transfer (including any successive transfer) shall be subject to the Bank’s receipt of a signed transfer request signed by the transferor and by the transferee in the form of Exhibit H (the “*Transfer Certificate*”) hereto together with this original Letter of Credit along with any amendments thereto. Transfers to designated foreign nationals and/or specifically designated nationals are not permitted as being contrary to the U.S. Treasury Department or Foreign Assets Control Regulations. Upon our endorsements of such transfer, the transferee instead of the transferor shall be entitled to all the benefits of and rights under this Letter of Credit in the transferor’s place; *provided* that, in such case, any certificates of the Bond Registrar/Paying Agent to be provided hereunder shall be signed by one who states therein that they are a duly authorized officer of the transferee.

Communications with respect to this Letter of Credit shall be addressed to the Bank at TD Bank, N.A., _____ (or such other address(es) as we may specify in writing), specifically referring to the number of this Letter of Credit.

To the extent not inconsistent with the express terms hereof, this Letter of Credit is subject to the terms of the International Standby Practices 1998, International Chamber of Commerce Publication No. 590 (“*ISP98*”). As to matters not governed by the ISP98, this Letter of Credit shall be governed by and construed in accordance with the laws of the State of New York, including, without limitation, Article 5 of the Uniform Commercial Code as in effect in the State of New York.

All payments made by us hereunder shall be made from our own funds and not with the funds of any other person.

Only you in your capacity as the Bond Registrar/Paying Agent may make drawings under this Letter of Credit. Upon the payment to you or your account of the amount specified in a Drawing certificate drawn hereunder, we will be fully discharged on our obligation under this Letter of Credit with respect to such Drawing certificate, and we will not thereafter be obligated

to make any further payment under this Letter of Credit in respect of such Drawing certificate to you or to any other person who may have made or subsequently makes to you a demand for payment of principal of or interest on any Bond.

[Signature Page Follows]

This Letter of Credit sets forth in full the terms of our undertaking, and such undertaking shall not in any way be modified or amended by reference to any other document whatsoever.

TD BANK, N.A.

By _____
Name: _____
Title: _____

EXHIBIT A
TO
LETTER OF CREDIT NO. [_____]

NOTICE OF CONVERSION DATE

[Date]

TD Bank, N.A. (the “*Bank*”)

Attention: _____

Facsimile: _____

Ladies and Gentlemen:

Reference is hereby made to the Irrevocable Transferable Direct-Pay Letter of Credit No. [_____] dated October 26, 2023 (as amended, restated, supplemented or otherwise modified from time to time, the “*Letter of Credit*”), which has been established by the Bank for the account of The City of Seattle, Washington, in favor of U.S. Bank Trust Company, National Association, as Bond Registrar/Paying Agent.

The undersigned hereby certifies and confirms that the Conversion Date of all of the Bonds to a rate other than the Daily Interest Rate or Weekly Interest Rate (each as defined in the Ordinance) has occurred on **[insert date]**, and, accordingly, said Letter of Credit shall terminate in accordance with its terms no later than [_____], which is one (1) Business Day after such Conversion Date.

The original of such Letter of Credit and any amendments thereto are herewith returned for cancellation.

All defined terms used herein which are not otherwise defined herein shall have the same meaning as in the Letter of Credit.

[BOND REGISTRAR/PAYING AGENT]

By _____

Name: _____

Title: _____

EXHIBIT B
TO
LETTER OF CREDIT NO. [_____]

NOTICE OF TERMINATION

[Date]

TD Bank, N.A. (the “*Bank*”)

Attention: _____

Facsimile: _____

Ladies and Gentlemen:

Reference is hereby made to the Irrevocable Transferable Direct-Pay Letter of Credit No. [_____] dated October 26, 2023 (as amended, restated, supplemented or otherwise modified from time to time, the “*Letter of Credit*”; terms defined therein and not otherwise defined herein shall have the meaning set forth in the Letter of Credit), which has been established by the Bank for the account of The City of Seattle, Washington (the “*City*”) in favor of U.S. Bank Trust Company, National Association, as Bond Registrar/Paying Agent.

The undersigned hereby certifies and confirms that **[no Bonds remain outstanding within the meaning of the Ordinance OR all drawings required to be made under the Paying Agency Agreement and available under the Letter of Credit have been made and honored OR a substitute letter of credit or other credit or liquidity facility has been issued to replace the Letter of Credit pursuant to the Paying Agency Agreement and the Reimbursement Agreement dated as of October 1, 2023 between the City and the Bank]**, and, accordingly, the Letter of Credit shall be terminated immediately.

The original of such Letter of Credit and any amendments thereto are herewith returned for cancellation.

All defined terms used herein which are not otherwise defined shall have the same meaning as in the Letter of Credit.

[BOND REGISTRAR/PAYING AGENT]

By _____
Name: _____
Title: _____

EXHIBIT C
TO
LETTER OF CREDIT NO. [_____]
INTEREST DRAWING CERTIFICATE

TD Bank, N.A. (the “*Bank*”)

Attention: _____

Facsimile: _____

The undersigned individual, a duly authorized officer of U.S. Bank Trust Company, National Association (the “*Bond Registrar/Paying Agent*”), hereby CERTIFIES on behalf of the Bond Registrar/Paying Agent as follows with respect to (a) the Irrevocable Transferable Direct-Pay Letter of Credit No. [_____] dated October 26, 2023 (as amended, restated, supplemented or otherwise modified from time to time, the “*Letter of Credit*”; terms defined therein and not otherwise defined herein shall have the meanings set forth in the Letter of Credit), issued by the Bank in favor of the Bond Registrar/Paying Agent; (b) the Bonds; and (c) the Paying Agency Agreement:

1. The Bond Registrar/Paying Agent is the Bond Registrar/Paying Agent under the Paying Agency Agreement.
2. The Bond Registrar/Paying Agent is entitled to make this Drawing in the amount of U.S. \$_____ under the Letter of Credit pursuant to the Paying Agency Agreement with respect to the payment of interest due on all Bonds outstanding on the Interest Payment Date (as defined in the Paying Agency Agreement) occurring on **[insert applicable date]**, other than Ineligible Bonds (as defined in the Letter of Credit).
3. The amount of this Drawing is equal to the amount required to be drawn by the Bond Registrar/Paying Agent pursuant to Section 9(a) of Exhibit E to the Paying Agency Agreement.
4. The amount of this Drawing was computed in compliance with the terms of the Paying Agency Agreement and, when added to the amount of any other Drawing under the Letter of Credit made simultaneously herewith, does not exceed the Available Amount (as defined in the Letter of Credit).
5. Payment by the Bank pursuant to this Drawing shall be made to the Bond Registrar/Paying Agent in accordance with the terms of the Letter of Credit.

IN WITNESS WHEREOF, this Certificate has been executed this _____ day of _____,
20__.

[BOND REGISTRAR/PAYING AGENT]

By _____
Name: _____
Title: _____

EXHIBIT D
TO
LETTER OF CREDIT NO. [_____]

REDEMPTION DRAWING AND REDUCTION CERTIFICATE

TD Bank, N.A. (the “*Bank*”)

Attention: _____

Facsimile: _____

The undersigned individual, a duly authorized officer of U.S. Bank Trust Company, National Association (the “*Bond Registrar/Paying Agent*”), hereby CERTIFIES on behalf of the Bond Registrar/Paying Agent as follows with respect to (a) the Irrevocable Transferable Direct-Pay Letter of Credit No. [_____] dated October 26, 2023 (as amended, restated, supplemented or otherwise modified from time to time, the “*Letter of Credit*”; terms defined therein and not otherwise defined herein shall have the meanings set forth in the Letter of Credit), issued by the Bank in favor of the Bond Registrar/Paying Agent; (b) the Bonds; and (c) the Paying Agency Agreement:

1. The Bond Registrar/Paying Agent is the Bond Registrar/Paying Agent under the Paying Agency Agreement.

2. The Bond Registrar/Paying Agent is entitled to make this Drawing in the amount of U.S. \$_____ under the Letter of Credit pursuant to Section 9(a) of Exhibit E to the Paying Agency Agreement.

3. (a) The amount of this Drawing is equal to (i) the principal amount of Bonds to be redeemed by the City, pursuant to Section **[7(a)][7(b)]*** of the Paying Agency Agreement on **[insert applicable date]** (the “*Redemption Date*”) other than Ineligible Bonds (as defined in the Letter of Credit), plus (ii) interest on such Bonds accrued from the immediately preceding Interest Payment Date (as defined in the Paying Agency Agreement) to the Redemption Date; *provided* that in the event the Redemption Date coincides with an Interest Payment Date this Drawing does not include any accrued interest on such Bonds.

(b) Of the amount stated in paragraph 2 above:

(i) U.S. \$_____ is demanded in respect of the principal amount of the Bonds referred to in paragraph (a) above; and

*Insert appropriate subsection.

(ii) U.S. \$ _____ is demanded in respect of accrued interest on such Bonds.

4. Payment by the Bank pursuant to this Drawing shall be made to the Bond Registrar/Paying Agent in accordance with the terms of the Letter of Credit.

5. The amount of this Drawing was computed in compliance with the terms and conditions of the Paying Agency Agreement and, when added to the amount of any other Drawing under the Letter of Credit made simultaneously herewith, does not exceed the Available Amount.

6. Upon payment of the amount drawn hereunder, the Bank is hereby directed to permanently reduce the Available Amount by U.S. \$[insert amount of reduction] and the Available Amount shall thereupon equal U.S. \$[insert new Available Amount]. The Available Amount has been reduced by an amount equal to the principal of Bonds paid with this Drawing and an amount equal to 50 days' interest thereon at the Cap Interest Rate.

7. Of the amount of the reduction stated in paragraph 6 above:

(a) U.S. \$ _____ is attributable to the principal amount of Bonds redeemed; and

(b) U.S. \$ _____ is attributable to interest on such Bonds (*i.e.*, 50 days' interest thereon at the Cap Interest Rate).

8. The amount of the reduction in the Available Amount has been computed in accordance with the provisions of the Letter of Credit.

9. Following the reduction, the Available Amount shall be at least equal to the aggregate principal amount of the Bonds outstanding (to the extent such Bonds are not Ineligible Bonds (as defined in the Letter of Credit)), plus 50 days' interest thereon at the Cap Interest Rate.

*10. In the case of a redemption pursuant to Section 7(a) of the Paying Agency Agreement, the Bond Registrar/Paying Agent, prior to giving notice of redemption to the owners of the Bonds, received written evidence from the Bank that the Bank has consented to such redemption.

[Signature page follows]

* To be included in certificate only if Section 7(a) is referenced in paragraph 3 above.

IN WITNESS WHEREOF, this Certificate has been executed this _____ day of _____,
_____.

[BOND REGISTRAR/PAYING AGENT]

By _____
Name: _____
Title: _____

EXHIBIT E
TO
LETTER OF CREDIT NO. [_____]

LIQUIDITY DRAWING CERTIFICATE

TD Bank, N.A. (the “*Bank*”)

Attention: _____

Facsimile: _____

The undersigned individual, a duly authorized officer of U.S. Bank Trust Company, National Association (the “*Bond Registrar/Paying Agent*”), hereby CERTIFIES as follows with respect to (a) the Irrevocable Transferable Direct-Pay Letter of Credit No. [_____] dated October 26, 2023 (as amended, restated, supplemented or otherwise modified from time to time, the “*Letter of Credit*”; terms defined therein and not otherwise defined herein shall have the meaning set forth in the Letter of Credit), issued by the Bank in favor of the Bond Registrar/Paying Agent; (b) the Bonds; and (c) the Paying Agency Agreement:

1. The Bond Registrar/Paying Agent is the Bond Registrar/Paying Agent under the Paying Agency Agreement.

2. The Bond Registrar/Paying Agent is entitled to make this Drawing under the Letter of Credit in the amount of U.S. \$_____ with respect to the payment of the purchase price of Bonds tendered for purchase in accordance with Section **[8(a)][8(b)]*** of the Paying Agency Agreement and to be purchased on **[insert applicable date]** (the “*Purchase Date*”), which Bonds have not been remarketed as provided in the Paying Agency Agreement or the purchase price of which has not been received by the Bond Registrar/Paying Agent (i) solely with respect to Bonds bearing interest at a Weekly Interest Rate, by 11:30 a.m., New York time, on said Purchase Date or (ii) solely with respect to Bonds bearing interest at a Daily Interest Rate, by 12:00 p.m., New York time, on said Purchase Date.

3. (a) The amount of this Drawing is equal to (i) the principal amount of Bonds to be purchased pursuant to the Paying Agency Agreement on the Purchase Date other than Ineligible Bonds (as defined in the Letter of Credit), plus (ii) interest on such Bonds accrued from the immediately preceding Interest Payment Date (as defined in the Paying Agency Agreement) or, if none, the date of issuance of the Bonds to the Purchase Date; *provided* that in the event the Purchase Date coincides with an Interest Payment Date this Drawing does not include any accrued interest on such Bonds.

* Insert appropriate subsection

(b) Of the amount stated in paragraph 2 above:

(i) U.S. \$_____ is demanded in respect of the principal portion of the purchase price of the Bonds referred to in paragraph 2 above; and

(ii) U.S. \$_____ is demanded in respect of payment of the interest portion of the purchase price of such Bonds.

4. The amount of this Drawing was computed in compliance with the terms and conditions of the Paying Agency Agreement and, when added to the amount of any other Drawing under the Letter of Credit made simultaneously herewith, does not exceed the Available Amount.

5. The Bond Registrar/Paying Agent will register or cause to be registered in the name of the Bank, upon payment of the amount drawn hereunder, Bonds in the principal amount of the Bonds being purchased with the amounts drawn hereunder and will deliver such Bonds to the Bond Registrar/Paying Agent in accordance with the Paying Agency Agreement.

6. Payment by the Bank pursuant to this Drawing shall be made to the Bond Registrar/Paying Agent in accordance with the terms of the Letter of Credit.

IN WITNESS WHEREOF, this Certificate has been executed this _____ day of _____, _____.

[BOND REGISTRAR/PAYING AGENT]

By _____
Name: _____
Title: _____

EXHIBIT F
TO
LETTER OF CREDIT NO. [_____]

STATED MATURITY DRAWING CERTIFICATE

TD Bank, N.A. (the “*Bank*”)

Attention: _____

Facsimile: _____

The undersigned individual, a duly authorized officer of U.S. Bank Trust Company, National Association (the “*Bond Registrar/Paying Agent*”), hereby CERTIFIES on behalf of the Bond Registrar/Paying Agent as follows with respect to (a) the Irrevocable Transferable Direct-Pay Letter of Credit No. [_____] dated October 26, 2023 (as amended, restated, supplemented or otherwise modified from time to time, the “*Letter of Credit*”; terms defined therein and not otherwise defined herein shall have the meanings set forth in the Letter of Credit), issued by the Bank in favor of the Bond Registrar/Paying Agent; (b) the Bonds; and (c) the Paying Agency Agreement:

1. The Bond Registrar/Paying Agent is the Bond Registrar/Paying Agent under the Paying Agency Agreement.
2. The Bond Registrar/Paying Agent is entitled to make this Drawing in the amount of U.S. \$ _____ under the Letter of Credit pursuant to the Paying Agency Agreement.
3. The amount of this Drawing is equal to the principal amount of Bonds outstanding on November 1, 2046, the maturity date thereof as specified in the Paying Agency Agreement, other than Ineligible Bonds (as defined in the Letter of Credit).
4. The amount of this Drawing was computed in compliance with the terms and conditions of the Paying Agency Agreement and, when added to the amount of any other Drawing under the Letter of Credit made simultaneously herewith, does not exceed the Available Amount.
5. Payment by the Bank pursuant to this Drawing shall be made to the Bond Registrar/Paying Agent in accordance with the terms of the Letter of Credit.

[Signature page follows]

IN WITNESS WHEREOF, this Certificate has been executed this _____ day of _____,
_____.

[BOND REGISTRAR/PAYING AGENT]

By _____
Name: _____
Title: _____

EXHIBIT G
TO
LETTER OF CREDIT NO. [_____]

REDUCTION CERTIFICATE

TD Bank, N.A. (the “*Bank*”)

Attention: _____

Facsimile: _____

The undersigned individual, a duly authorized officer of U.S. Bank Trust Company, National Association (the “*Bond Registrar/Paying Agent*”), hereby CERTIFIES with respect to (a) the Irrevocable Transferable Direct-Pay Letter of Credit No. [_____] dated October 26, 2023 (as amended, restated, supplemented or otherwise modified from time to time, the “*Letter of Credit*”; terms defined therein and not otherwise defined herein shall have the meanings set forth in the Letter of Credit), issued by the Bank in favor of the Bond Registrar/Paying Agent; (b) the Bonds; and (c) the Paying Agency Agreement:

1. The Bond Registrar/Paying Agent is the Bond Registrar/Paying Agent under the Paying Agency Agreement.

2. Upon receipt by the Bank of this Certificate, the Available Amount shall be reduced by U.S. \$_____. U.S. \$_____ of the new Available Amount is attributable to principal and U.S. \$_____ to interest.

3. The amount of the reduction in the Available Amount has been computed in accordance with the provisions of the Letter of Credit.

4. Following the reduction, the Available Amount shall be at least equal to the aggregate principal amount of the Bonds outstanding (other than Ineligible Bonds (as defined in the Letter of Credit)), plus 50 days’ interest thereon at the Cap Interest Rate.

IN WITNESS WHEREOF, this Certificate has been executed this ____ day of _____, _____.

[BOND REGISTRAR/PAYING AGENT]

By _____

Name: _____

Title: _____

EXHIBIT H
TO
LETTER OF CREDIT NO. [_____]

TRANSFER CERTIFICATE

[Date]

TD Bank, N.A. (the “*Bank*”)

Attention: _____

Facsimile: _____

Ladies and Gentlemen:

Re: Irrevocable Transferable Direct-Pay Letter of Credit No. [_____]

We, the undersigned “Transferor”, hereby irrevocably transfer all of our rights to draw under the above referenced Letter of Credit (“*Letter of Credit*”) in its entirety to:

NAME OF TRANSFEREE _____
(Print Name and complete address of the Transferee) “Transferee”

ADDRESS OF TRANSFEREE _____

CITY, STATE/COUNTRY, ZIP _____

In accordance with ISP 98 (as defined in the Letter of Credit), Rule 6, regarding transfer of drawing rights, all rights of the undersigned Transferor in such Letter of Credit are transferred to the Transferee, which shall have the sole rights as beneficiary thereof, including sole rights relating to any amendments, whether increases or extensions or other amendments and whether now existing or hereafter made. All amendments are to be advised directly to the Transferee without necessity of any consent of or notice to the undersigned Transferor.

The original Letter of Credit, including amendments to this date, is attached, and the undersigned Transferor requests that you endorse an acknowledgment of this transfer on the reverse hereof. The undersigned Transferor requests that you notify the Transferee of the Letter of Credit in such form and manner as you deem appropriate and of the terms and conditions of the Letter of Credit as transferred. The undersigned Transferor acknowledges that you incur no obligation hereunder and that the transfer shall not be effective until you have expressly consented to effect the transfer by notice to the Transferee and the transfer fee has been paid to you.

If you agree to these instructions, please advise the Transferee of the terms and conditions of the transferred Letter of Credit and these instructions.

Payment of a transfer fee of U.S. \$ ____ is for the account of the City, which shall also pay you on demand any out-of-pocket expense or cost you may incur in connection with the transfer. Receipt of such fee shall not constitute consent by you to effect the transfer.

Transferor represents and warrants that our execution, delivery, and performance of this Transfer Certificate (a) are within our powers, (b) have been duly authorized, (c) constitute our legal, valid, binding and enforceable obligation, (d) do not contravene any provision of our Articles of Association, by-law, resolution or material agreement binding on or affecting us or any of our properties, (e) the enclosed Letter of Credit is original and complete, and (f) there is no outstanding demand or request for payment or transfer under the Letter of Credit affecting the rights to be transferred. The Transferee represents and warrants that the Transferee's use of the Letter of Credit as transferred and the transactions underlying the Letter of Credit and the requested transfer do not violate any applicable United States or other law, rule or regulation.

The Effective Date shall be the date hereafter on which you effect the requested transfer by acknowledging this request and giving notice thereof to Transferee.

WE WAIVE ANY RIGHT TO TRIAL BY JURY THAT WE MAY HAVE IN ANY ACTION OR PROCEEDING RELATING TO OR ARISING OUT OF THIS TRANSFER.

[Signature pages follow]

This transfer is made subject to ISP98 and is subject to and shall be governed by the law of the State of New York.

Sincerely yours,

(Print Name of Transferor)

(Transferor's Authorized Signature)

(Print Authorized Signer's Name and Title)

(Telephone Number/Fax Number)

(Print Name of Transferee)

(Transferee's Authorized Signature)

(Print Authorized Signer's Name and Title)

(Telephone Number/Fax Number)

SIGNATURE GUARANTEED

Signature(s) with title(s) conform(s) with that/those on file with us for this individual, entity or company and signer(s) is/are authorized to execute this agreement. We attest that the individual, company or entity has been identified by us in compliance with USA PATRIOT Act procedures of our bank.

(Print Name of Bank)

(Address of Bank)

(City, State, Zip Code)

(Print Name and Title of Authorized Signer)

(Authorized Signature)

(Telephone Number)

(Date)

SIGNATURE GUARANTEED

Signature(s) with title(s) conform(s) with that/those on file with us for this individual, entity or company and signer(s) is/are authorized to execute this agreement. We attest that the individual, company or entity has been identified by us in compliance with USA PATRIOT Act procedures of our bank.

(Print Name of Bank)

(Address of Bank)

(City, State, Zip Code)

(Print Name and Title of Authorized Signer)

(Authorized Signature)

(Telephone Number)

(Date)

Acknowledged as of _____, 20__

TD BANK, N.A.

By _____

Name: _____

Title: _____

EXHIBIT I
TO
LETTER OF CREDIT NO. [_____]

NOTICE OF EXTENSION

U.S. Bank Trust Company, National
Association, as bond registrar (the "*Bond
Registrar/Paying Agent*")

Attention: _____

Ladies and Gentlemen:

Reference is hereby made to the Irrevocable Transferable Direct-Pay Letter of Credit No. [_____] dated October 26, 2023 (as amended, restated, supplemented or otherwise modified from time to time, the "*Letter of Credit*"), established by us in your favor as Bond Registrar/Paying Agent. We hereby notify you that, in accordance with the terms of the Letter of Credit, the Stated Expiration Date (as defined in the Letter of Credit), has been extended to _____. All other terms and conditions of the Letter of Credit remain unchanged.

This Notice of Extension should be attached to the Letter of Credit and made a part thereof.

TD BANK, N.A.

By _____
Name: _____
Title: _____

EXHIBIT J
TO
LETTER OF CREDIT NO. [_____]

NOTICE OF REINSTATEMENT

TD Bank, N.A.

Attention: _____

Facsimile: _____

The undersigned hereby certifies to TD Bank, N.A. (the “*Bank*”), with reference to Irrevocable Transferable Direct-Pay Letter of Credit No. [_____] (as amended, restated, supplemented or otherwise modified from time to time, the “*Letter of Credit*”; terms defined therein and not otherwise defined herein shall have the meanings set forth in the Letter of Credit) issued by the Bank in favor of U.S. Bank Trust Company, National Association (the “*Bond Registrar/Paying Agent*”), that:

The undersigned is the Bond Registrar/Paying Agent under the Paying Agency Agreement.

The Bond Registrar/Paying Agent has previously made a Liquidity Drawing under the Letter of Credit on _____ in the amount of U.S.\$_____ (representing U.S.\$_____ of principal and U.S.\$_____ of interest) with respect to the purchase price of Bonds which are now held in the name of or for the benefit or account of the Bank (the “*Bank Bonds*”).

The Bond Registrar/Paying Agent has received proceeds from the sale of remarketed Bank Bonds originally purchased with the proceeds of the above described Liquidity Drawing and as of the date hereof holds in the Credit Facility Purchase Account (as defined in the Paying Agency Agreement) the amount of U.S.\$_____ (representing U.S.\$_____ of principal and U.S.\$_____ of interest) with respect to the sale of such Bank Bonds.

In accordance with the terms of the Letter of Credit, the Bond Registrar/Paying Agent deems that the amount available under the Letter of Credit has been automatically reinstated to the extent of the lesser of (i) the proceeds of remarketed Bank Bonds held in the Credit Facility Purchase Account as set forth above and (ii) the amount of the Liquidity Drawing described above, all in accordance with the terms of the Letter of Credit and this Notice of Reinstatement.

IN WITNESS WHEREOF, the undersigned has executed and delivered this Notice of Reinstatement this _____ day of _____, ____.

[BOND REGISTRAR/PAYING AGENT]

By _____
Name: _____
Title: _____

APPENDIX D
FORM OF BOND COUNSEL OPINION



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
\$85,840,000 Municipal Light and Power Refunding Revenue Bonds, 2023B
(Variable Rate Demand Bonds)

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

The Bonds are issued pursuant to the laws of the State of Washington and Ordinance 125460, as amended by Ordinance 125987 and by certain amendments set forth therein that became effective pursuant to Section 23(e)(ii) thereof upon the occurrence of the Parity Covenant Date and the Second Parity Covenant Date (as such terms are defined therein) (as amended, the “Bond Ordinance”) and in that certain Paying Agency Agreement, dated as of October __, 2023 (the “Paying Agency Agreement”), with U.S. Bank Trust Company, National Association, as bond registrar and paying agent (the “Bond Registrar/Paying Agent”) executed pursuant to the Bond Ordinance. Reference is made to the Bond Ordinance for the definitions of capitalized terms used and not otherwise defined herein.

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

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

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

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

2. The City has duly authorized and approved the Bond Ordinance and the Bonds have been duly authorized and executed by the City and are issued in full compliance with the provisions of the Constitution and laws of the State of Washington, the Bond Ordinance and other ordinances and resolutions of the City relating thereto;

3. The Bonds constitute valid and binding special limited obligations of the City payable from and secured solely by the Net Revenue of the Light System and by money in the Parity Bond Fund and the Reserve Fund, and are 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 E
2022 AUDITED FINANCIAL STATEMENTS OF THE DEPARTMENT

***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, 2022 and 2021,
Required Supplementary Information,
Other Information, and
Independent Auditors' Report*

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

ENTERPRISE FUND OF THE CITY OF SEATTLE TABLE OF CONTENTS

	Page
INDEPENDENT AUDITORS' REPORT	1 - 3
MANAGEMENT'S DISCUSSION AND ANALYSIS – Required Supplementary Information	4 - 24
FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021:	
Balance Sheets	25 - 26
Statements of Revenues, Expenses, and Changes in Net Position	27
Statements of Cash Flows	28 - 29
Notes to Financial Statements	30 - 88
Required Supplementary Information (Unaudited)	
Defined Benefit Pension Plan	89 - 90
Changes in the Net OPEB Liability and Related Ratios	91
Other Information (Unaudited)	
Debt Service Coverage	92 - 93
Interest Requirements and Principal Redemption on Long-Term Debt	94
Statement of Long-Term Debt	95
Power Costs and Statistics	96
Historical Energy Resources	97
Customer Statistics	98
Taxes and Contribution to the Cost of Government	99
Public Purpose Expenditures	100
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	101 - 102

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 (Department), an enterprise fund of the City of Seattle, Washington, as of and for the years ended December 31, 2022 and 2021, and the related notes to the financial statements, as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position for the Department, as of December 31, 2022 and 2021, 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 (*Government Auditing Standards*). 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 audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matters

As discussed in Note 1, the financial statements of the Department are intended to present the financial position, the changes in the financial position, and cash flows of only the Department. They do not purport to, and do not, present fairly the financial position of the City of Seattle, Washington, as of December 31, 2022, and 2021, 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.

As discussed in Note 1, the Department adopted the provisions of GASB Statement No. 87, *Leases*, effective January 1, 2022. Accordingly, the accounting changes have been retroactively applied to prior period presented. 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 *Government Auditing Standards* 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 *Government Auditing Standards*, 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. The other information does not include the financial statements and our auditors' report thereon. 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 28, 2023 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 28, 2023

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2022 and 2021

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, 2022 and 2021. 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 493,700 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, 2022 and 2021**

CONDENSED BALANCE SHEETS

(\$ in millions)	December 31		
	2022	2021 restated	2020
Assets:			
Utility plant—net	\$ 4,550.9	\$ 4,372.7	\$ 4,207.1
Restricted assets	210.3	280.9	324.8
Current assets	716.6	511.1	373.1
Other assets	<u>465.1</u>	<u>440.2</u>	<u>427.1</u>
Total assets	<u>5,942.9</u>	<u>5,604.9</u>	<u>5,332.1</u>
Total deferred outflows of resources	<u>72.8</u>	<u>58.2</u>	<u>65.0</u>
Total assets and deferred outflows of resources	<u>\$ 6,015.7</u>	<u>\$ 5,663.1</u>	<u>\$ 5,397.1</u>
Liabilities:			
Long-term debt	\$ 2,795.3	\$ 2,747.1	\$ 2,694.8
Noncurrent liabilities	284.4	341.6	407.9
Current liabilities	341.4	295.4	271.1
Other liabilities	<u>36.3</u>	<u>34.7</u>	<u>38.0</u>
Total liabilities	<u>3,457.4</u>	<u>3,418.8</u>	<u>3,411.8</u>
Total deferred inflows of resources	<u>268.0</u>	<u>221.3</u>	<u>160.9</u>
Net position:			
Net investment in capital assets	1,953.7	1,886.0	1,822.8
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>311.6</u>	<u>112.0</u>	<u>(23.4)</u>
Total net position	<u>2,290.3</u>	<u>2,023.0</u>	<u>1,824.4</u>
Total liabilities, deferred inflows, and net position	<u>\$ 6,015.7</u>	<u>\$ 5,663.1</u>	<u>\$ 5,397.1</u>

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2022 and 2021

ASSETS

Utility Plant—Net

2022 Compared to 2021 Utility plant assets net of accumulated depreciation and amortization increased \$178.2 million to \$4,550.9 million in 2022. The following table sets forth the increases in utility plant (before depreciation and amortization) year over year:

Utility Plant Assets:	2022	increase	2021
Hydroelectric Production Plant	\$ 1,001.2	\$ 8.9	\$ 992.3
Transmission Plant	361.9	33.8	328.1
Distribution Plant	3,534.2	306.6	3,227.6
General Plant	438.3	14.7	423.6
Intangible Assets	833.1	52.6	780.5
	\$ 6,168.7	\$ 416.6	\$ 5,752.1

The \$416.6 million increase in utility plant assets to \$6,168.7 million was partially offset by a \$131.4 million increase in accumulated depreciation and amortization to \$2,327.0 million. The components of the increase in utility plant assets include the following:

- The \$8.9 million increase in Hydro Assets is primarily due to a \$4.9 million increase for Hydro Structures, \$3.1 million increase for miscellaneous Hydro Equipment, and a \$0.9 million increase for Ancillary Electric Equipment and Removal.
- The \$33.8 million increase in Transmission is primarily due to a \$21.7 million increase for Transmission Overhead/Underground Lines and an increase of \$12.1 million for Transmission Station Equipment.
- The \$306.6 million increase in Distribution Plant is due to a \$129.5 million increase for Network, a \$74.1 million net increase for Underground, a \$42.3 million increase for Poles, a \$30.6 million increase for Overhead, and an increase of \$30.1 million related to Services, Station Equipment, Street Lights, and Removal.
- The \$14.7 million increase in General Plant is primarily due to a \$10.5 million increase for General Structure improvements, a \$2.9 million increase for vehicles and a \$1.3 million increase for Equipment and Tools.
- The \$52.6 million increase in Intangible Assets is primarily due to \$49.4 million for Relicensing at Boundary and Skagit, and a net increase of \$3.2 million for Software.

Other components of utility plant include:

- Construction work-in-progress (CWIP) of \$531.9 million, a decrease of \$107.9 million over the prior year, driven by an addition of \$362.3 million offset by capitalization of \$470.2 million.

The \$531.9 million of CWIP is for ongoing construction in the following areas:

- o \$92.7 million for Substations and structures,
- o \$227.4 million for improvements to Distribution System
- o \$84.6 million for Hydro
- o \$33.6 million for Tools and Equipment
- o \$36.2 million for Software
- o \$29.0 million for Transmission
- o \$28.4 million for miscellaneous capital

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2022 and 2021

- Nonoperating property has a balance of \$18.3 million, which increased \$0.5 million.
- Assets held for future use \$3.1 million, which decreased by \$0.9 million.
- Land and land rights \$155.9 million, which increased \$1.3 million.

See Note 3 Utility Plant of the accompanying financial statements.

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
Hydroelectric Production Plant	\$ 992.3	\$ 38.1	\$ 954.2
Transmission Plant	328.1	11.5	316.6
Distribution Plant	3,227.6	126.0	3,101.6
General Plant	423.6	8.9	414.7
Intangible Assets	780.5	45.5	735.0
	\$ 5,752.1	\$ 230.0	\$ 5,522.1

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 a \$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, 2022 and 2021

- 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.

Restricted Assets

2022 Compared to 2021 Restricted assets decreased by \$70.6 million to \$210.3 million.

Construction funds were fully depleted in 2022. The balance decreased by \$56.2 million compared to 2021.

The Rate Stabilization Account (RSA) decreased by a net \$24.4 million to \$75.0 million. Details are below:

<i>(\$ in millions)</i>	2022	2021
Rate Stabilization Account		
Beginning balance	\$ 99.4	\$ 96.8
Council authorized transfer to RSA	-	15.0
Surcharge revenue	-	6.6
RSA interest income	-	1.4
Operating revenue	<u>(24.4)</u>	<u>(20.4)</u>
Ending balance	<u>\$ 75.0</u>	<u>\$ 99.4</u>

In 2022, the actual net wholesale revenue was \$26.9 million less than budgeted. The \$24.4 million transfer reflects a true-up from previous year, as well as estimate for the December transfer (which was true-ed up in January 2023). There was no surcharge in effect during 2022. Beginning in 2022, with the adoption of Ordinance No. 126502, interest on the RSA funds is no longer allocated to that account but held in operating cash. See Note 4 Rate Stabilization Account of the accompanying financial statements.

Other restricted assets increased by \$10.0 million to \$135.3 million. The bond reserve account increased by \$7.2 million primarily due to the additional deposit of the 2022 bonds. The debt service account increased by \$6.3 million mainly due to the 2022 bond debt service interest payment. Special deposits and other restricted assets decreased by \$3.5 million due to the downward GASB 31 fair value adjustment of \$5.5 million, partially offset by a \$2.0 million increase in customer prepayments and special deposits.

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:

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2022 and 2021

(\$ in millions)	2021	2020
Rate Stabilization Account		
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>

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.

Current Assets

2022 Compared to 2021 Current assets increased by \$205.5 million to \$716.6 million.

Operating cash increased by \$155.5 million to \$348.6 million. The higher cash balance is a result of increased inflows from retail revenue, transfers from the Rate Stabilization Account (RSA) offset by lower net wholesale energy transactions, higher debt service and lower capital contributions.

Accounts receivable increased by \$28.7 million to \$204.5 million in 2022 comparing to 2021 due to the following components:

- \$3.5 million decrease in retail electric receivables combined with \$5.7 million decrease in the allowance mostly due to resumption of collection efforts and the Utility Residential Customer Arrearages grant.
- \$4.3 million increase in payment arrangements, as more customers signed up to pay outstanding bills.
- \$8.3 million increase in sundry receivables due mainly to a higher volume of large jobs in "Pay before service" category.
- \$6.7 million decrease in short-term wholesale energy and transmission receivable, attributable to an increase in net purchase transactions. The \$3.8 million decrease is a result of cold weather driving higher load, higher prices, and lower generation from Boundary and Skagit). The remaining \$2.9 million decrease is due to the Stateline contract which ended on December 31, 2021.
- \$20.6 million increase in accounts receivable from other governments due to a \$27.9 million credit received from the Bonneville Power Administration (BPA) Power Reserves Distribution Clause whereby BPA returned funds to customers due to strong secondary sales. This amount is partially offset by a reduction in the short-term Federal Energy Regulatory Commission (FERC) land use fee credit of \$7.3 million.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2022 and 2021

Unbilled revenues increased by \$11.4 million due to higher load resulting from weather, as well as strong post-pandemic economic activity and an average retail rate increase of 3.6% in 2022.

Materials, supplies and inventory increased by \$4.9 million due to ongoing increases in price and lead time. Most impacted has been the Wire and Cable commodity, which contributed \$2.4 million to the increase. This is the result of pricing as well as increased inventory volumes due to lead times. Also, significantly impacted by pricing is the utility electric materials commodity category of, contributing \$1.3 million of this variance. This is mainly driven by price and mix of items. Both commodities are heavily affected by metals pricing, including copper, aluminum and steel. Metals pricing also impacted transformer and lighting categories, increasing overall inventory value by \$0.5 and \$0.4 million, respectively, with minimal to no change in inventory levels. The remaining \$0.3 million increase is related to increased pricing in other commodity types.

Prepayments and other assets increased by \$5.0 million as a result of the implementation of GASB Statement No. 87, *Leases*.

2021 Compared to 2020 Current assets increased by \$138.0 million to \$511.1 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 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 credit 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.

The short term lease receivable increased by \$0.4 million as a result of the 2021 restatement due to the implementation of GASB Statement No. 87, *Leases*.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2022 and 2021

Other Assets

2022 Compared to 2021 Total Other assets of \$465.1 million increased by \$24.9 million from 2021.

The \$50.6 million increase in long-term receivable is the result of the implementation of GASB Statement No. 87, *Leases*. 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.

The remaining \$25.7 million year over year decrease included the following:

- Regulatory assets for environmental cleanup decreased by \$25.6 million and environmental recovery decreased by \$1.7 million. These are the estimated costs to remediate several Superfund sites along the Duwamish River for which the Department has been designated a responsible party.
- Long-term receivable increased by \$6.7 million due to FERC Land Use fees refund from 1996 - 2019 per court order of \$3.3 million and \$3.4 million, as more customers signed up for payment arrangements plans.
- \$2.0 million decrease for ongoing payment from local jurisdictions for underground infrastructure improvements loans.
- Conservation costs decreased by \$2.4 million due to lower payments for HVAC installation incentives.
- Other, \$0.7 million decrease.

See Note 7 Other Assets of the accompanying financial statements.

2021 Compared to 2020 Total Other assets of \$440.2 million increased by \$13.1 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.

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.

The long term lease receivable increased by \$11.8 million as a result of the 2021 restatement due to the implementation of GASB Statement No. 87, *Leases*.

Deferred Outflows of Resources

2022 Compared to 2021 Deferred outflows of resources increased by \$14.6 million to \$72.8 million.

In 2022, pension-related deferred outflows increased by a net \$18.6 million due to an increase in actuarial assumptions. 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)*, decreased by \$0.5 million.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2022 and 2021

Advance refunding account balance decreased by a net \$3.5 million. 2022 activity consisted of amortization, 2012A bonds refunding and 2013 and 2014 bonds defeasance.

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.

LIABILITIES

Long-Term Debt

2022 Compared to 2021 Long-term debt increased a net \$48.2 million to \$2,795.3 million during 2022.

The Department issued a new debt in the amount of \$257.7 million of fixed rate bonds (2022 bonds). The 2022 bonds proceeds were used for ongoing capital improvement programs, for a deposit to the reserve fund, and for a \$50.8 million refunding of 2012A bonds on a current refunding basis. In addition, \$13.6 million of 2013 bonds and \$13.9 million of 2014 bonds were defeased in 2022.

Debt to capitalization ratio was 53.6% at the end of 2022, a decrease from 56.1% in 2021.

Net revenues available to pay debt service in 2022 were equal to 2.53 times principal and interest on all bonds. See Note 9 Long-Term Debt of the accompanying financial statements.

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.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2022 and 2021

Noncurrent Liabilities

2022 Compared to 2021 Total noncurrent liabilities decreased by \$57.2 million to \$284.4 million.

Net Pension liability decreased by \$27.8 million based on the most recent actuarial report. This decrease was driven primarily by strong investment performance in 2021. See Note 13 Seattle City Employees' Retirement System of the accompanying financial statements.

Environmental liability decreased by \$28.2 million. Environmental liabilities are 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 decrease of \$1.2 million is primarily due to lower Postemployment Benefits other than Pensions (OPEB) liability per the most recent actuarial report.

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.

Current Liabilities

2022 Compared to 2021 Current liabilities increased by \$46.0 million to \$341.4 million due to the following:

- \$29.3 million increase for short-term wholesale power payable primarily due to an increase in net purchase transactions, \$33.8 million. This is a result of cold weather driving higher load, higher prices, and lower generation from Boundary and Skagit. This amount is partially offset by a \$2.8 million decrease from BPA Block Load Shaping, a reallocation of month-to-month volumes with differing rates over the contract year, and a \$1.7 million decrease due to the Stateline contract that ended December 2021.
- \$4.7 million for higher accounts payable accrual.
- \$4.4 million for higher debt due within one year: higher principal payable on 2022 bonds compared to the refunded 2012A bonds, \$2.9 million, and other bond series, \$1.5 million.
- \$4.2 million for higher interest payable as a result of greater bonds outstanding at the end of 2022

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2022 and 2021

- \$1.8 million for higher taxes payable as a result of higher retail revenue in 2022
- \$1.1 million for higher payroll accrual due to higher number of employees & annual wage increase in 2022
- \$0.5 million other

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.

Other Liabilities

2022 Compared to 2021 Other liabilities increased by net \$1.6 million to \$36.3 million due to a \$2.2 million increase in deferred revenue for contributions in aid of construction offset by a \$0.6 million decrease in customer prepayments.

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.

Deferred Inflows of Resources

2022 Compared to 2021 Deferred inflows of resources increased by \$46.7 million for a total of \$268.0 million.

The implementation of GASB Statement No. 87, *Leases* resulted in a \$55.3 million increase in deferred inflow. 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.

The rate stabilization unearned revenue account decreased by \$24.4 million. \$24.4 million was transferred to operating revenues for actual net wholesale revenues which were less than budgeted.

Deferred inflows related to pension liability increased by \$14.8 million. The increase is due to the difference between projected and actual investment earnings of \$26.3 million. This increase was partially offset by a \$10.0 million decrease related to changes between employer contributions and proportionate share of contributions and a \$1.5 million decrease in deferred inflows related to differences between expected and actual experience.

Deferred inflows of resources pertaining to Postemployment Benefits other than Pensions (OPEB) increased by \$1.7 million. The difference between expected and actual experience was an increase of \$2.0 million, partially offset by a \$0.3 million decrease in actuarial changes of assumptions.

There was a decrease of \$4.0 million due to a FERC Land Use fee refund applied during 2022 from 1996 - 2019 per court order that was partially offset by a \$0.4 million increase related to the Department's Energy Conservation Agreement with Bonneville.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2022 and 2021

The gain on refunding was \$2.8 million higher in 2022. Other deferred inflows increased by \$0.1 million.

2021 Compared to 2020 Deferred inflows of resources increased by \$60.4 million for a total of \$221.3 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, the 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 \$23.2 million to \$64.1 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. The remaining \$12.0 million increase is a result of the implementation of GASB Statement No. 87, Leases.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2022 and 2021**

RESULTS OF OPERATIONS

Condensed Statements of Revenues, Expenses, and Changes in Net Position

(\$ in millions)	Year Ended December 31		
	2022	2021 restated	2020
Operating revenues	\$1,238.7	\$ 1,108.9	\$ 1,015.7
Nonoperating revenues	<u>(7.2)</u>	<u>4.6</u>	<u>26.7</u>
Total revenues	<u>1,231.5</u>	<u>1,113.5</u>	<u>1,042.4</u>
Operating expenses	924.0	891.7	880.3
Nonoperating expenses	<u>88.8</u>	<u>88.9</u>	<u>93.7</u>
Total expenses	<u>1,012.8</u>	<u>980.6</u>	<u>974.0</u>
Income before capital contributions and grants	<u>218.7</u>	<u>132.9</u>	<u>68.4</u>
Capital contributions	48.4	65.3	53.3
Capital grants	<u>0.2</u>	<u>0.4</u>	<u>0.5</u>
Total capital contributions and grants	<u>48.6</u>	<u>65.7</u>	<u>53.8</u>
Change in net position	<u>\$ 267.3</u>	<u>\$ 198.6</u>	<u>\$ 122.2</u>

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2022 and 2021

SUMMARY

2022 Compared to 2021 Change in net position for 2022 was \$267.3 million, an increase of \$68.7 million or 34.6% from the 2021 change in net position of \$198.6 million. The net position of 2021 includes the \$0.2 million restatement due to the implementation of GASB Statement No. 87, *Leases*.

The major contributors for the higher net position:

- higher retail electric sales, \$57.2 million
- higher other power-related revenue, \$17.2 million
- higher transfers from Rate Stabilization Account (RSA), \$27.0 million
- lower operating expenses (excluding short-term wholesale power purchases adjusted for book-outs), \$23.6 million
- lower non-operating expense, \$0.1 million

These were partially offset by the following components:

- lower net wholesale revenue (wholesale purchases are deducted from wholesale sales and adjusted for book-outs), \$24.5 million
- lower other operating revenue, \$3.0 million
- lower non-operating revenue, \$11.8 million
- lower capital contributions, \$17.1 million

2021 Compared to 2020 Change in net position for 2021 was \$198.6 million, an increase of \$76.4 million or 62.5% 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.

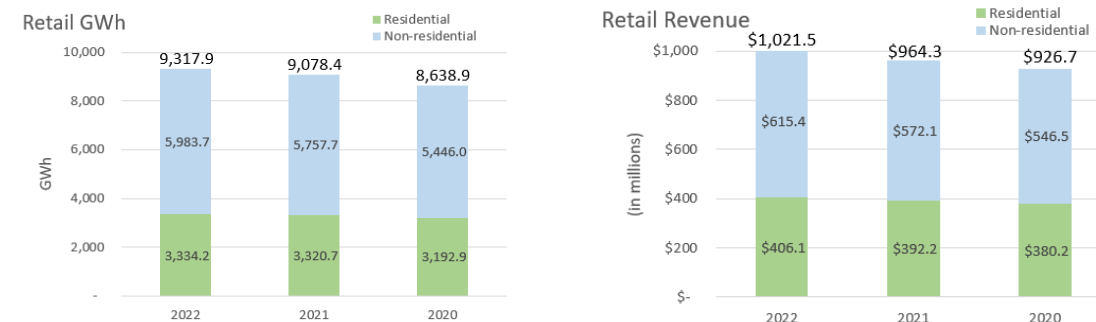
REVENUES

2022 Compared to 2021 Total operating revenues were \$1,238.7 million, an increase of \$129.8 million or 11.7% from 2021. Retail power revenues at \$1,021.5 million increased \$57.2 million, Short-term wholesale power revenues at \$97.7 million increased \$31.4 million, Other power-related revenues at \$76.5 million increased \$17.2 million, Transfers from/(to) RSA at \$24.4 million increased by \$27.0 million, and Other operating revenues at \$18.6 million decreased by \$3.0 million.

Higher Retail power revenues for \$57.2 million were the net result of higher billed residential revenues, \$18.6 million, and higher nonresidential revenues, \$38.8 million, offset by lower net change of unbilled revenue, \$0.2 million. There was a retail rate increase on January 1, 2022 of approximately 3.6% on average. Higher residential sales were due to colder than normal temperatures during the heating season and warmer than normal temperatures during the cooling season. Nonresidential sales were also higher due to weather, as well as stronger post-pandemic economic activity.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2022 and 2021



Transfers from/(to) the RSA are determined by the departure of actual net wholesale power revenues from budget. In 2022, the actual net wholesale revenue was \$26.9 million less than budgeted. The \$24.4 million transfer in 2022 reflects a true-up from previous year, as well as estimate for the December transfer (which was true-ed up in January 2023). There was no surcharge in effect during 2022. Beginning 2022, with the adoption of Ordinance No. 126502, interest on the Rate Stabilization Account funds is no longer allocated to that account but held in operating cash.

<i>(\$ in millions)</i>	2022	2021
Rate Stabilization Account		
Beginning balance	\$ 99.4	\$ 96.8
Council authorized transfer to RSA	-	15.0
Surcharge revenue	-	6.6
RSA interest income	-	1.4
Operating revenue	<u>(24.4)</u>	<u>(20.4)</u>
Ending balance	<u>\$ 75.0</u>	<u>\$ 99.4</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 \$97.7 million, an increase of \$31.4 million compared to \$66.3 million recorded in 2021. 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 \$13.1 million in 2022, \$24.5 million lower than in 2021. The considerable decrease in net short wholesale power revenues was due mostly to lower hydro generation, higher loads and significantly higher market prices.

Net Wholesale Revenue, \$ Million

	2022	2021	2020
Wholesale Power Revenue	\$ 97.7	\$ 66.3	\$ 51.3
Wholesale Power Purchases	(86.2)	(38.5)	(10.0)
Booked out Long-Term Purchases	1.6	9.8	6.4
Net Wholesale Revenue	\$ 13.1	\$ 37.6	\$ 47.7

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2022 and 2021

Other power-related revenues, net, increased by \$17.2 million. The valuation of energy exchange contracts increased by \$7.4 million. In addition, the Lucky Peak exchange contract resulted in a more favorable premium of \$7.4 million. Other miscellaneous increased by \$2.4 million.

Other operating revenue decreased by \$3.0 million mainly due to a decrease of \$1.6 million in Operation and Maintenance revenues and a \$1.4 million decrease in cable and telecom pole rentals.

2021 Compared to 2020 Total operating revenues were \$1,108.9 million, an increase of \$93.2 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 \$21.6 million increased by \$2.0 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.

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.

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.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2022 and 2021

EXPENSES

2022 Compared to 2021 Operating expenses totaled \$924.0 million, an increase of \$32.3 million or 3.6% from \$891.7 million in 2021.

2022 power-related operating expenses at \$409.7 million were higher by \$12.8 million or 3.2% than \$396.9 million in 2021 due to the following:

- Long-term purchased power expenses of \$150.5 million decreased by \$57.0 million mostly due to BPA Power Reserves Distribution Clause credit and expiration of the Stateline Wind contract. Please refer to Note 20 of the accompanying financial statements.
- Short-term wholesale power purchases of \$86.2 million increased by \$47.7 million due to the lower hydro generation, colder than normal temperatures that drove up retail demand and significantly higher market prices in December.
- Other power expenses of \$111.9 million increased by \$16.7 million mostly due to the higher generation costs and the higher market prices related to non-monetary transactions.
- Transmission expenses of \$61.1 million increased by \$5.4 million mostly due to the higher BPA wheeling costs.

Non-power operating expenses decreased by \$6.2 million to \$238.5 million or 2.5% from \$244.7 million in 2021 due to the following:

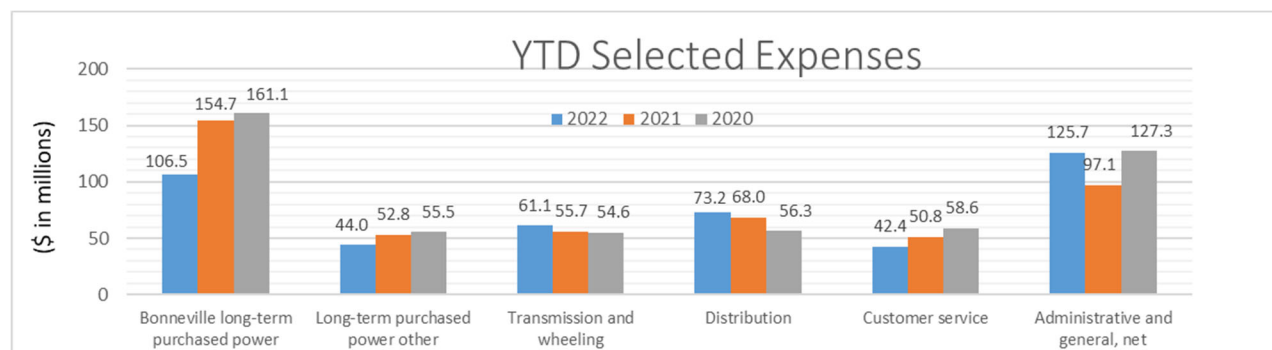
- Distribution expenses of \$73.2 million increased by \$5.2 million due to pick up on normal operations as compared to 2021.
- Customer service of \$42.4 million decreased by \$8.4 million due to the lower bad debt expense in 2022 as result of resumption of collection efforts and the Utility Residential Customer Arrearages grant partially offset by the higher labor cost due to pick up on normal operations as compared to 2021.
- Conservation expenses of \$26.3 million decreased by \$2.5 million as more than half of the customer agreements were extended due to supply issues.
- Administrative and general of \$96.6 million decreased by \$0.5 million compared to 2021.

Taxes in 2022 increased by \$17.5 million as a result of higher revenues.

Depreciation and amortization at \$156.8 million increased by \$8.2 million primarily due to replacements and additions of conductors, conduits, poles and software.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2022 and 2021



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 costs 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 million.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2022 and 2021

- 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.

NONOPERATING REVENUES AND (EXPENSES), CAPITAL CONTRIBUTIONS AND GRANTS

2022 Compared to 2021 Nonoperating revenue decreased by \$11.8 million in 2022 due to the following:

- lower GASB 31 fair value adjustment, \$17.5 million

Partially offset by:

- higher interest income due to higher cash balance at the end of 2022, \$3.4 million
- higher lease interest revenue resulted from GASB 87 implementation, \$0.8 million
- higher non-capital grants, net, \$1.5 million

Nonoperating expense increased net \$0.1 million year over year due to the higher interest because of the increased bonds balance at the end of 2022, \$3.2 million, offset by the higher refunding gain amortization, \$3.3 million.

Capital contributions and grants decreased by \$17.1 million mainly due to the reduced activity in time and materials jobs and joint use.

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 expenses 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.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2022 and 2021

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 related to wholesale marketing activities. 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.

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 CITY OF SEATTLE—CITY LIGHT DEPARTMENT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2022 and 2021

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 206-684-3000 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, 2022 AND 2021

(\$ in millions)	2022	2021 Restated
ASSETS		
UTILITY PLANT—At original cost:		
Plant -in-service—excluding land	\$ 6,168.7	\$ 5,752.1
Less accumulated depreciation and amortization	<u>(2,327.0)</u>	<u>(2,195.6)</u>
Total plant-in-service—net	3,841.7	3,556.5
Construction work-in-progress	531.9	639.8
Nonoperating property—net of accumulated depreciation	18.3	17.8
Assets held for future use	3.1	4.0
Land and land rights	<u>155.9</u>	<u>154.6</u>
Total utility plant—net	<u>4,550.9</u>	<u>4,372.7</u>
RESTRICTED ASSETS:		
Rate stabilization account	75.0	99.4
Municipal light and power bond reserve account	103.1	95.9
Construction account	-	56.2
Special deposits and other restricted assets	<u>32.2</u>	<u>29.4</u>
Total restricted assets	<u>210.3</u>	<u>280.9</u>
CURRENT ASSETS:		
Cash and equity in pooled investments	348.6	193.1
Accounts receivable, net of allowance of \$43.8 and \$49.7	203.1	175.3
Interfund receivables	1.4	0.5
Unbilled revenues	110.5	99.1
Materials and supplies at average cost	47.3	42.4
Prepayments and other current assets	<u>5.7</u>	<u>0.7</u>
Total current assets	<u>716.6</u>	<u>511.1</u>
OTHER ASSETS:		
Conservation costs—net	253.7	256.1
Environmental costs—net	93.1	118.7
Other charges and assets—net	<u>118.3</u>	<u>65.4</u>
Total other assets	<u>465.1</u>	<u>440.2</u>
TOTAL ASSETS	<u>5,942.9</u>	<u>5,604.9</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows related to Pension and OPEB	60.0	41.9
Charges on advance refunding	<u>12.8</u>	<u>16.3</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>72.8</u>	<u>58.2</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 6,015.7</u>	<u>\$ 5,663.1</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, 2022 AND 2021

<i>(\$ in millions)</i>	2022	2021 Restated
LIABILITIES		
LONG-TERM DEBT:		
Revenue bonds	\$ 2,643.5	\$ 2,587.3
Plus bond premium—net	279.5	283.1
Less revenue bonds—current portion	<u>(127.7)</u>	<u>(123.3)</u>
Total long-term debt	<u>2,795.3</u>	<u>2,747.1</u>
NONCURRENT LIABILITIES:		
Net pension liability	171.7	199.5
Accumulated provision for injuries and damages	83.9	111.6
Compensated absences	20.7	20.2
Other noncurrent liabilities	<u>8.1</u>	<u>10.3</u>
Total noncurrent liabilities	<u>284.4</u>	<u>341.6</u>
CURRENT LIABILITIES:		
Accounts payable and other current liabilities	161.5	125.2
Accrued payroll and related taxes	8.4	7.3
Compensated absences	1.1	1.1
Accrued interest	42.7	38.5
Long-term debt—current portion	<u>127.7</u>	<u>123.3</u>
Total current liabilities	<u>341.4</u>	<u>295.4</u>
OTHER LIABILITIES	<u>36.3</u>	<u>34.7</u>
TOTAL LIABILITIES	<u>3,457.4</u>	<u>3,418.8</u>
DEFERRED INFLOWS OF RESOURCES		
Rate stabilization unearned revenue	50.0	74.4
Deferred inflows related to pension and OPEB	99.3	82.8
Other deferred inflows of resources	<u>118.7</u>	<u>64.1</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>268.0</u>	<u>221.3</u>
NET POSITION		
Net investment in capital assets	1,953.7	1,886.0
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>311.6</u>	<u>112.0</u>
Total net position	<u>2,290.3</u>	<u>2,023.0</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	<u>\$ 6,015.7</u>	<u>\$ 5,663.1</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, 2022 AND 2021

<i>(\$ in millions)</i>	2022	2021 Restated
OPERATING REVENUES:		
Retail power revenues	\$ 1,021.5	\$ 964.3
Short-term wholesale power revenues	97.7	66.3
Other power-related revenues	76.5	59.3
Transfers from/(to) rate stabilization account	24.4	(2.6)
Other operating revenues	18.6	21.6
Total operating revenues	<u>1,238.7</u>	<u>1,108.9</u>
OPERATING EXPENSES:		
Long-term purchased power—Bonneville and other	150.5	207.5
Short-term wholesale power purchases	86.2	38.5
Other power expenses	111.9	95.2
Transmission	61.1	55.7
Distribution	73.2	68.0
Customer service	42.4	50.8
Conservation	26.3	28.8
Administrative and general	96.6	97.1
Taxes	119.0	101.5
Depreciation and amortization	156.8	148.6
Total operating expenses	<u>924.0</u>	<u>891.7</u>
OPERATING INCOME	<u>314.7</u>	<u>217.2</u>
NONOPERATING REVENUES AND (EXPENSES):		
Other revenues and (expenses)—net	(7.2)	4.6
Interest expense		
Interest expense—net	(112.8)	(109.6)
Amortization of bond costs—net	24.0	20.7
Total interest expense	<u>(88.8)</u>	<u>(88.9)</u>
Total nonoperating expenses	<u>(96.0)</u>	<u>(84.3)</u>
INCOME BEFORE CAPITAL CONTRIBUTIONS AND GRANTS	<u>218.7</u>	<u>132.9</u>
CAPITAL CONTRIBUTIONS AND GRANTS:		
Capital contributions	48.4	65.3
Capital grants	0.2	0.4
Total capital contributions and grants	<u>48.6</u>	<u>65.7</u>
CHANGE IN NET POSITION	267.3	198.6
NET POSITION:		
Beginning of year	2,023.0	1,824.4
End of year	<u>\$ 2,290.3</u>	<u>\$ 2,023.0</u>

See notes to financial statements.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

<i>(\$ in millions)</i>	2022	2021
OPERATING ACTIVITIES:		
Cash received from customers and counterparties	\$ 1,106.8	\$ 1,039.2
Cash paid to suppliers and counterparties	(325.1)	(354.6)
Cash paid to employees	(189.9)	(165.9)
Taxes paid	<u>(117.2)</u>	<u>(97.2)</u>
Net cash provided by operating activities	<u>474.6</u>	<u>421.5</u>
NONCAPITAL FINANCING ACTIVITIES:		
Interfund operating cash received	0.9	1.8
Interfund operating cash paid	(48.9)	(54.0)
Principal paid on long-term debt	(9.0)	(9.1)
Interest paid on long-term debt	(7.8)	(8.2)
Noncapital grants received	10.4	(0.2)
Bonneville receipts for conservation	3.1	1.0
Payment to vendors on behalf of customers for conservation	<u>(20.7)</u>	<u>(19.4)</u>
Net cash used in noncapital financing activities	<u>(72.0)</u>	<u>(88.1)</u>
CAPITAL AND RELATED FINANCING ACTIVITIES:		
Proceeds from long-term debt	212.0	228.9
Proceeds from long-term debt premiums	26.6	53.9
Payment to trustee for defeased bonds	(26.5)	(75.2)
Bond issue costs paid	(0.4)	(0.3)
Principal paid on long-term debt	(114.3)	(108.6)
Interest paid on long-term debt	(99.2)	(97.2)
Acquisition and construction of capital assets	(318.8)	(318.1)
Interfund payments for acquisition and construction of capital assets	(24.0)	(25.6)
Capital contributions	38.5	52.8
Interfund receipts for capital contributions	(0.1)	0.5
Capital grants received/(paid)	0.5	0.4
Interest received for suburban infrastructure improvements	2.4	2.5
Decrease in other assets	<u>2.0</u>	<u>1.7</u>
Net cash used in capital and related financing activities	<u>(301.3)</u>	<u>(284.3)</u>
INVESTING ACTIVITIES:		
Interest received (paid) on cash and equity in pooled investments	<u>(16.4)</u>	<u>(2.3)</u>
Net cash provided by (used in) investing activities	<u>(16.4)</u>	<u>(2.3)</u>
NET INCREASE (DECREASE) IN CASH AND EQUITY IN POOLED INVESTMENTS	84.9	46.8
CASH AND EQUITY IN POOLED INVESTMENTS:		
Beginning of year	<u>474.0</u>	<u>427.2</u>
End of year	<u>\$ 558.9</u>	<u>\$ 474.0</u>

See notes to financial statements.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

STATEMENTS OF CASH FLOWS - RECONCILIATION FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

<i>(\$ in millions)</i>	2022	2021
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	<u>\$ 314.7</u>	<u>\$ 217.2</u>
Adjustments to reconcile operating income to net cash provided by operating activities:		
Non-cash items included in operating income:		
Depreciation	156.8	148.6
Amortization of other assets	36.9	33.8
Bad debt expense	4.2	17.6
Power revenues	(64.2)	(51.7)
Power expenses	79.9	64.0
Provision for injuries and damages	1.4	3.8
Other non-cash items	(42.4)	(29.7)
Change in:		
Accounts receivable	17.8	23.1
Unbilled revenues	(11.4)	(11.6)
Materials and supplies	(5.3)	(1.5)
Other assets	34.2	(0.7)
Provision for injuries and damages and claims payable	(54.7)	0.2
Accounts payable and other payables	33.7	8.4
Deferred inflows	(2.6)	(2.6)
Rate stabilization unearned revenue	(24.4)	2.6
Total adjustments	<u>159.9</u>	<u>204.3</u>
Net cash provided by operating activities	<u>\$ 474.6</u>	<u>\$ 421.5</u>
SUPPLEMENTAL DISCLOSURES OF NONCASH ACTIVITIES:		
In-kind capital contributions	\$ 1.6	\$ 0.7
Amortization of debt related costs—net	24.0	20.7
Power exchange revenues	45.0	32.6
Power exchange expenses	(45.0)	(32.6)
Power revenue netted against power expenses	9.4	10.1
Power expense netted against power revenues	(12.8)	(8.6)
Bond proceeds deposited into an escrow account for purposes of refunding	50.4	33.5

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, 2022 AND 2021

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 493,700 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 \$11.7 million and \$9.5 million in 2022 and 2021, respectively, and \$2.0 million and \$2.1 million for non-energy services, respectively.

The Department receives certain services from other City departments and paid \$121.4 million in 2022 and \$122.0 million in 2021, 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 \$1.4 million and \$0.5 million at December 31, 2022, and 2021, respectively. The Department's payables to other City departments were \$0.0 million on December 31, for 2022 and 2021, 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 2022 with all applicable GASB pronouncements.

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. The Department implemented this standard effective January 1, 2022 and retroactively restated the prior period presented as shown in the table below.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

<i>(\$ in millions)</i>	<u>As Originally Reported December 31, 2021</u>	<u>As Restated December 31, 2021</u>	<u>Effects of Change</u>
Balance Sheet			
Current Assets			
Prepayments and other current assets	\$ 0.3	\$ 0.7	\$ 0.4
Other Assets			
Other charges and assets-net	53.6	65.4	11.8
Deferred Inflows of Resources			
Other deferred inflows of resources	52.1	64.1	12.0
Net Position	\$ 2,022.8	\$ 2,023.0	\$ 0.2
Statement of Revenues, Expenses, and Changes in Net Position			
Operating Revenues			
Other operating revenues	\$ 21.7	\$ 21.6	\$ (0.1)
Nonoperating Revenues and (Expenses)			
Other revenues and (expenses) - net	4.3	4.6	0.3
Change in Net Position	\$ 198.4	\$ 198.6	\$ 0.2

See Note 18 Leases, for more information.

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. There was no impact on the financial statements when the Department implemented Statement No. 91 effective January 1, 2022.

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. There was no impact on the financial statements when the Department implemented Statement No. 92 effective January 1, 2022.

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. There was no impact on the financial statements when the Department implemented Statement No. 93 effective January 1, 2022.

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, 2022 AND 2021

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. There was no impact on the financial statements when the Department implemented Statement No. 97 effective January 1, 2022.

GASB Statement No. 99 - GASB Statement No. 99, *Omnibus 2022*, addresses several topics and issues that have been identified during implementation of various GASB Statements. This statement clarifies issues related to derivative instruments, leases, pledges of future revenues, PPPs, SBITAs, and disclosures related to non-monetary transactions. This statement will be effective for the Department in 2023. The Department is currently evaluating the impact of implementation on the financial statements.

GASB Statement No. 100 - GASB Statement No. 100, *Accounting Changes and Error Corrections*, establishes accounting and financial reporting requirements for (a) accounting changes and (b) the correction of an error in previously issued financial statements. This statement will be effective for the Department in 2024. The Department is currently evaluating the impact of implementation on the financial statements.

GASB Statement No. 101 - GASB Statement No. 101, *Compensated Absences*, clarifies the recognition of certain types of employee accrued leave and also establishes guidance for measuring a liability for leave that has not been used. This statement will be effective for the Department in 2024. 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, 2022 and 2021, are as noted in Note 2 Fair Values, Note 5 Cash and Equity in Pooled Investments and Investments, Note 6 Accounts Receivable and Note 20 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, 2022 AND 2021

Fair Value of Financial Instruments—The Department’s financial instruments reported on the balance sheets at December 31, 2022 and 2021, 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, 2022 and 2021 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.
- *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 in electrical service and therefore, held for future service under a definitive plan. Also included is property previously used in service but retired and held pending its reuse in the future under a definitive plan.

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, 2022 and 2021, as follows:

	2022	2021
Residential	39.8 %	40.7 %
Nonresidential	<u>60.2 %</u>	<u>59.3 %</u>
Total	100.0 %	100.0 %

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

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.

Other nonoperating revenues and (expenses), net for the years 2022 and 2021 consisted of the following:

<i>(\$ in millions)</i>	<u>2022</u>	<u>2021</u> <u>Restated</u>
Nonoperating Revenues and (Expenses)		
Other revenues and (expenses) - net		
Investment income	\$ (12.9)	\$ 0.4
Utility residential customer arrearages grant	9.7	-
Arrearages grant funds disbursed	(9.7)	-
Other income (expense) - net	<u>5.7</u>	<u>4.2</u>
Total Other revenues and (expenses) - net	<u>\$ (7.2)</u>	<u>\$ 4.6</u>

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 \$65.6 million and \$60.7 million in 2022 and 2021, respectively. Benefit costs applied were \$37.2 million and \$30.5 million in 2022 and 2021, respectively. Administrative and general expenses, net of total applied overhead, were \$96.6 million and \$97.1 million in 2022 and 2021, respectively.

Nonexchange Transactions—Capital contributions, grants, and noncapital grants 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.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

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 cashout. The HRA program is administered by an independent third-party administrator, Meritain Health. HRA investments are managed by HRA Voluntary Employee Beneficiary Association (VEBA) Trust. The Department accrues all costs associated with compensated absences, including payroll taxes.

Use of Estimates—The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect amounts reported in the financial statements. The Department used significant estimates in determining reported allowance for doubtful accounts, unbilled revenues, power exchanges, accumulated provision for injuries and damages and workers' compensation, environmental liabilities, accrued sick leave, net pension liability, other postemployment benefits, and other contingencies. Actual results may differ from those estimates.

Significant Risk and Uncertainty—The Department is subject to certain business risks that could have a material impact on future operations and financial performance. These risks include financial market liquidity and economic uncertainty; prices on the wholesale markets for short-term power transactions; interest rates and other inputs and techniques for fair valuation; water conditions, weather, climate change, and natural disaster-related disruptions; terrorism; collective bargaining labor disputes; fish and other Endangered Species Act (ESA) issues; Environmental Protection Agency (EPA) regulations; compliance with clean and renewable energy legislation; local and federal government regulations or orders concerning the operations, maintenance, and/or licensing of hydroelectric facilities; other governmental regulations; restructuring of the electrical utility industry; and the costs of constructing transmission facilities that may be incurred as part of a northwest regional transmission system, and related effects of this system on transmission rights, transmission sales, surplus energy, and governance.

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.

2. FAIR VALUE MEASUREMENT

The Department records certain assets, liabilities and deferred inflows of resources in accordance with GASB Statement No. 72, *Fair Value Measurement and Application*, which defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurement.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

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. The City records pooled investments at fair value based on quoted market prices.

The Department obtained the lowest level of observable input of the fair value measurement of energy exchanges and other non-monetary transactions in its entirety from subscription services or other independent parties. The observable inputs for the settled portion of the energy exchange contracts are Dow Jones price indices. The observable inputs for the undelivered forward portion of energy exchanges and other non-monetary transactions are Kiodex forward curves and present value factors based on the interest rate for Treasury constant maturities, bond-equivalent yields.

Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Department's assessment of the significance of a particular 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, 2022 and 2021. 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, 2022 and 2021:

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

(\$ in millions)

2022	Credit Rating	Level 1	Level 2	Total
Assets				
Fair value investments				
Corporate Bonds	AA+ to A	\$ -	\$ 11.6	\$ 11.6
Commercial Paper	A+	-	12.7	12.7
International Bank for Reconstruction & Development	AAA	-	7.7	7.7
Local Government Investment Pool	N/A	66.6	-	66.6
Municipal Bonds	AAA to A-	-	26.4	26.4
Repurchase Agreements	N/A	7.4	-	7.4
U.S. Government Agency Mortgage-Backed Securities	AA+	-	44.1	44.1
U.S. Government Agency Securities	AA+	-	192.9	192.9
U.S. Treasury and U.S. Government-Backed Securities	AA+	189.5	-	189.5
Total fair value investments		<u>263.5</u>	<u>295.4</u>	<u>558.9</u>
Total Assets at fair value		<u>\$ 263.5</u>	<u>\$ 295.4</u>	<u>\$ 558.9</u>

(\$ in millions)

2021	Credit Rating	Level 1	Level 2	Total
Assets				
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>

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

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 2022 and 2021. 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 \$48.6 million in 2022 and \$65.7 million in 2021. 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. Depreciation and amortization expense as a percentage of depreciable utility plant-in-service was approximately 2.5% in 2022 and 2.6% in 2021. 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 2022 and 2021.

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, 2022 AND 2021**

Utility plant-in-service at original cost, including land on December 31, 2022, and 2021, was:

	Hydroelectric					
	Production	Transmission	Distribution	General	Intangibles	Total
2022						
<i>(\$ in millions)</i>						
Utility Plant-in-service - At original cost:						
Plant-in-service, excluding Land:						
1/1/2022 Balance	\$ 992.3	\$ 328.1	\$ 3,227.6	\$ 423.6	\$ 780.5	\$ 5,752.1
Acquisitions	9.8	34.7	341.4	15.4	52.6	453.9
Dispositions	(0.9)	(0.9)	(34.8)	(0.7)	-	(37.3)
Transfers and adjustments	-	-	-	-	-	-
12/31/2022 Balance	<u>1,001.2</u>	<u>361.9</u>	<u>3,534.2</u>	<u>438.3</u>	<u>833.1</u>	<u>6,168.7</u>
Accumulated depreciation and amortization:						
1/1/2022 Balance	\$ 395.7	\$ 94.5	\$ 1,101.0	\$ 273.3	\$ 331.1	\$ 2,195.6
Increase in accumulated depreciation and amortization	18.5	7.6	93.2	13.1	52.2	184.6
Retirements	(3.9)	(4.4)	(44.2)	(0.7)	-	(53.2)
Gain/Loss on Retirements	-	-	-	-	-	-
12/31/2022 Balance	<u>410.3</u>	<u>97.7</u>	<u>1,150.0</u>	<u>285.7</u>	<u>383.3</u>	<u>2,327.0</u>
Sub Total Plant-in-service - Net, excluding Land:	<u>\$ 590.9</u>	<u>\$ 264.2</u>	<u>\$ 2,384.2</u>	<u>\$ 152.6</u>	<u>\$ 449.8</u>	<u>\$ 3,841.7</u>
Land and land rights:						
1/1/2022 Balance	\$ 58.5	\$ 3.0	\$ 86.5	\$ 6.6	\$ -	\$ 154.6
Acquisitions	1.3	-	-	-	-	1.3
Dispositions	-	-	-	-	-	-
Transfers and adjustments	-	-	-	-	-	-
12/31/2022 Balance	<u>59.8</u>	<u>3.0</u>	<u>86.5</u>	<u>6.6</u>	<u>-</u>	<u>155.9</u>
Construction work-in-process:						
1/1/2022 Balance	\$ 58.4	\$ 50.2	\$ 437.8	\$ 69.4	\$ 24.0	\$ 639.8
Additions	43.8	14.2	207.1	25.2	72.0	362.3
Closings	(15.1)	(38.5)	(350.0)	(14.5)	(52.1)	(470.2)
12/31/2022 Balance	<u>87.1</u>	<u>25.9</u>	<u>294.9</u>	<u>80.1</u>	<u>43.9</u>	<u>531.9</u>
* Total Plant-in-service - Net, including Land and	<u>\$ 737.8</u>	<u>\$ 293.1</u>	<u>\$ 2,765.6</u>	<u>\$ 239.3</u>	<u>\$ 493.7</u>	<u>\$ 4,529.5</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, 2022 AND 2021

	Hydroelectric						
	Production	Tranmission	Distribution	General	Intangible	Total	
2021							
<i>(\$ in millions)</i>							
Utility Plant-in-service - At original cost:							
Plant-in-service, excluding Land:							
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>	
Accumulated depreciation and amortization:							
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)	
Transfers and adjustments	<u>1.2</u>	<u>2.6</u>	<u>3.1</u>	<u>-</u>	<u>-</u>	<u>6.9</u>	
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>	
Sub Total Plant-in-service - Net: excluding Land:	<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>	
Land and land rights:							
1/1/2021 Balance	\$ 57.8	\$ 3.0	\$ 86.5	\$ 6.6	\$ -	\$ 153.9	
Acquisitions	0.7	-	-	-	-	0.7	
Dispositions	-	-	-	-	-	-	
Transfers and adjustments	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	
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>	
Construction work-in-process:							
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	<u>(60.5)</u>	<u>(15.8)</u>	<u>(178.8)</u>	<u>(13.7)</u>	<u>(43.8)</u>	<u>(312.6)</u>	
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>	
*Total Plant-in-service - Net: including Land and	<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, 2022 AND 2021

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 specified levels. In December 2021, the Seattle City Council adopted Ordinance No. 126502, which established new thresholds and surcharge rates for the RSA as follows:

RSA Balance at March 31 or September 30	Action
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 rates applicable in 2021 prior to the adoption of Ordinance No. 126502 were as follows:

RSA Balance	Action
Less than or equal to \$90.0 million but greater than \$80.0 million:	Automatic 1.5% surcharge
Less than or equal to \$80.0 million but greater than \$70.0 million:	Automatic 3.0% surcharge
Less than or equal to \$70.0 million but greater than \$50.0 million:	Automatic 4.5% surcharge
Less than or equal to \$50.0 million:	City Council must initiate rate review within 45 days and determine actions to replenish RSA to \$100.0 million within 12 months

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

**NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021**

In 2022, actual net wholesale revenue was \$22.7 million less than budgeted. The \$24.4 million transfer reflects a true-up from previous year, as well as an estimate for the December transfer (which was trued-up in January 2023). There was no surcharge in effect during 2022. Beginning in 2022 with the adoption of Ordinance No. 126502, interest earned by the funds in the Rate Stabilization Account is no longer allocated to that account and is instead held in operating cash. The RSA balance was \$75.0 million at December 31, 2022.

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.

The RSA at December 31, 2022, and 2021, consisted of cash from the following sources:

<i>(\$ in millions)</i>	2022	2021
Rate Stabilization Account		
Beginning balance	\$ 99.4	\$ 96.8
Council authorized transfer to RSA	-	15.0
Surcharge revenue	-	6.6
RSA interest income	-	1.4
Operating revenue	<u>(24.4)</u>	<u>(20.4)</u>
Ending balance	<u>\$ 75.0</u>	<u>\$ 99.4</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, 2022, and 2021, consisted of the following:

<i>(\$ in millions)</i>	2022	2021
Unearned revenue - Rate Stabilization Account		
Beginning balance	\$ 74.4	\$ 71.8
Council authorized transfer to RSA	-	15.0
Surcharge revenue	-	6.6
RSA interest income	-	1.4
Operating revenue	<u>(24.4)</u>	<u>(20.4)</u>
Ending balance	<u>\$ 50.0</u>	<u>\$ 74.4</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, 2022 AND 2021

Net transfers from/(to) the RSA in the statements of revenues, expenses and net position for the periods ended December 31, 2022, and 2021 were as follows:

(\$ in millions)	2022	2021
Transfers from/(to) Rate Stabilization Account	<u>\$ 24.4</u>	<u>\$ (2.6)</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. 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, 2022, and 2021, 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, 2022, and 2021, 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 the Department of Finance 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, 2022, and 2021, 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, 2022 AND 2021

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
- H. Commercial paper purchased in the secondary market
- I. Corporate notes 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, 2022 AND 2021**

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, 2022 and 2021, the City’s pooled investments were as follows:

<i>(\$ in millions)</i>	2022		2021	
	Fair Value of City Pooled Investments	Weighted-Average Maturity (Days)	Fair Value of City Pooled Investments	Weighted-Average Maturity (Days)
Corporate Bonds	\$ 72.1	810	\$ 89.0	632
Commercial Paper	79.0	16	-	-
International Bank for Reconstruction & Development	48.0	1,165	25.4	971
Local Government Investment Pool	415.6	-	555.2	3
Municipal Bonds	164.5	840	203.2	603
Repurchase Agreements	46.4	-	125.4	3
U.S. Government Agency Mortgage-Backed Securities	274.9	2,126	358.2	2,375
U.S. Government Agency Securities	1,204.1	662	719.4	950
U.S. Treasury and U.S. Government-Backed Securities	1,182.4	765	745.7	651
Total	\$ 3,487.0		\$ 2,821.5	
Portfolio Weighted Average Maturity		729		788

As of December 31, 2022 and 2021, the Department’s share of the City pool was as follows:

<i>(\$ in millions)</i>	2022	2021
Operating cash and equity in pooled investments	\$ 348.6	\$ 193.1
Restricted cash	210.3	280.9
Total	\$ 558.9	\$ 474.0
Balance as a percentage of City pool cash and investments	16.0%	16.8%

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

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 declined over the quarter from investor expectations the Federal Reserve is nearing the end of its aggressive monetary tightening cycle that began in March 2022 to temper rising inflation that had been ignited by COVID-19. Additionally, the early March failures of Silicon Valley Bank and Signature Bank have caused a spike in volatility and uncertainty in financial markets, encouraging investors to park cash in short money market funds where interest rates are highest. Indeed, the City’s earnings from its investment in the State of Washington Local Government Investment Pool (“LGIP”), which is similar to a money market fund, has been the greatest beneficiary of increasing interest rates over the past year. During the weekend of April 1st, OPEC made a surprise announcement that it is cutting production of oil by 1.66 million barrels per day to support market stability. Reduced supply of oil production is inflationary and will make the Fed’s job harder to vanquish the high inflation we already have in the U.S. It is currently impossible to determine the future course for U.S. interest rates in the near future.

The City held \$415.6 million in 2022, and \$555.2 million in 2021 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.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

Credit Risk—Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

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.

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, 2022 and 2021 are as follows:

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

(\$ in millions)

<u>Issuer</u>	2022	
	Fair Value	Percent of Total Investments
U.S. Treasury and Government-Backed Securities	\$ 1,182.4	34%
Local Government Investment Pool	415.6	12%
Federal Home Loan Bank	355.6	10%
Federal National Mortgage Association	331.9	10%
Federal Farm Credit Bank	299.4	9%
Federal Agriculture Mortgage Corporation	263.8	8%
Federal Home Loan Mortgage Corporation	191.8	6%
Municipal Bonds	164.5	5%
	<u>\$ 3,204.9</u>	<u>94%</u>

(\$ in millions)

<u>Issuer</u>	2021	
	Fair Value	Percent of Total Investments
U.S. Treasury and Government-Backed Securities	\$ 745.7	26%
Local Government Investment Pool	555.2	20%
Federal National Mortgage Association	413.0	15%
Municipal Bonds	203.2	7%
Federal Home Loan Mortgage Corporation	196.1	7%
Federal Home Loan Bank	159.6	6%
Federal Agriculture Mortgage Corporation	137.7	5%
Federal Farm Credit Bank	129.1	5%
	<u>\$ 2,539.6</u>	<u>91%</u>

Custodial Credit Risk – Investments—Custodial credit risk for investments is the risk that, in the event of failure of the counterparty, the City will not have access to, or be able to recover, its investments or collateral securities that are in the possession of an outside party. The City mitigates custodial credit risk for its investments by having its investment securities held by the City’s contractual custodial agent. The City maintains a custody relationship with Wells Fargo under the State of Washington’s statewide custody provider program arranged by the State Treasurer’s Office. The City mitigates counterparty risk by settling trades through its custodian on a delivery-versus-payment method.

By investment policy, the City maintains a list of approved securities dealers for transacting business. The City also conducts its own due diligence as to the financial wherewithal of its counterparties.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

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, 2022 and 2021, consist of:

<i>(\$ in millions)</i>	Retail Electric	Wholesale Power	Other Operating	Operating Subtotal	Nonoperating Subtotal	Total
2022						
Accounts receivable	\$ 111.0	\$ 3.5	\$ 48.3	\$ 162.8	\$ 84.1	\$ 246.9
Less allowance for doubtful accounts	<u>(27.7)</u>	<u>-</u>	<u>(16.1)</u>	<u>(43.8)</u>	<u>-</u>	<u>(43.8)</u>
	<u>\$ 83.3</u>	<u>\$ 3.5</u>	<u>\$ 32.2</u>	<u>\$ 119.0</u>	<u>\$ 84.1</u>	<u>\$ 203.1</u>
2021						
Accounts receivable	\$ 110.2	\$ 10.2	\$ 29.1	\$ 149.5	\$ 75.5	\$ 225.0
Less allowance for doubtful accounts	<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>

There was no exchange energy at fair value under long-term contracts within Wholesale power receivables at December 31, 2022 and 2021. (see Note 19 Long-Term Purchased Power, Exchanges, and Transmission).

7. OTHER ASSETS

Seattle City Council passed resolutions authorizing debt financing and reporting as regulatory assets certain costs in accordance with Statement No. 62 of the GASB, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB & AICPA Pronouncements*. Programmatic conservation costs incurred by the Department and not funded by third parties, Endangered Species Act costs, and environmental costs are reported as regulatory assets in accordance with GASB Statement No. 62. Conservation costs reported as regulatory assets are amortized over 20 years. Endangered Species Act costs reported as regulatory assets are amortized over the remaining license period (see Note 21 Commitments and Contingencies). Environmental costs reported as regulatory assets are amortized over 25 years, beginning in the year costs are paid.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

**NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021**

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).
- Long-term lease receivable, amortized over the life of various leases (See Note 18 Leases).
- 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, 2022 and 2021, consisted of the following:

<i>(\$ in millions)</i>	2022	2021 Restated
Regulatory assets:		
Conservations costs--net	\$ 253.7	\$ 256.1
Environmental costs	<u>93.1</u>	<u>118.7</u>
	<u>346.8</u>	<u>374.8</u>
Other charges and assets--net		
Suburban infrastructure long-term receivables	43.6	45.6
Long-term interfund receivable for environmental costs	1.2	2.9
Long-term customer notes receivable	7.9	1.2
Long-term lease receivable	62.4	11.8
Studies, surveys, and investigations	2.3	2.4
Endangered Species Act costs--net	0.9	1.2
Other	<u>-</u>	<u>0.3</u>
	<u>118.3</u>	<u>65.4</u>
Total Other Assets	<u>\$ 465.1</u>	<u>\$ 440.2</u>

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

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, 2022 and 2021 consisted of the following:

<i>(\$ in millions)</i>	2022	2021
Deferred outflows of resources:		
Unrealized contributions and losses related to pension	\$ 57.7	\$ 39.1
Unrealized contributions and losses related to OPEB	2.3	2.8
Charges on advance refunding	<u>12.8</u>	<u>16.3</u>
Total	<u>\$ 72.8</u>	<u>\$ 58.2</u>

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

9. LONG-TERM DEBT

At December 31, 2022 and 2021, the Department’s long-term debt consisted of the following prior lien or parity bonds:

LONG-TERM <i>(\$ in millions)</i>		Rate	Maturity Year	Original Issuance	2022	2021
Prior Lien Bonds:						
2022	ML&P Improvement and Refunding Revenue Bonds	5.000%–5.000%	2052	\$ 257.7	\$ 257.7	\$ -
2021A	ML&P Improvement and Refunding Revenue Bonds	4.000%–5.000%	2051	259.8	251.5	259.8
2021B	ML&P Refunding Revenue Bonds	variable rates	2045	100.6	100.6	100.6
2020A	ML&P Improvement Revenue Bonds	4.000%–5.000%	2050	198.3	193.8	195.9
2019A	ML&P Improvement Revenue Bonds	5.000%–5.000%	2049	210.5	200.3	203.8
2019B	ML&P Refunding Revenue Bonds	5.000%–5.000%	2026	140.3	95.6	118.5
2018C2	ML&P Refunding Revenue Bonds	variable rates	2046	49.2	43.8	44.9
2018C1	ML&P Refunding Revenue Bonds	variable rates	2046	49.2	43.8	44.9
2018A	ML&P Improvement Revenue Bonds	4.000%–5.000%	2048	263.8	245.8	250.8
2017C	ML&P Improvement and Refunding Revenue Bonds	4.000%–5.000%	2047	385.5	355.8	367.4
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	84.4	94.2
2016C	ML&P Improvement and Refunding Revenue Bonds	4.000%–5.000%	2046	160.8	128.4	139.1
2015A	ML&P Revenue Bonds	4.000%–5.000%	2045	171.9	131.9	137.7
2014	ML&P Improvement and Refunding Revenue Bonds	4.000%–5.000%	2044	265.2	137.9	166.6
2013	ML&P Improvement and Refunding Revenue Bonds	2.000%–5.000%	2043	190.8	52.5	70.1
2012A	ML&P Improvement and Refunding Revenue Bonds	2.000%–5.000%	2041	293.3	51.7	117.8
2012C	ML&P Clean Renewable Energy Bonds	3.400%–3.750%	2033	43.0	43.0	43.0
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	169.8	177.0
2010C	ML&P Recovery Zone Economic Development Bonds	5.590%–5.590%	2040	13.3	13.3	13.3
Total prior lien bonds				<u>\$ 3,393.6</u>	<u>\$ 2,643.5</u>	<u>\$ 2,587.3</u>

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

The Department had the following activity in long-term debt during 2022 and 2021:

<i>(\$ in millions)</i>	Balance at 1/1/22	Additions	Reductions	Balance at 12/31/22	Current Portion
2022					
Prior Lien Bonds - fixed rate	\$ 2,397.0	\$ 257.7	\$ (199.4)	\$ 2,455.3	\$ 125.5
Prior Lien Bonds - variable rate	<u>190.3</u>	<u>-</u>	<u>(2.1)</u>	<u>188.2</u>	<u>2.2</u>
	\$ 2,587.3	\$ 257.7	\$ (201.5)	\$ 2,643.5	\$ 127.7
<i>(\$ in millions)</i>	Balance at 1/21/21	Additions	Reductions	Balance at 12/31/21	Current Portion
2021					
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

Prior Lien Bonds—In July 2022, the Department issued \$257.7 million of tax exempt Municipal Light and Power (ML&P) Improvement and Refunding Revenue Bonds (2022 Bonds) and defeased \$27.5 million of tax exempt ML&P Improvement and Refunding Revenue Bonds (2013 and 2014 Bonds). Proceeds from the 2022 Bonds were used to finance certain capital improvement and conservation programs, to make a deposit to the bond reserve fund, \$5.5 million, and to refund \$50.8 million of the 2012A Bonds on a current basis. The 2022 Bonds had coupon interest rates of 5.00% and mature serially from July 1, 2023 through July 1, 2044, with term bonds maturing from July 1, 2045 through July 1, 2052. The arbitrage yield was 3.32% for the 2022 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 2022 Bonds requires a cash flow over the life of the bonds of \$444.2 million, including \$186.4 million in interest. The refunding gain on the 2022 Bonds was \$4.8 million. The difference between the cash flows required to service the old and new debt and to complete the refunding for the 2022 Bonds totaled \$2.5 million and the aggregate economic gain on refunding totaled \$2.4 million at present value. Bonds defeased in July 2022 partially refunded certain 2013 Bonds and 2014 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 2013 and 2014 bonds was from operating cash whereby \$28.7 million of state and local government securities were purchased and placed in escrow to pay principal and interest on the refunded bonds. The accounting gain on refunding for 2022 was \$1.3 million.

Prior Lien Bonds— In July 2021, the Department issued \$259.8 million of tax exempt ML&P Improvement and Refunding Revenue Bonds (2021A Bonds), and in August 2021 issued \$100.6 million of ML&P variable rate (SIFMA Index) Refunding Revenue Bonds (2021B Bonds) and also defeased \$75.2 million of tax exempt ML&P Improvement and Refunding Revenue Bonds (2012A and 2013 Bonds). 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. 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 CITY OF SEATTLE—CITY LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

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 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 \$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 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 2022 was a 5.7% reduction through the end of 2022 in the amount the Department expects to receive from the federal government in connection with its ML&P Revenue Bonds, 2010A (Taxable Build America Bonds—Direct Payment); ML&P Revenue Bonds, 2010C (Taxable Recovery Zone Economic Development Bonds—Direct Payment); ML&P Improvement Revenue Bonds, 2011B (Taxable New Clean Renewable Energy Bonds—Direct Payment); ML&P Improvement Revenue Bonds, 2012C (Taxable New Clean Renewable Energy Bonds—Direct Payment); and ML&P Revenue Bonds, 2016A (Taxable New Clean Renewable Energy Bonds—Direct Payment). Because of this reduction, the Department received \$0.3 million less in interest subsidies than originally anticipated for 2022. The Department has sufficient revenues to pay the interest without these subsidies. The effect for the accrual of federal subsidies as of December 31, 2022 was inconsequential. The effect during 2023 is estimated to be lower federal subsidies by approximately \$0.3 million. The effect thereafter for federal subsidies is indeterminable. Sequestration was originally in effect through 2021 and has subsequently been extended through approximately September 30, 2030.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

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, 2022.

(\$ in millions)

Years Ending December 31	Fixed Rate Bonds		Variable Rate Bonds		Total
	Principal Redemptions	Interest Requirements	Principal Redemptions	Interest Requirements	
2023	\$ 125.5	\$ 109.3	\$ 2.2	\$ 7.4	\$ 244.4
2024	128.9	103.4	2.3	7.5	242.1
2025	119.1	96.9	2.4	7.4	225.8
2026	112.3	91.2	5.9	7.2	216.6
2027	91.1	85.7	6.1	7.0	189.9
2028 – 2032	425.1	365.8	34.4	30.8	856.1
2033 – 2037	461.2	270.7	42.0	23.2	797.1
2038 – 2042	477.3	165.9	51.3	14.0	708.5
2043 – 2047	368.0	75.0	41.6	3.3	487.9
2048 – 2052	146.8	14.8	-	-	161.6
Total	<u>\$ 2,455.3</u>	<u>\$ 1,378.7</u>	<u>\$ 188.2</u>	<u>\$ 107.8</u>	<u>\$ 4,130.0</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 2022 Bonds, the aggregate Reserve Fund Requirement for all Parity Bonds outstanding was \$173.2 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 \$103.1 million at December 31, 2022 consisted of \$96.1 million in cash, a \$5.5 million deposit from the 2022 Bond issue, and \$1.5 million in interest. The reserve fund balance at December 31, 2021 of \$95.9 million consisted of \$95.9 million in cash.

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 A1 and AA by Moody’s Investors Service and Standard & Poor’s Ratings Services, respectively.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

Irrevocable Trust Accounts—\$28.7 million from operating cash was placed in a separate irrevocable trust account to partially defease the 2013 and 2014 Bonds on an advanced refunding basis. There were balances outstanding in the irrevocable trust account during 2022 for prior lien bonds advance refunded or defeased in 2022 with balances outstanding for prior lien bonds advance refunded prior to 2021. The ending balance of irrevocable trust accounts for the defeased bonds outstanding was \$161.3 million and \$164.5 million as of December 31, 2022 and 2021, respectively. During 2022, \$26.9 million of the defeased bonds were called and paid from the 2022 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, 2022 are sufficient to service and redeem the defeased bonds outstanding.

Bond Ratings—The 2022 and 2021 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 2022 and 2021 was \$230.3 million and \$223.1 million, respectively. Total revenue available for debt service as defined for the same periods was \$568.3 million and \$449.0 million, respectively. Annual interest and principal payments are expected to require 42.8% of revenues available for debt service for 2023 and 51.3% in 2022.

Federal Arbitrage Regulations—Revenue bonds are subject to federal arbitrage regulations and the Department has complied with these regulations. As of December 31, 2022 and 2021, arbitrage liability existed for certain bonds outstanding totaling \$0.2 million and \$0.2 million, respectively.

Certain Disclosures Related to Debt— There were no direct borrowings, direct placements, or conduit debt for the Department as of December 31, 2022 and 2021, respectively.

The Department has an arrangement with the City of Seattle Department of Finance 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, 2022, and 2021, there were no interfund loans outstanding. Also, there were no financed purchases of underlying assets or accounts payable for finance leases as of December 31, 2022 and 2021, 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.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

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, 2022 and 2021, 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, 2022 and 2021, were as follows:

(\$ in millions)	2022		2021	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-term debt:				
Prior lien bonds	\$ 2,923.0	\$ 2,434.4	\$ 2,870.4	\$ 2,974.2

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 \$(0.5) million in 2022 and \$2.6 million in 2021. Charges on advance refunding in the amount of \$12.8 million and \$16.3 million are included as a component of Deferred Outflows of Resources on the 2022 and 2021 balance sheets, respectively. Gains on advance refunding included as a component of Deferred Inflows of Resources were \$5.6 million in 2022 and \$2.8 million in 2021.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

10. NONCURRENT LIABILITIES

The Department had the following activities during 2022 and 2021:

(\$ in millions)

	Balance at 1/1/22	Additions	Reductions	Balance at 12/31/22
2022				
Net pension liability	\$ 199.5	\$ -	\$ (27.8)	\$ 171.7
Accumulated provision for injuries and damages	111.6	0.5	(28.2)	83.9
Compensated absences	20.2	0.5	-	20.7
Other	10.3	-	(2.2)	8.1
Total	<u>\$ 341.6</u>	<u>\$ 1.0</u>	<u>\$ (58.2)</u>	<u>\$ 284.4</u>
2021				
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
Total	<u>\$ 407.9</u>	<u>\$ 1.9</u>	<u>\$ (68.2)</u>	<u>\$ 341.6</u>

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 includes primarily 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 2022 and 2021, liabilities for lawsuits, claims, and workers' compensation were discounted over a period of 30 to 35 years at the City's average annual rate of return on investments, which was 1.15% and 1.58%, respectively.

To address the risk for certain losses arising from personal and property damage claims by third parties and for job-related illnesses and injuries to employees, the Department as part of the City of Seattle, has been self-insured for most of its general liability risks, for workers' compensation, and for employees' health care benefits. For the June 1, 2022 to June 1, 2023 coverage period and for the June 1, 2021 to June 1, 2022 coverage period, 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. Until June 1, 2021, the City's self-insured retention was \$6.5 million. The Department had no settled claims exceeding coverage in the last three years.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

The City also purchased an all-risk comprehensive property insurance policy that provides \$500.0 million in limits subject to various deductible levels. This includes a \$100.0 million earthquake and flood sublimit. 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, an assortment of 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 2023 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, 2022 and 2021 are as follows:

<i>(\$ in millions)</i>	2022	2021
Beginning unpaid claims liability	\$ 16.8	\$ 12.6
Payments	(7.7)	(1.9)
Accrual for class action settlement	-	3.5
Incurred Claims	<u>8.5</u>	<u>2.6</u>
Ending balance	<u>\$ 17.6</u>	<u>\$ 16.8</u>

The provision for injuries and damages included in current and noncurrent liabilities at December 31, 2022 and 2021 is as follows:

<i>(\$ in millions)</i>	2022	2021
Noncurrent liabilities	\$ 9.6	\$ 9.1
Accounts payable and other current liabilities	<u>8.0</u>	<u>7.7</u>
Ending balance	<u>\$ 17.6</u>	<u>\$ 16.8</u>

12. ACCOUNTS PAYABLE

Accounts Payable and Other Current Liabilities—The composition of accounts payable and other current liabilities at December 31, 2022 and 2021, is as follows:

<i>(\$ in millions)</i>	2022	2021
Vouchers payable	\$ 38.5	\$ 33.8
Power accounts payable	56.3	27.0
Taxes payable	14.5	12.7
Claims payable	12.8	14.1
Guarantee deposit and contract retainer	35.3	34.7
Other accounts payable	<u>4.1</u>	<u>2.9</u>
Total	<u>\$ 161.5</u>	<u>\$ 125.2</u>

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

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.

Following is membership data for employees covered by the benefit terms as of the reporting date, December 31, 2022, and the measurement date, December 31, 2021 and the reporting date December 31, 2021, and the measurement date December 31, 2020:

	2022	2021
Active members	9,436	9,164
Retired members and beneficiaries receiving benefits	7,534	7,324
Vested terminated employees entitled to benefits	1,611	1,537

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 Statement No. 72.

The NPL was measured as of December 31, 2021 and December 31, 2020, and the total pension liability used to calculate the NPL was based on an actuarial valuation as of January 1, 2021 and January 1, 2020, respectively.

Pension Benefits—Service retirement benefits are calculated on the basis of age, salary, and service credit.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

**NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021**

SCERS I – Members are eligible for retirement benefits after 30 years of service, at age 52 after 20 years of service, at age 57 after 10 years of service, and at age 62 after 5 years of service. Annual retirement benefits are calculated as 2% multiplied by years of creditable service, multiplied by average salary, based on the highest 24 consecutive months, excluding overtime. Members who retire before meeting the age and/or years of service requirement receive a 0.1% reduction for each year that retirement precedes the date of eligibility. Retirement benefits vest after 5 years of credited service.

SCERS II – Members are eligible for retirement benefits at age 55 after 20 years of service, at age 57 after 10 years of service, and at age 60 after 5 years of service. Annual retirement benefits are calculated as 1.75% multiplied by years of creditable service, multiplied by average salary, based on the highest 60 consecutive months, excluding overtime. Members who retire before meeting the age and/or years of service requirement receive a 0.1% reduction for each year that retirement precedes the date of eligibility. Retirement benefits vest after 5 years of credited service.

Disability Benefits—An active member is eligible to receive disability benefits when: (a) member has achieved 10 years of credited service within the 15 years preceding disability retirement, or (b) the disability occurs in the course of City employment in which no service requirement exists. The amount of the disability benefit is the greater of (a) 1.5% times the final compensation times completed years of creditable service, or (b) 1.5% times final compensation total years of service that could have been earned to age 62, but not to exceed one-third of final compensation. Disability benefits vest after 10 years of credited service.

Death Benefits—Death benefits may be paid to a member’s designated beneficiary. If a member’s death occurs before retirement, the benefit options available are (a) payment to the beneficiary of accumulated contributions, including interest, or (b) if the member had completed 10 years of service at the time of death, a surviving spouse or registered domestic partner may elect to receive, in place of (a) above, either: (1) A monthly allowance for life equal to the benefit the spouse would have received had the member just retired with a 100% contingent annuitant option in force, or (2) A cash payment of no more than one-half of the member’s accumulated contributions, along with a correspondingly reduced retirement allowance. If a member’s death occurs after retirement, the death benefit received by the beneficiary (if any) is based on the retirement plan the member selected at retirement. Death benefits vest after 10 years of credited service.

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, 2022 and December 31, 2021, and the measurement dates, December 31, 2021 and December 31, 2020:

	Contributions				
	Rates				Amo
	SCERS I Employer	SCERS I Employee	SCERS II Employer	SCERS II Employee	City
2022	16.20%	10.03%	15.72%	7.00%	\$145.0
2021	16.20%	10.03%	15.72%	7.00%	\$139.5

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

**NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021**

Net Pension Liability—The Department reported a liability of \$171.7 million and \$199.5 million for its proportionate share of net pension liability as of December 31, 2022 and December 31, 2021, respectively. The Department’s proportion of the NPL as of December 31, 2022 and December 31, 2021 was based on contributions to SCERS during the fiscal year ended December 31, 2021 and December 31, 2020, respectively. The Department’s proportionate share was 20.72% and 20.38% for the years ended December 31, 2021 and December 31, 2020, respectively. The net pension liability was measured as of December 31, 2021 and December 31, 2020, and the total pension liability used to calculate the net pension liability was based on an actuarial valuation as of January 1, 2021 and January 1, 2020, respectively.

Changes in Net Pension Liability
(\$ In millions)

	Fiscal Year Ended December 31	
	2022	2021
<u>Total Pension Liability</u>		
Service cost	\$ 26.3	\$ 24.1
Interest on total pension liability	69.5	65.2
Effect of economic/demographic gains or losses	(1.1)	1.0
Effect of assumptions changes or inputs	26.9	-
Benefit payments	(46.2)	(43.6)
Refund of contributions	(4.3)	(3.1)
Net change in total pension liability	<u>71.1</u>	<u>43.6</u>
Total pension liability, beginning of period	941.4	929.8
Effect of change in proportionate share	16.0	(32.0)
Adjusted total pension liability, beginning of period	<u>957.4</u>	<u>897.8</u>
Total pension liability, end of period	<u>1,028.5</u>	<u>941.4</u>
<u>Plan fiduciary net position</u>		
Benefit payments	(46.2)	(43.6)
Refunds of contributions	(4.3)	(3.1)
Administrative expenses	(1.3)	(1.5)
Member contributions	16.9	16.9
Employer contributions	28.9	28.8
Net investment income	108.3	102.6
Net change in Plan fiduciary net position	<u>102.3</u>	<u>100.1</u>
Plan fiduciary net position, beginning of period	741.9	664.6
Effect of change in proportionate share	12.6	(22.8)
Adjusted fiduciary net position, beginning of period	<u>754.5</u>	<u>641.8</u>
Plan fiduciary net position, end of period	<u>856.8</u>	<u>741.9</u>
Net pension liability, end of period	<u>\$ 171.7</u>	<u>\$ 199.5</u>

The Department incurred pension expense of (\$2.5) million and \$1.5 million for the years ended December 31, 2022, and 2021, respectively.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

**NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021**

Actuarial assumptions—The total pension liability at December 31, 2022 and 2021 was based on actuarial valuations as of December 31, 2021 and 2020, 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	FY 2022: 3.35% FY 2021: 3.50%
Asset Valuation Method	
Smoothing period	5 years
Recognition method	Non-asymptotic
Corridor	None
Inflation	FY 2022: 2.60% FY 2021: 2.75%
Investment Rate of Return	FY 2022: 6.75% FY 2021: 7.25%
Cost of Living Adjustments	FY 2022: Annual compounding COLA of 1.5% assumed. Additional restoration of purchasing power benefits available based on an assumed 2.6% if purchasing level decreases to 65%. FY 2021: 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	FY 2022: Various rates based on PubG-2010 mortality tables and using generational projection of improvement using MP-2021 Ultimate projection scale. FY 2021: Various rates based on RP-2014 mortality tables and using generational projection of improvement using MP-2014 Ultimate projection scale.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

All other actuarial assumptions used in the December 31, 2021 valuation were based on the results of an actuarial experience study for the period January 1, 2018 through December 31, 2021, and all other actuarial assumptions used in the December 31, 2020 valuation 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 2022 and FY 2021 was 6.75% and 7.25% respectively. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and the participating governmental entity contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods on projected benefit payment to determine the total pension liability.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and gross of administrative expenses) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The following table reflects long-term expected (30 year) real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. The expected inflation rate for FY 2022 and FY 2021 is projected at 2.60% and 2.75% for the same periods, respectively.

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Equity		
Public Equity	48%	4.20%
Private Equity	11%	7.40%
Fixed Income		
Core Fixed Income	18%	0.50%
Credit Fixed Income	7%	3.90%
Real Assets		
Real Estate	12%	3.50%
Infrastructure	4%	4.00%

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

**NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021**

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 6.75% and 7.25% for FY 2022 and FY 2021 respectively, 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:

Discount Rate Sensitivity	
<i>(In millions)</i>	
	Net Pension Liability at December 31,
	2022 2021
<u>Discount Rate</u>	
1% decrease - 5.75%	\$ 301.6
Current discount Rate - 6.75%	171.7
1% increase - 7.75%	63.1
1% decrease - 6.25%	\$ 314.9
Current discount Rate - 7.25%	199.5
1% increase - 8.25%	103.0

Plan Fiduciary Net Position—Detailed information about the SCERS’s fiduciary net position is available in the separately issued, audited financial statements as of December 31, 2022, which are publicly available at <http://www.seattle.gov/retirement/about-us/board-of-administration>.

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, 2022, and December 31, 2021:

	December 31,	
	2022	2021
<i>(\$ in millions)</i>		
<u>Deferred outflows of resources</u>		
Differences between expected and actual experience	\$ 0.6	\$ 0.8
Changes of assumptions	28.1	9.4
Contributions made subsequent to measurement date	29.0	28.9
Total deferred outflows of resources	<u>\$ 57.7</u>	<u>\$ 39.1</u>
<u>Deferred inflows of resources</u>		
Differences between expected and actual experience	\$ 4.2	\$ 5.7
Net difference between projected and actual earnings	86.5	60.2
Changes in employer proportion and differences between employer contributions and proportionate share of contributions	3.9	13.9
Total deferred inflows of resources	<u>\$ 94.6</u>	<u>\$ 79.8</u>

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

Department contributions made in 2022 in the amount of \$29.0 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, 2023. 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 (\$ in millions)	Amortization
2023	\$ (15.5)
2024	(28.3)
2025	(19.0)
2026	(6.3)
2027	3.2
Total	<u>\$ (65.9)</u>

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 11,472 active employee plan participants and 414 retiree, disabled, and survivor plan participants as of the January 1, 2022 valuation date.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

**NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021**

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 2018-2021.

Valuation date	FY 2022: January 1, 2022 FY 2021: January 1, 2021
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Discount rate	FY 2022: 2.06% FY 2021: 2.12%
Participation	25% of Active Employees who retire participate

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.

Year	Pre-65		
	Medical	Rx	Composite
2022–2023	6.09%	8.00%	6.53%
2023–2024	6.75%	8.00%	7.04%
2024–2025	6.47%	7.56%	6.73%
2025–2026	6.19%	7.13%	6.41%
2026–2027	5.91%	6.69%	6.09%
2027–2028	5.63%	6.25%	5.78%
2028–2029	5.34%	5.81%	5.46%
2029–2030	5.06%	5.38%	5.14%
2030–2031	4.78%	4.94%	4.82%
2031–2032	4.50%	4.50%	4.50%

Mortality

General Service

- Actives: PubG-2010 Employee Table multiplied by 95%
- Retirees: PubG-2010 Retired Mortality Table multiplied by 95%
- Disabled: PubG-2010 Disabled Mortality Table multiplied by 95%
- Rates are projected generationally using Scale MP-2021 ultimate rates.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

**NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021**

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.

Health Care Claims Development – The sample per capita claim cost assumptions shown below by age and plan represent the true underlying baseline experience estimated for the City of Seattle’s sponsored postretirement benefits and costs.

Pre-65 Medical, Rx, and Admin Combined				
Age	Aetna Preventive	Aetna Traditional	Kaiser Standard	Kaiser Deductible
50	\$ 14,137	\$ 12,657	\$ 8,212	\$ 6,639
55	\$ 17,449	\$ 15,622	\$ 10,136	\$ 8,195
60	\$ 21,640	\$ 19,375	\$ 12,571	\$ 10,163

The average medical and prescription drug per capita claims costs were developed from 2023 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 2023 four-tier rate structure including the add-on cost of dependent children and trended back from 2023 to 2022 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.

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%

Net OPEB Liability – The Department reported an OPEB liability of \$7.9 million and \$10.1 million for the years ended December 31, 2022 and 2021, 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 14.17% and 14.38% for the years ended December 31, 2022 and 2021, respectively. Based on the actuarial valuation date of January 1, 2022 and measurement dates January 1, 2022 and January 1, 2021, details regarding the Department’s Total OPEB Liability, Plan Fiduciary Net Position, and Net OPEB Liability as of December 31, 2022 and 2021 are shown below.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

**NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021**

(\$ in millions)	Changes in Net OPEB Liability	
	Fiscal Year Ended December 31,	
	2022	2021
<u>Total OPEB Liability</u>		
Service cost	\$ 0.6	\$ 0.6
Interest on the total OPEB liability	0.2	0.3
Differences between expected and actual experience	(2.3)	-
Changes of assumptions	(0.2)	0.5
Benefit payments	(0.4)	(0.4)
Net Changes	(2.1)	1.0
Total OPEB liability, beginning of period	9.1	9.0
Effect of change in proportionate share	0.9	0.1
Adjusted total OPEB liability, beginning of period	10.0	9.1
Total OPEB liability, end of period	7.9	10.1
<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	\$ 7.9	\$ 10.1

The Department recorded an expense for OPEB of \$0.4 million and \$0.9 million in 2022 and 2021, respectively. The Health Care Subfund of the General Fund is reported in The City of Seattle’s Annual Report.

Discount Rate and Healthcare Cost Trend Rates – The discount rate used to measure the total OPEB liability is 2.06% and 2.12% for the years ended December 31, 2022 and 2021, 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,	
	2022	2021
<u>Discount Rate</u>		
1% decrease - 1.06%	\$ 8.6	
Current discount Rate - 2.06%	7.9	
1% increase - 3.06%	7.2	
1% decrease - 1.12%		\$ 11.0
Current discount Rate - 2.12%		10.1
1% increase - 3.12%		9.3

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

**NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021**

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:

<i>(In millions)</i>	Healthcare Cost Trend Rate Sensitivity	
	Net OPEB Liability at December 31,	
	2022	2021
<u>Discount Rate</u>		
1% decrease	\$ 7.0	\$ 8.9
Trend rate	7.9	10.1
1% increase	9.0	11.6

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, 2022 and December 31, 2021.

<i>(\$ in millions)</i>	December 31,	
	2022	2021
<u>Deferred outflows of resources</u>		
Difference between actual and expected experience	\$ 1.5	\$ 1.9
Assumption changes	0.4	0.5
Contributions made after measurement date	0.4	0.4
Total deferred outflows of resources	<u>\$ 2.3</u>	<u>\$ 2.8</u>
<u>Deferred inflows of resources</u>		
Difference between actual and expected experience	\$ 2.0	\$ -
Assumption changes	2.7	3.0
Total deferred inflows of resources	<u>\$ 4.7</u>	<u>\$ 3.0</u>

Department contributions made in 2022 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, 2023. 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.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

Year Ending December 31 (\$ in millions)	Amortization
2023	\$ (0.4)
2024	(0.4)
2025	(0.4)
2026	(0.4)
2027	(0.4)
Total Thereafter	<u>(0.8)</u>
Total	<u>\$ (2.8)</u>

15. ENVIRONMENTAL LIABILITIES

Environmental liabilities were \$79.1 million and \$108.9 million, at December 31, 2022, and 2021, 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 2023. 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 EWW.

The City anticipates that EPA will issue a notification letter to Potential Responsible Parties (PRP) informing them of their potential liability for the EWW Cleanup. The timing of this notification is unknown. The current EWW Group is working to define an allocation or mediation process that will commence once additional PRPs are identified. The Department owns property adjacent to the EWW 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 \$52.4 million as of December 31, 2022 respectively. 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, 2022 AND 2021

● *The Lower Duwamish Waterway Superfund Site (LDW)*—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 2022. EPA also updated its estimate of the cost of implementing the remedy to account for inflation since the estimate was prepared in 2011. Their updated estimate for the project, which includes all parties, is \$668 million.

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 fourth amendment to the AOC that requires LDWG to (1) Design the remedy for river mile 3.0 to river mile 5.0 of LDW Upper Reach, consistent with the LDW 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 LDW; 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 the LDW middle reach, consistent with the LDW 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 cost is currently split equally between the four LDWG parties. The Department recorded a liability of \$44.2 million as of December 31, 2021 and \$17.5 million as of December 31, 2022 respectively. The Department’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, 2022 AND 2021

In November 2012, the EPA issued general notification letters to parties informing them of their potential liability for the LDW 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 and is expected to conclude in 2023. Design of the LDW upper reach began in 2019 under the current order. Construction and monitoring will likely occur between 2014 and 2030, but what that will consist of is unknown until EPA has issue Orders for cleanup. 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. In May 2022, the Allocator issued its final report which resulted in a change in sharing percentage of cost between City Light and SPU from 31%/69% to 15%/85% sharing starting 2023. Since then, the Allocation Parties have been negotiating settlements amongst themselves. In January 2023, EPA issued Special Notice Letters to five parties, including the City. The City responded in March 2023 with a good faith offer to be one of the parties implementing the remedy, if satisfactory settlements are reached with other parties. EPA anticipates filing a Consent Decree governing implementation of the remedy before the end of 2023.

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 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, 2020 and 2021. The annual report covering January 1 through December 31, 2022 will be submitted in March 2023. Department recorded a liability of \$2.1 million as of December 31, 2021 and \$2.3 million as of December 31, 2022 respectively. The ultimate liability is indeterminate.

- *South Park Marina (SPM)*—The DOE has notified the City that it is a Potentially Liable Party (PLP) for contamination at SPM, which is adjacent to Terminal 117. The Department is the lead for the City at this site. Negotiations for an Agreed Order between the DOE and PLP’s (City, Port of Seattle and SPM) 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 SPM have agreed to share costs equally with the City administering the contract with a common consultant. The 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 DOE in May 2020 and comments were received. A revised workplan was submitted in December 2020. Phase 1 field activities and some data analyses were completed in 2021. Approval of the Source Control memorandum and preparation of workplan addendum for Phase 2 Field activities were completed in 2022. Current activities include collection and analysis of Phase 2 field samples and preparation of the draft RI report. The Department recorded a liability of \$0.9 million as of December 31, 2021 and \$0.9 million as of December 31, 2022 respectively. 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, 2022 AND 2021

- *North Boeing Field/Georgetown Steam Plant (NBF/GTSP)*—The City, King County, and Boeing signed an Administrative Order issued by the DOE requiring them to investigate and possibly remove contamination in an area that encompasses North Boeing Field, the Department’s 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 DOE’s implementation of the current order. The order requires completion and then implementation of a RI and FS. The final RI work plan was issued in November 2013. In January 2015, all parties executed the First Amendment to the NBF/GTSP Agreed Order, making the PLP’s 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. DOE 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 DOE engagement and negotiations in 2020 and 2021.

In 2022, the DOE notified the PLP’s that Perfluoroalkyl and Polyfluoroalkyl Substances (PFAS) were determined to be hazardous substances under Model Toxic Control Act (MTCA) and additional investigation was necessary to address these potential contaminants. Current activities include negotiations with DOE to determine the scope and schedule for the PFAS investigation and preparation of the revised draft RI report. The draft RI is now anticipated to be submitted in 2023. The FS process will begin following approval of RI which may not occur until the after the PFAS investigation is complete. 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 the 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, 2022 and \$0.9 million as of December 31, 2022 respectively. 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 2025. 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 completed in 2022 and the final is anticipated to be approved in Q1 or Q2 2023. Floyd|Snider (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.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

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 first phase of the EE/CA field investigation was completed in October 2022, and the draft and final EE/CA Reports are planned for 2023-2024. NPS owns the land.

The Department recorded a liability of \$ 3.4 million as of December 31, 2021 and \$1.7 million as of December 31, 2022 for all three Skagit sites respectively. The ultimate liability is indeterminate.

- *Substations* –Cleanup activities are being conducted in a number of substation sites. At Magnolia Substation, site assessment performed in 1999 identified Polychlorinated Biphenyl’s (PCB’s) on two concrete pads located outside of the concrete substation yard. Further evaluation done in 2015 identified pesticide, cadmium and PCB contamination on the property. The site has a designated Environmental Critical Area along the eastern property line, a steep slope, requiring the cleanup to be permitted with the Seattle Department of Construction and Inspections (DCI). Cleanup and restoration of most of the site was completed in 2020 and 2021. Cleanup of one small area where contamination remains is planned for 2023. Environmental assessments have found contamination exceeding the state residential cleanup thresholds at three of City Light’s properties: the Interbay, University Rectifier and Roy Street Shops sites. The Department’s Environmental Land and Licensing Business Unit contracted with a consultant during 2022 and has begun initial assessment of the University Rectifier. Remedial assessment and possible remedial design work for these sites will be completed during 2023-2025. The department recorded a liability of \$2.7 million as of December 31, 2021 and \$1.0 million as of December 31, 2022 respectively. The ultimate liability is indeterminate.

Ross Dam - The tunnel that houses a bypass penstock designed to convey water from Ross reservoir beneath Ross Dam is contaminated with metals residues from former coating operations. To prevent their release into Skagit River, removal of the accumulated sediment from the tunnel system is needed. Contracting is in process and work is planned for the third quarter of 2023. The Department recorded a liability of \$0.9 million as of December 31, 2021 and \$1.4 million as of December 31, 2022 respectively. 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, *Accounting and Financial Reporting for Pollution Remediation Obligations*. 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 CITY OF SEATTLE—CITY LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

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 1.6 million and \$2.2 million at December 31, 2022, and 2021, respectively, primarily representing an interfund receivable from SPU for recovery of remediation costs incurred related to the lower Duwamish Waterway site. While we calculated a total realizable recovery of \$7.6 million or an increase of \$4.7 million at December 31, 2022, this amount is still under negotiation with SPU. 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, 2022. As of December 31, 2022, and 2021, environmental costs of \$93.1 million and \$118.7 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, 2022 and 2021 were as follows:

<i>(\$ in millions)</i>	2022	2021
Beginning Deferred Environmental Costs	\$ 118.7	\$ 117.1
Incurred	4.9	4.3
True-up of Realizable Recoveries from SPU and Other Parties	1.6	(2.2)
Adjustment of items directly booked to Regulatory Asset	(1.6)	-
Sharing Percentage change	(29.9)	-
Amortization	(0.6)	(0.5)
	<u>93.1</u>	<u>118.7</u>
Ending Deferred Environmental Costs net of Recoveries	\$ 93.1	\$ 118.7

The changes in the provision for environmental liabilities at December 31, 2022, and 2021 were as follows:

<i>(\$ in millions)</i>	2022	2021
Beginning Environmental Liability, Net of Recoveries	\$ 108.9	\$ 106.6
Payments	(4.7)	(2.0)
Incurred Environmental Liability	(25.1)	4.3
	<u>79.1</u>	<u>108.9</u>
Ending Environmental Liability, Net of Recoveries	\$ 79.1	\$ 108.9

The provision for environmental liabilities included in current and noncurrent liabilities at December 31, 2022 and 2021, was as follows:

<i>(\$ in millions)</i>	2022	2021
Noncurrent Liabilities	\$ 74.3	\$ 102.5
Accounts Payable and Other Current Liabilities	4.8	6.4
	<u>79.1</u>	<u>108.9</u>
Ending Non-Current Liabilities	\$ 79.1	\$ 108.9

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

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, 2022 and 2021 consisted of the following:

(\$ in millions)	2022	2021
Other liabilities:		
Unearned capital fees	\$ 28.9	\$ 27.6
Customer deposits—sundry sales	4.7	5.3
Unearned revenues—other	<u>2.7</u>	<u>1.8</u>
Total	<u>\$ 36.3</u>	<u>\$ 34.7</u>

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 2022 and 2021 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.

For information on pension related deferred inflows, see Note 13 Seattle City Employees' Retirement System.

For information on OPEB related deferred inflows, see Note 14 Other Postemployment Benefits.

In accordance with the requirements of GASB Statement No. 87, *Leases*, for lessor arrangements, deferred inflows will increase due to the recognition of a deferred inflow of resources related to the leases. This deferred inflow will initially be measured at the amount of the lease receivable. This deferred inflow will be amortized over the life of the leases as revenues are recognized. See Note 18 Leases 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.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

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.

Deferred inflows of resources at December 31, 2022 and 2021 consisted of the following:

<i>(\$ in millions)</i>	2022	2021 Restated
Deferred inflows of resources:		
Unearned revenue—rate stabilization account	\$ 50.0	\$ 74.4
Pension related amounts	94.6	79.8
OPEB related amounts	4.7	3.0
Gains on advanced refunding	5.6	2.8
Bonneville energy conservation agreement	38.3	37.9
Lease asset	67.3	12.0
FERC land use fee refund	7.2	11.2
Other deferred inflows	<u>0.3</u>	<u>0.2</u>
Total	<u>\$ 268.0</u>	<u>\$ 221.3</u>

18. LEASES

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. The Department implemented this standard effective January 1, 2022 and retroactively restated the prior period for presentation purposes.

The Department has not identified any leases as of December 31, 2022, in which the Department is the lessee that meets the requirements of Statement No. 87.

The Department has identified leases for which the Department is the lessor, that meets the requirements of Statement No. 87 as of December 31, 2022. The table below presents the inflow of resources for comparative purposes at December 31, 2022, as if Statement No. 87 had been implemented on January 1, 2021. The net impact from 2021 recorded in 2022 was a \$0.2 million increase to beginning net position due to a negative \$0.6 million adjustment related to previously recorded 2021 lease revenue.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

(\$ in millions)

	Inflow from 2022	Inflow from 2021	Total Inflow
	Recorded in 2022	Recorded in 2022	2021-2022
	Recorded in 2022	Recorded in 2022	Recorded in 2022
Lease Revenue	\$ 5.22	\$ 0.53	\$ 5.75
Lease Interest Revenue	\$ 1.07	\$ 0.27	\$ 1.34

Lease balances at December 31, 2022, where the Department is the lessor are summarized below. For comparative purposes, the 2021 balances are presented as if GASB Statement No. 87 had been implemented on January 1, 2021. The Department entered into new pole attachment agreements starting January 2022.

Balances as of December 31, 2022

(\$ in millions)

Lease Classification	Lease Receivable	Current Portion of Receivable	Deferred Inflow of Resources	Lease Terms in Years	Implicit Interest Rate
Buildings	\$ 0.15	\$ 0.02	\$ 0.14	11	0.44%
Land	11.58	0.36	11.32	23 - 75	0.34% - 3.51%
Other - Wireless Pole Attachments	46.52	2.11	46.93	20	1.64%
Other - Wireline Pole Attachments	8.85	2.20	8.87	5	0.54%
Total	\$ 67.10	\$ 4.69	\$ 67.26		

Comparative Balances as of December 31, 2021

(\$ in millions)

Lease Classification	Lease Receivable	Current Portion of Receivable	Deferred Inflow of Resources	Lease Terms in Years	Implicit Interest Rate
Buildings	\$ 0.17	\$ 0.02	\$ 0.17	11	0.44%
Land	11.93	0.36	11.83	23 - 75	0.34% - 3.51%
Total	\$ 12.10	\$ 0.38	\$ 12.00		

The Department has not identified any leases as of December 31, 2022, in which variable payments are not included in the measurement of the lease receivable under Statement No. 87.

The Department has not identified any leases as of December 31, 2022, where City Light, as the lessor, has issued debt for which the principal and interest payments are secured by the lease payments.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

19. 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.

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, 2022 and 2021 consisted of the following:

<i>(\$ in millions)</i>	Aggregate Contract Amount	Aggregate Fair Value	Unrealized Gain (Loss)
2022			
Sales	\$ 18.1	\$ 30.7	\$ (12.6)
Purchases	0.2	1.6	1.4
Total	<u>\$ 18.3</u>	<u>\$ 32.3</u>	<u>\$ (11.2)</u>
2021			
Sales	\$ 2.7	\$ 3.8	\$ (1.1)
Purchases	-	-	-
Total	<u>\$ 2.7</u>	<u>\$ 3.8</u>	<u>\$ (1.1)</u>

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

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 2022 and 2021. 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 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.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

20. 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 \$7.5 million and \$6.6 million in 2022 and 2021, respectively, including operations costs and royalty payments to the irrigation districts. The Department provided and billed Lucky Peak \$0.3 million in both 2022 and 2021 for operational and administrative services. 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 2022 and 2021. The Department's payables to Lucky Peak were \$0.0 and \$0.5 million at December 31, for 2022 and 2021, respectively.

British Columbia—High Ross Agreement—In 1984, an agreement was reached between the Province of British Columbia and the City under which British Columbia will provide the Department with energy equivalent to that which would have resulted from an addition to the height of Ross Dam. Delivery of this energy began in 1986 and is to be received for 80 years. In addition to the direct costs of energy under the agreement, the Department incurred costs of approximately \$8.0 million in prior years related to the proposed addition and was obligated to help fund the Skagit Environmental Endowment Commission through four annual \$1.0 million payments. 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).

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

**NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021**

Expenses incurred, and energy received under these and other long-term purchased power agreements at December 31, 2022 and 2021 were as follows:

(\$ in millions)	Expense		Average Megawatts	
	2022	2021	2022	2021
Long-term purchased power-Bonneville	\$ 106.5	\$ 154.7	434.3	470.2
Lucky Peak	7.5	6.6	26.7	25.3
British Columbia - High Ross Agreement	13.0	13.1	34.9	36.0
Grant County Public Utility District	1.4	1.1	3.1	2.7
Columbia Basin Hydropower	8.4	8.0	30.0	30.3
Bonneville South Fork Tolt billing credit	(3.6)	(3.5)	-	-
Renewable energy - State Line Wind	2.9	25.2	8.5	41.1
Renewable energy - Other	7.2	7.3	11.1	11.9
Exchanges and loss returns energy at fair value	8.8	4.8	47.5	49.6
Long-term purchased power booked out	<u>(1.6)</u>	<u>(9.8)</u>	<u>(4.9)</u>	<u>(21.8)</u>
Long-term purchase power-other	<u>44.0</u>	<u>52.8</u>	<u>156.9</u>	<u>175.1</u>
Total	<u>\$ 150.5</u>	<u>\$ 207.5</u>	<u>591.2</u>	<u>645.3</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 2022 and 2021. 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 2022 and 2021.

Fair Value of Exchange Energy—During 2022 and 2021, exchange energy settled deliveries were valued using Dow Jones U.S Daily Electricity Price Indices.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

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 2023 through 2065, undiscounted, are as follows:

<i>\$ in millions</i> Years Ending December 31	Estimated Payments
2023	\$ 214.1
2024	267.1
2025 ^(a)	227.3
2026	194.6
2027	193.7
2028-2032 ^(b)	244.9
Thereafter (through 2065)	<u>128.7</u>
Total	<u>\$ 1,470.4</u>

(a) Bonneville transmission agreement expires July 31, 2025.

(b) Bonneville Block & Slice agreement expires September 30, 2028.

21. COMMITMENTS AND CONTINGENCIES

2023 Capital Program—The budget for the Department’s 2023 program for capital improvement, conservation, and deferred operations and maintenance including required expenditures on assets owned by others is \$484.4 million. At December 31, 2022, the Department had approximately \$184.7 million in commitments relating thereto. Department overhead costs and other allocations associated with the capital program are not included in the budget amount.

2023 Operations and Maintenance Budget—The Department’s 2023 Operating and Maintenance budget is \$1,023.6 million for labor and related benefits, purchased power, outside services, supplies, taxes, injuries and damages, interest, debt-related costs, maintenance of Department assets, and other non-capital expenditures incurred in the normal course of operations.

Federal Energy Regulatory Commission Fees—Estimated Federal land use and administrative fees related to hydroelectric licenses total \$147.4 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.

Current 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.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

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 \$353.8 million adjusted to 2022 dollars, of which \$137.5 million were expended through 2022. 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, 2022, to be \$170.3 million, of which \$163.4 million has been expended. Total South Fork Tolt license mitigation costs were estimated at \$2.2 million, of which \$2.2 million were expended through 2021 for the rest of the life of the license with no additional costs in 2022. 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 2022 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.

Hydroelectric projects must satisfy the requirements of the Endangered Species Act (ESA) and the Clean Water Act in order to obtain a FERC license. ESA and related issues are discussed below.

Endangered Species—Several fish species that inhabit waters where hydroelectric projects are owned by the Department, or where the Department purchases power, have been listed under the ESA as threatened or endangered. Although the species were listed after FERC licenses were issued for all of the Department's hydroelectric projects, the ESA listings still affect operations of the Department's Boundary, Skagit, Tolt, and Cedar Falls hydroelectric projects.

Federal Regulations in response to the listing of species affect flow in the entire Columbia River system. As a result of these regulations, the Department's power generation at its Boundary Project is reduced in the fall and winter when the region experiences its highest sustained energy demand. The Boundary Project's firm capability is also reduced.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

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, 2022, are estimated to be \$18.9 million, and \$2.6 million has been allocated for the program in the 2023 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 \$3.0 million and \$2.9 million to Pend Oreille County in 2022 and 2021 respectively, and \$1.2 million to Whatcom County in 2022 and 2021 respectively.

Brooks-Joseph v. City of Seattle, Seattle City Light, et. al. – Plaintiff alleges discrimination based on race. Gender and age, negligent supervision and retention, wrongful discharge and violation of the Washington State Whistleblower Act. Plaintiff also names City Light employee Britt Luzzi and SPU employee Lourdes Podwell as individual defendants. An adverse result could include awards of compensatory damages and attorneys' fees. City Light's ultimate liability is indeterminate. The trial is currently set in federal court for November 6, 2023.

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 \$3.5million payment from the City. The Department accrued the \$3.5million expense and liability in 2021.

Lavish v. City of Seattle — Plaintiff Lavish alleges he was injured by an electrical arc while attempting to remove a tree near a City power line. He alleges City negligence caused his injuries. The City's ultimate liability is indeterminate. Trial is currently set for September 11, 2023.

Monica Jones v. City of Seattle, Seattle City Light, et.al. – Plaintiff Jones alleges religious, racial and age discrimination, violation of public policy against discrimination, disparate impact, failure to accommodate, wage theft, and numerous violations of the Washington Constitution, all resulting from the City's vaccine mandate. An adverse result could include awards of compensatory damages and attorneys' fees. City Light's ultimate liability is indeterminate. This matter was filed in federal court in the Western District of Washington, and a Joint Status report is due on April 26, 2023. The matter has not yet been set for trial.

Seattle City Frontline Freedom Fighters, et, al. v. City of Seattle – A group of current and former City employees allege various forms of discrimination, wrongful discharge, violations of the Washington constitution and seek declaratory relief resulting from the City's vaccine mandate. Nine of the plaintiffs are current or former employees of City Light. An adverse result could include awards of compensatory damages and attorneys' fees. City Light's ultimate liability is indeterminate. This matter is currently set for trial on October 20, 2023 in state court.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

Vaccine Mandate Claims - Several current and former City Light employees have filed tort Claims for Damages related to the City’s implementation of a COVID-19 vaccine mandate in October 2021. These claimants allege a variety of claims, including but not limited to discrimination, wrongful discharge, failure to accommodate and violations of the Washington and federal US Constitutions. Each claim is fact specific to the claimant and dependent on evolving public health guidelines and newly emerging case law in response to the pandemic. City Light’s ultimate liability is indeterminate, however, an adverse result could include awards of compensatory damages and attorneys’ fees.

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, and this aspect of the Project has been in place since the 1930s.

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. On December 30, 2022, the 9th Circuit affirmed the district court’s dismissal. On January 3, 2023, the Tribe petitioned for rehearing en banc by the 9th Circuit.
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 appealed the dismissal to Division 1 of the Washington State Court of Appeals and argument occurred on November 2, 2022. As of the date of this letter, the Court of Appeals has not ruled.
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 and 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 first filed a motion to dismiss these claims in January 2022. In February 2022, the City also filed a complaint in federal court in the Western District of Washington seeking to enjoin the Sauk-Suiattle Tribal Court from exercising jurisdiction. Oral argument in the tribal court occurred on May 24, 2022. On July 5, 2022, the district court issued an order staying the City’s case until the tribal court has had a full opportunity to determine its own jurisdiction. On November 10, 2022, the judge in the Sauk-Suiattle Tribal Court dismissed the Tribe’s claims against the City finding that it had no jurisdiction. The Tribe has appealed this order.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

The following case from 2021 was settled in 2022:

East Marginal Way Poles – The City faced 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. The claims and lawsuits have been settled for less than \$1.0 million in total, and we are now past the statute of limitations for additional claims and suits.

Other Contingencies—In addition to those noted above, in the normal course of business, the Department has various other legal claims and contingent matters outstanding. The Department believes that any ultimate liability arising from these actions will not have a material adverse impact on the Department’s financial position, operations, or cash flows.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

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):

	2022	2021	2020	2019	2018	2017	2016	2015
Employer's proportion of the net pension liability	20.72%	20.38%	21.10%	21.17%	21.00%	22.13%	24.46%	24.53%
Employer's proportionate share of total pension liability	\$ 1,028.5	\$ 941.4	\$ 929.8	\$ 896.9	\$ 831.6	\$ 839.5	\$ 883.5	\$ 841.5
Employer's proportionate share of plan fiduciary net position	\$ 856.8	\$ 741.9	\$ 664.6	\$ 575.3	\$ 599.1	\$ 550.7	\$ 565.7	\$ 569.7
Employer's proportionate share of the net pension liability	\$ 171.7	\$ 199.5	\$ 265.2	\$ 321.6	\$ 232.5	\$ 288.8	\$ 317.8	\$ 271.8
Employer's covered-employee payroll	\$ 179.3	\$ 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	95.75%	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	83.31%	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	3.35% for FY 2022, 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	2.60% for FY 2022, 2.75% for FY 2019-2021, 3.25% for prior years
Investment rate of return	6.75% for FY 2022, 7.25% for FY 2019-2021, 7.50% for prior years
Mortality	Based on PubG-2010 mortality tables using generational projection of improvement using MP-2021 Ultimate projection scale for FY 2022. FY 2019-2021 based on RP-2014 mortality tables. Prior years based on RP-2000 mortality tables

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

The Department’s proportionate schedule of employer’s contributions (dollar amounts in millions):

	2022	2021	2020	2019	2018	2017	2016	2015
Contractually required contribution	\$ 29.0	\$ 28.9	\$ 28.7	\$ 24.8	\$ 24.7	\$ 23.7	\$ 25.3	\$ 24.9
Contributions in relation to contractually required contribution	29.0	28.9	28.7	24.8	24.7	23.7	25.3	24.9
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 180.3	\$ 179.3	\$ 178.1	\$ 165.3	\$ 163.7	\$ 153.6	\$ 156.5	\$ 157.0
Contributions as a percentage of covered-employee payroll	16.08%	16.12%	16.11%	15.00%	15.09%	15.43%	16.17%	15.86%

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.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

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:

(\$ in millions)

	2022	2021	2020	2019	2018
Employer’s proportion of the net OPEB liability	14.17%	14.38%	14.14%	14.34%	14.61%
Employer's proportionate share of total OPEB liability	\$ 7.9	\$ 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	\$ 7.9	\$ 10.1	\$ 9.0	\$ 8.7	\$ 8.9
Employer’s covered-employee payroll	\$ 162.4	\$ 161.7	\$ 159.0	\$ 145.6	\$ 148.3
Employer’s proportionate share of net OPEB liability as a percentage of its covered-employee payroll	4.86%	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.

Actuarial Methods and Assumptions:

Actuarial cost method	Entry Age Normal
Amortization method	Level dollar
Discount Rate	2.06% for FY 2022, 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	6.09% initial, decreasing to an ultimate rate of 4.50% for FY 2022-2023.
	6.55% initial, decreasing to an ultimate rate of 4.50% for prior years.
Health care cost trend rate- RX	8.00% initial, decreasing to an ultimate rate of 4.50% for FY 2022-2023.
	9.00% initial, decreasing to an ultimate rate of 4.50% for prior years.
Mortality	Based on PubG-2010 mortality tables using generational projection of improvement using MP-2021 Ultimate projection scale

There were no changes to benefit terms in 2022. See Note 14 for details regarding actuarial methods and assumptions.

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 2022, 2021, and 2020. The target level for debt service coverage was 1.8x on all bonds for 2022, 2021, and 2020 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		
	2022	2021	2020
OPERATING REVENUES:			
Retail power revenues	\$ 1,021.5	\$ 964.3	\$ 926.7
Short-term wholesale power revenues	97.7	66.3	51.3
Other power-related revenues (a)(b)(c)	76.5	59.3	40.8
Transfers from/(to) rate stabilization account (d)	24.4	(2.6)	(22.7)
Other operating revenues	18.5	21.7	19.6
Total operating revenues	<u>\$ 1,238.6</u>	<u>\$ 1,109.0</u>	<u>\$ 1,015.7</u>
OPERATING EXPENSES:			
Long-term purchased power—Bonneville and other (b)	\$ 150.5	\$ 207.5	\$ 216.6
Short-term wholesale power purchases	86.2	38.5	10.0
Other power expenses (b)	111.9	95.2	72.6
Transmission (e)	61.1	55.7	54.6
Distribution	73.2	68.0	56.3
Customer service	42.4	50.8	58.6
Conservation	26.3	28.8	33.3
Administrative and general	96.6	97.1	127.3
Taxes	119.0	101.5	101.2
Depreciation and amortization	156.8	148.6	149.8
Total operating expenses	<u>\$ 924.0</u>	<u>\$ 891.7</u>	<u>\$ 880.3</u>
NET OPERATING REVENUE (f)	<u>\$ 314.6</u>	<u>\$ 217.3</u>	<u>\$ 135.4</u>
Adjustments to Net Operating Revenue (g)			
City Taxes (h)	\$ 66.8	\$ 53.6	\$ 57.5
Depreciation and amortization	156.8	148.6	149.8
Depreciation & amortization included in operating & maintenance expenses (i)	49.8	47.1	32.5
Pension expense (j)	(2.5)	1.5	24.6
Pension contributions (j)	(29.0)	(28.9)	(28.7)
Valuation on exchange power, net (b)(c)	-	-	-
BPA Conservation Augmentation/Agreement revenue (k)	(2.7)	(2.6)	(2.4)
Investment income (l)	12.1	8.7	10.8
Non-cash expenses (m)	1.4	4.4	3.4
Other (n)	1.0	(0.7)	3.4
Total adjustments	<u>\$ 253.7</u>	<u>\$ 231.7</u>	<u>\$ 250.9</u>
Net Revenue Available for Debt Service	<u>\$ 568.3</u>	<u>\$ 449.0</u>	<u>\$ 386.3</u>
Total Debt Service (o)	<u>\$ 224.2</u>	<u>\$ 216.3</u>	<u>\$ 223.0</u>
Ratio of Available Net Revenue to Debt Service	<u>2.53x</u>	<u>2.08x</u>	<u>1.73x</u>

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) GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, a non-cash item.
Two components: (1) Pension expense is an estimated amount based on actuarial reports. (2) Pension contributions is an adjustment for the payments made by the department to the Seattle City Retirement System after the measurement date of the actuarial reports to classify as deferred outflows. Actual pension expense posts with payroll related to employee expense, and is auto-allocated through payroll. Actuarial pension + pension contributions + minor retirement settlement payouts = FERC 92610 YTD amount. We subtract out this FERC 92610 balance except minor retirement settlement payouts for the debt coverage calculation, because the actual cash contributions were already recorded via payroll.
- (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 (\$ in millions)	Revenue Available for Debt Service	Debt Service Requirements	Debt Service Coverage
2022	\$ 568.3	\$ 224.2	2.53
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

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

OTHER INFORMATION (UNAUDITED)

INTEREST REQUIREMENTS AND PRINCIPAL REDEMPTION ON LONG-TERM DEBT

Year Ending December 31 (<i>\$ in millions</i>)	Fixed Rate Bonds			Variable Rate Bonds			Total ^(a)
	Principal	Interest	Subtotal	Principal	Interest	Subtotal	
2023	\$ 125.4	\$ 109.3	\$ 234.7	\$ 2.2	\$ 7.4	\$ 9.6	\$ 244.3
2024	128.9	103.4	232.3	2.3	7.5	9.8	242.1
2025	119.1	96.9	216.0	2.4	7.4	3.2	225.8
2026	112.3	91.2	203.5	5.9	7.2	3.2	216.6
2027	91.1	85.7	176.8	6.1	7.0	6.7	189.9
2028	95.6	81.1	176.7	6.3	6.7	13.0	189.7
2029	90.2	76.8	167.0	6.6	6.5	13.1	180.1
2030	76.6	72.9	149.5	6.9	6.2	13.1	162.6
2031	79.7	69.3	149.0	7.2	5.9	13.1	162.1
2032	83.0	65.6	148.6	7.4	5.6	13.0	161.1
2033	86.3	61.9	148.1	7.8	5.3	13.1	161.2
2034	88.7	58.3	147.0	8.1	5.0	13.1	160.1
2035	92.6	54.4	147.0	8.4	4.7	13.1	160.1
2036	101.6	50.3	151.9	8.7	4.3	13.0	164.9
2037	92.0	45.9	137.9	9.1	4.0	13.1	151.0
2038	97.1	41.6	138.7	9.5	3.6	13.1	151.8
2039	100.2	37.4	137.6	9.8	3.2	13.0	150.6
2040	104.2	33.0	137.2	10.2	2.8	13.0	150.2
2041	94.3	28.8	123.1	10.7	2.4	13.1	136.2
2042	81.5	25.1	106.6	11.1	1.9	13.0	119.6
2043	85.0	21.7	106.7	11.5	1.5	13.0	119.7
2044	78.9	18.1	97.0	12.0	1.0	13.0	110.0
2045	73.1	14.7	87.8	12.5	.5	13.0	100.8
2046	67.9	11.7	79.6	5.5	0.2	5.7	85.3
2047	63.2	8.8	72.0	-	-	-	77.5
2048	51.3	6.1	57.4	-	-	-	57.4
2049	38.0	4.0	42.0	-	-	-	42.0
2050	26.0	2.6	28.6	-	-	-	28.6
2051	20.1	1.5	21.6	-	-	-	21.6
2052	11.4	.6	12.0	-	-	-	12.0
Total	\$ 2,455.3	\$ 1,378.7	\$ 3,834.0	\$ 188.2	\$ 107.8	\$ 296.0	\$ 4,130.0

^(a) Maximum debt service of \$244.3 million is due in 2023. 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, 2022

(*\$ in millions*)

Bond Series	When Due	Interest Rate (%)	Amount Issued	Amount Outstanding	Amount Due	
					Within One Year	Accrued Interest
Series 2010A	2023	4.747	7.5	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	2022-2040	5.590	13.3	13.3	-	0.3
Series 2011B	2027	5.750	10.0	10.0	-	0.2
Series 2012A	2028	3.250	12.4	12.4	-	0.1
Series 2012A	2037-2041	4.000	49.1	39.3	-	0.1
Series 2012C	2028	3.400	4.3	4.2	-	-
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	13.3	4.2	0.3
Series 2013	2034-2035	4.000	14.7	14.7	-	0.3
Series 2013	2036-2038	4.125	24.4	24.4	-	0.5
Series 2014	2022-2029	5.000	163.2	35.9	14.6	0.5
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	22.9	6.1	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	70.5	10.3	0.9
Series 2016B	2029	4.000	13.9	13.9	-	0.2
Series 2016C	2022-2026	5.000	56.9	24.5	8.8	0.3
Series 2016C	2027-2046	4.000	103.9	103.9	-	1.1
Series 2017C	2022-2032	5.000	174.2	144.5	12.3	2.1
Series 2017C	2033-2047	4.000	211.3	211.3	-	3.1
Series 2018A	2022-2029	5.000	60.2	42.2	5.2	0.9
Series 2018A	2030-2048	4.000	203.6	203.6	-	4.2
Series 2018C C.1	2022-2046	.39 - 4.29 A	49.3	43.8	1.1	0.1
Series 2018C C.2	2022-2046	.39 - 4.29 A	49.3	43.8	1.1	0.1
Series 2019A	2022-2049	5.000	210.5	200.4	3.6	2.5
Series 2019B	2022-2026	5.000	140.3	95.6	24.1	2.0
Series 2020A	2022-2030	5.000	78.5	74.0	2.2	1.6
Series 2020A	2031-2050	4.000	119.8	119.8	-	2.6
Series 2021A	2022-2031	5.000	63.6	55.3	8.4	1.2
Series 2021A	2032-2051	4.000	196.2	196.2	-	4.1
Series 2021B	2022-2045	.29 - 4.05 A	100.6	100.6	-	0.3
Series 2022	2023 - 2052	5.000	257.7	257.7	18.2	6.0
Total			\$ 3,096.0	\$ 2,643.5	\$ 127.7	\$ 42.7

^A Range of adjustable rates in effect during 2022.

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 (<i>\$ in millions</i>)	2022	2021	2020	2019	2018
POWER COSTS					
Hydroelectric generation ^{(a)(c)}	\$ 67.5	\$ 63.0	\$ 58.2	\$ 54.4	\$ 51.7
Long-term purchased power ^(b)	150.5	207.5	216.6	215.9	217.8
Wholesale power purchases ^{(c)(e)}	86.2	38.5	10.0	34.3	18.5
Fair valuation & other power purchases ^{(b)(e)}	38.3	34.1	15.2	21.9	20.6
Owned transmission ^(a)	15.3	16.9	16.4	15.7	17.0
Wheeling expenses	53.3	45.9	44.9	43.3	43.2
Other power expenses	24.6	15.9	16.3	14.5	13.1
Total power costs	<u>435.7</u>	<u>421.8</u>	<u>377.6</u>	<u>400.0</u>	<u>381.9</u>
Less short-term wholesale power sales ^(c)	(97.6)	(66.3)	(51.3)	(43.2)	(61.0)
Less other power-related revenues	(31.6)	(26.7)	(29.3)	(36.8)	(28.5)
Less fair valuation other power-related ^(b)	(45.0)	(32.6)	(11.4)	(15.4)	(17.4)
Net power costs	<u>\$ 261.5</u>	<u>\$ 296.2</u>	<u>\$ 285.6</u>	<u>\$ 304.6</u>	<u>\$ 275.0</u>
POWER STATISTICS (MWh)					
Hydroelectric generation ^(c)	6,184,745	6,009,237	6,017,176	5,346,373	6,419,136
Long-term purchased power ^(b)	5,343,858	5,945,779	6,173,078	6,243,569	6,354,303
Wholesale power purchases ^{(c)(e)}	1,148,487	1,281,656	633,111	1,028,182	1,167,441
Wholesale power sales ^{(c)(e)}	(1,951,244)	(2,543,488)	(2,605,592)	(2,123,263)	(3,329,288)
Other ^(d)	(907,823)	(1,164,379)	(1,003,455)	(958,287)	(938,363)
Total power available	<u>9,818,023</u>	<u>9,528,805</u>	<u>9,214,318</u>	<u>9,536,574</u>	<u>9,673,229</u>
Less self consumed energy	(27,466)	(26,537)	(26,203)	(26,962)	(25,642)
Less system losses	(472,664)	(423,886)	(549,228)	(387,653)	(573,525)
Total power delivered to retail customers	<u>9,317,893</u>	<u>9,078,382</u>	<u>8,638,887</u>	<u>9,121,959</u>	<u>9,074,062</u>
Net power cost per MWh delivered (Net power costs divided by Total power delivered to retail customers)	<u>\$ 28.06</u>	<u>\$ 32.62</u>	<u>\$ 33.05</u>	<u>\$ 33.38</u>	<u>\$ 30.31</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)

	2022	2021	2020	2019	2018
Department-Owned Generation					
Boundary Project	3,712,739	3,211,443	3,576,351	3,307,074	4,008,235
Skagit Hydroelectric Project:					
Gorge	989,832	988,738	958,211	832,815	947,000
Diablo	590,907	847,067	703,719	610,968	626,127
Ross	749,013	823,907	655,524	524,516	690,006
Cedar Falls/Newhalem	83,538	83,424	81,065	41,376	89,250
South Fork Tolt	58,716	54,658	42,306	29,624	58,518
Subtotal	<u>6,184,745</u>	<u>6,009,237</u>	<u>6,017,176</u>	<u>5,346,373</u>	<u>6,419,136</u>
Energy Purchases					
Bonneville	3,804,606	4,119,204	4,299,280	4,388,973	4,435,838
Priest Rapids	26,770	23,601	25,596	19,866	25,732
Columbia Basin Hydropower	262,947	265,850	258,498	219,094	241,236
High Ross	305,764	315,101	309,960	307,599	310,700
Lucky Peak	234,067	221,981	254,619	364,089	347,669
Stateline Wind Project	74,161	360,191	380,795	338,452	342,873
Columbia Ridge	86,968	92,937	102,421	101,615	102,617
Seasonal and Other Exchange ^(a)	548,575	546,914	541,909	503,881	547,638
Wholesale Market Purchases ^(b)	<u>1,148,487</u>	<u>1,281,656</u>	<u>633,111</u>	<u>1,028,182</u>	<u>1,167,441</u>
Subtotal	<u>6,492,345</u>	<u>7,227,435</u>	<u>6,806,189</u>	<u>7,271,751</u>	<u>7,521,744</u>
Total Department Resources	<u>12,677,090</u>	<u>13,236,672</u>	<u>12,823,365</u>	<u>12,618,124</u>	<u>13,940,880</u>
Minus Offsetting Energy Sales					
Firm Energy Sales and Marketing Losses ^(c)	426,932	695,102	505,727	387,615	344,435
Seasonal and Other Exchange ^(a)	480,891	469,277	497,728	570,672	593,928
Wholesale Market Sales	<u>1,951,244</u>	<u>2,543,488</u>	<u>2,605,592</u>	<u>2,123,263</u>	<u>3,329,288</u>
Total Energy Resources	<u>9,818,023</u>	<u>9,528,805</u>	<u>9,214,318</u>	<u>9,536,574</u>	<u>9,673,229</u>

(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.

(d) Starting in 2015 Power Management stopped reporting secondary area line losses. We have retroactively adjusted Firm Energy Sales and Marketing Losses to reflect this change.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

OTHER INFORMATION (UNAUDITED)

CUSTOMER STATISTICS

Years ended December 31,	2022		2021		2020		2019		2018		
Average number of customers:											
Residential	441,926		433,686		426,359		419,601		410,664		
Industrial	60		61								
Commercial	51,677		51,408		51,219		50,779		50,859		
Total	<u>493,663</u>		<u>485,155</u>		<u>477,577</u>		<u>470,380</u>		<u>461,523</u>		
Megawatt-hours ^(a) :											
Residential	36%	3,334,209	37%	3,320,729	37%	3,192,877	34%	3,091,019	32%	2,992,914	32%
Industrial	9%	808,355	9%	817,060							
Commercial	55%	5,175,329	54%	4,940,593	63%	5,446,010	66%	6,030,940	68%	6,081,148	68%
Total	100%	<u>9,317,893</u>	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%
Average annual revenue per customer ^(a) :											
Residential	917		\$ 902		\$ 890		\$ 859		\$ 778		
Industrial	1,183,231		\$ 1,126,113								
Commercial	10,514		\$ 9,779		\$ 10,651		\$ 11,361		\$ 10,748		

* 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,	2022		2021		2020		2019		2018	
consumption per customer (kWhs) ^{(a)(b)} :										
Residential	- Seattle	7,545	7,657	7,489	7,367	7,288				
	- National	n/a	10,632	10,715	10,649	10,972				
Industrial	- Seattle	13,472,583	13,394,426							
	- National	n/a	978,871	966,514	1,050,440	1,190,822				
Commercial	- Seattle	100,148	96,105	106,329	118,768	119,568				
	- National	n/a	69,875	68,651	73,205	74,678				
Average rate per kilowatt-hour (cents) ^{(a)(b)} :										
Residential	- Seattle	12.16	11.78	11.88	11.66	10.67				
	- National	n/a	13.66	13.15	13.01	12.87				
Industrial	- Seattle	8.78	8.41							
	- National	n/a	7.18	6.67	6.81	6.92				
Commercial	- Seattle	10.50	10.18	10.02	9.57	8.99				
	- National	n/a	11.21	10.59	10.67	10.66				

(a) Source of national data: Department of Energy (www.eia.doe.gov/electricity/annual/). 2022 National average annual consumption data and average rate data not available. Certain 2021-2017 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 3.9% became effective January 1, 2022

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 -1.8% is being applied to all retail energy charges beginning January 1, 2022.

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.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

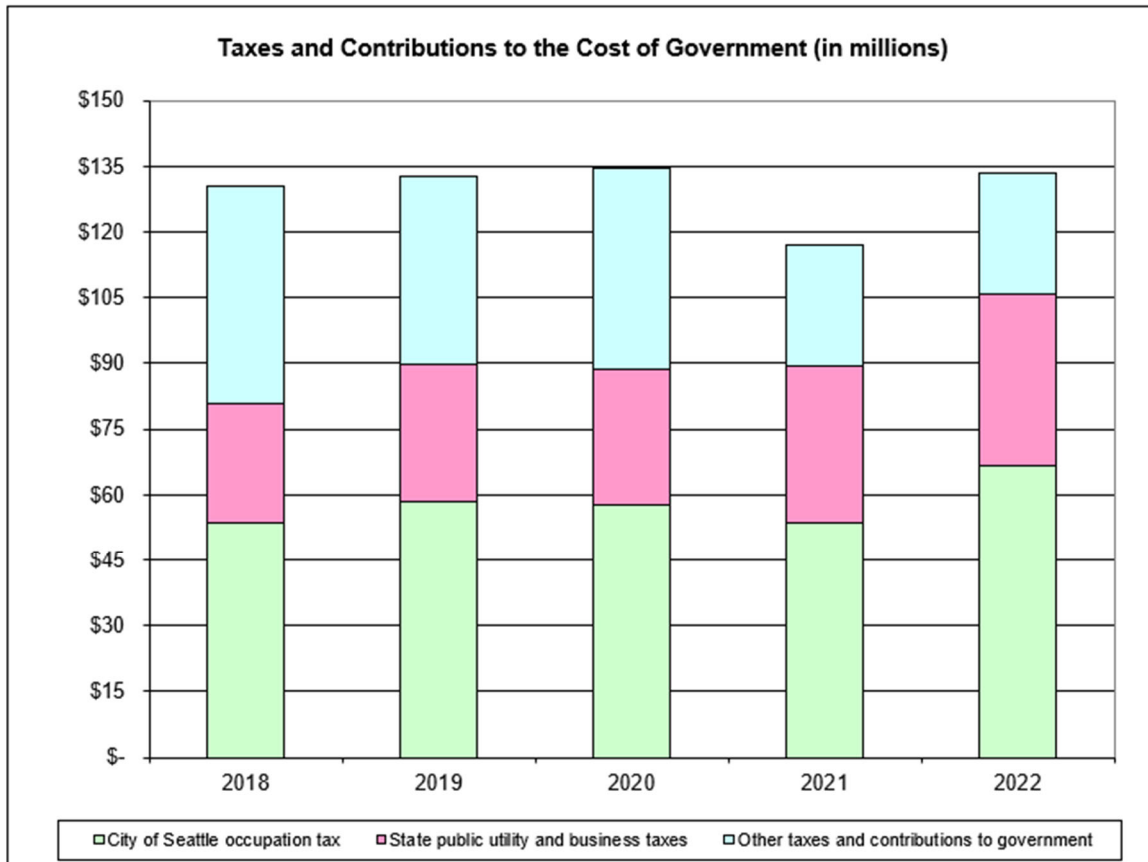
OTHER INFORMATION (UNAUDITED)

TAXES AND CONTRIBUTIONS BY SEATTLE CITY LIGHT TO THE COST OF GOVERNMENT (Unaudited)

(in millions)

Years ended December 31,	2022	2021	2020	2019	2018
Taxes					
City of Seattle occupation utility tax	\$ 66.7	\$ 53.6	\$ 57.5	\$ 58.4	\$ 53.4
State public utility and business taxes	39.1	35.7	31.3	31.5	27.4
Suburban contract payments and other	7.5	6.9	7.3	6.8	6.3
Contract payments for government services	5.7	5.3	5.1	3.3	4.6
Total taxes as shown in statement of revenues and expenses	119.0	101.5	101.2	100.0	91.7
Taxes/licenses charged to accounts other than taxes	2.4	2.1	16.7	15.5	16.6
Other contributions to the cost of government	11.9	13.4	16.5	17.1	22.2
Total miscellaneous taxes	14.3	15.5	33.2	32.6	38.8
Total taxes and contributions	\$ 133.3	\$ 117.0	\$ 134.4	\$ 132.6	\$ 130.5

Note: 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.



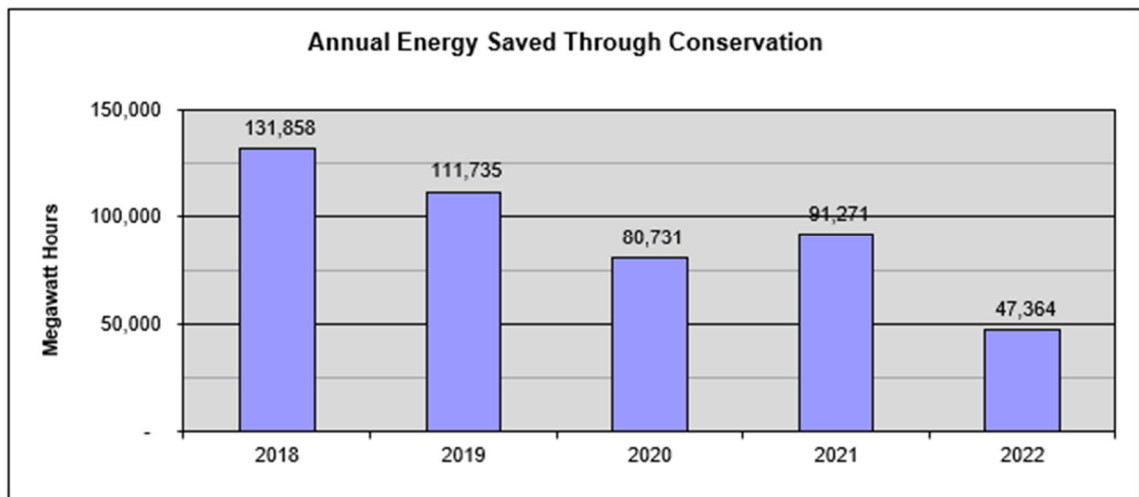
THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

OTHER INFORMATION (UNAUDITED)

PUBLIC PURPOSE EXPENDITURES (Unaudited)

Years ended December 31,	2022	2021	2020	2019	2018
CONSERVATION					
Annual energy savings (megawatt hours) A	47,364	91,271	80,731	111,735	131,858
Programmatic conservation expenses B					
Non-low income	\$ 19.1	\$ 19.7	\$ 20.3	\$ 23.8	\$ 24.3
Low income	2.4	2.7	1.7	3.1	1.7
Non-programmatic conservation expenses C	4.2	4.7	4.8	6.4	11.5
Subtotal	25.7	27.1	26.8	33.3	37.5
OTHER PUBLIC PURPOSE EXPENDITURES					
Low-income energy assistance D, F	26.7	29.2	23.4	18.8	17.8
Non-hydro renewable resources E	19.4	38.3	39.7	34.5	33.7
Subtotal F	46.1	67.5	63.1	53.3	51.5
NET PUBLIC PURPOSE SPENDING F	71.8	94.6	89.9	86.6	89.0
Revenue from retail electric sales	\$ 1,021.5	\$ 964.3	\$ 926.7	\$ 938.9	\$ 868.6
PERCENT PUBLIC PURPOSE SPENDING TO RETAIL ELECTRIC SALES					
Conservation only	2.5%	2.8%	2.9%	3.5%	4.3%
Low-income assistance & non-hydro renewable	4.5%	7.0%	6.8%	5.7%	5.9%
Total	7.0%	9.8%	9.7%	9.2%	10.2%

- 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).



**Report on Internal Control
Over Financial Reporting and on Compliance
and Other Matters Based on an Audit of
Financial Statements Performed in Accordance
With *Government Auditing Standards***

Independent Auditors' Report

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

We have audited, in accordance with the 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 (*Government Auditing Standards*), the financial statements of the City of Seattle, City Light Department (Department), which comprise the Department's statement of financial position as of December 31, 2022, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 28, 2023. As noted in the report, the Department adopted the provisions of GASB Statement No. 87, *Leases*, effective January 1, 2022. Our opinion was not modified with respect to this matter.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Department's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. 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 or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department's financial statements are free from 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 financial statements. 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.

A handwritten signature in black ink that reads "Baker Tilly US, LLP". The signature is written in a cursive, flowing style.

Madison, Wisconsin
April 28, 2023

APPENDIX F
DEMOGRAPHIC AND ECONOMIC INFORMATION

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 thirteenth most populous county in the United States. Of the State’s population, nearly 30% reside in the County, and of the County’s population, 33% live in the City of Seattle.

Population

The most recently released historical and current population counts and estimates for the State of Washington, the County, and the City are given below.

POPULATION			
<u>Year</u>	<u>Washington</u>	<u>King County</u>	<u>Seattle</u>
2014 ⁽¹⁾	7,005,504	2,021,027	638,784
2015 ⁽¹⁾	7,106,989	2,061,981	660,908
2016 ⁽¹⁾	7,237,661	2,118,958	684,136
2017 ⁽¹⁾	7,344,589	2,149,910	694,513
2018 ⁽¹⁾	7,464,069	2,187,460	707,555
2019 ⁽¹⁾	7,582,481	2,227,755	724,144
2020 ⁽²⁾	7,705,281	2,269,675	737,015
2021 ⁽²⁾	7,766,975	2,287,050	742,400
2022 ⁽²⁾	7,864,400	2,317,700	762,500
2023 ⁽²⁾	7,951,150	2,347,800	779,200

(1) Source: U.S. Department of Commerce, Bureau of Census.

(2) Source: State of Washington, Office of Financial Management.

Per Capita Income

The following table presents per capita personal income for the Seattle Metropolitan Division, the County, the State, and the United States.

	PER CAPITA INCOME				
	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
Seattle MD	\$ 74,843	\$ 79,526	\$ 85,348	\$ 90,040	\$ 97,582
King County	83,192	88,499	95,083	99,734	108,212
State of Washington	57,265	60,221	64,189	68,350	73,775
United States	51,550	53,786	56,250	59,765	64,143

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	
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
2022	418	118,165,369	8,572	1,504,100,013	1,622,265,382

Source: U.S. Bureau of the Census

Retail Activity

The following tables present information on taxable retail sales in King County and the City.

THE CITY OF SEATTLE AND KING COUNTY TAXABLE RETAIL SALES

Year	King County	City of Seattle
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	24,904,879,115
2021	78,440,949,141	30,047,705,303
2022	84,414,679,159	33,672,532,342

Source: Quarterly Business Review, Washington State Department of Revenue

Employment

The following table presents total employment in Washington State as of December 31, 2022 (unless otherwise noted) for certain major employers in the Puget Sound area. This list of major employers in the Puget Sound region includes several high-technology sector employers, most notably Amazon, Microsoft, Meta (Facebook), and Google. In late 2022 and early 2023, some large-scale layoffs were announced in that sector across the global workforce and others are expected to occur. It is not clear when such reductions will occur or what impact any such actions might have on employment within the region.

PUGET SOUND MAJOR EMPLOYERS

Employer	Employees
Amazon.com	90,000
The Boeing Co.	60,200
Microsoft Corp.	58,400
Joint Base Lewis-McChord	55,000
University of Washington Seattle	51,800
Navy Region Northwest	33,800
Albertsons Cos.	24,500
Walmart Inc.	23,000
Providence Swedish	22,800
Kroger Co.	21,500
Costco Wholesale Corp.	21,000
MultiCare Health System	20,700
Virginia Mason Franciscan Health	18,000
King County Government ⁽¹⁾	16,100
City of Seattle ⁽²⁾	15,900
Alaska Air Group Inc.	10,900
Starbucks Coffee Co.	10,700
Seattle Children's Foundation	9,400
Kaiser Permanente	8,100
Meta (Facebook)	8,000
T-Mobile US Inc.	7,600
Google Inc.	7,200

(1) Source: King County.

(2) Source: City of Seattle.

Source: *Puget Sound Business Journal*, Publication Date June 23, 2023

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

	Annual Average				
	2018	2019	2020	2021	2022
Civilian Labor Force	1,260,655	1,285,974	1,278,594	1,278,003	1,320,984
Total Employment	1,218,696	1,250,766	1,178,362	1,223,432	1,284,647
Total Unemployment	41,959	35,208	100,232	54,571	36,337
Percent of Labor Force	3.3%	2.7%	7.8%	4.3%	2.8%
NAICS INDUSTRY	2018	2019	2020	2021	2022
Total Nonfarm	1,432,817	1,467,850	1,383,033	1,407,858	1,488,442
Total Private	1,254,283	1,292,300	1,211,158	1,237,183	1,320,475
Goods Producing	181,550	186,058	172,467	168,533	179,550
Mining and Logging	500	500	475	408	408
Construction	78,108	79,533	76,675	79,258	83,783
Manufacturing	102,925	106,000	95,267	88,850	95,358
Service Providing	1,251,267	1,281,792	1,210,567	1,239,325	1,308,892
Trade, Transportation, and Utilities	274,642	280,933	276,558	282,650	290,858
Information	111,017	121,633	127,908	134,450	144,875
Financial Activities	73,708	75,267	72,533	73,567	77,083
Professional and Business Services	233,092	238,875	234,558	245,675	264,942
Educational and Health Services	185,842	189,592	179,767	182,683	189,175
Leisure and Hospitality	145,050	146,833	100,675	104,417	127,000
Other Services	49,383	53,108	46,692	45,208	46,992
Government	178,533	175,550	171,875	170,675	167,967
Workers in Labor/Management Disputes	0	0	0	0	0
	Aug. 2023				
Civilian Labor Force	1,363,013				
Total Employment	1,312,733				
Total Unemployment	50,280				
Percent of Labor Force	3.7%				

(1) Columns may not add to totals due to rounding.

Source: Washington State Employment Security Department.

APPENDIX G
BOOK-ENTRY TRANSFER SYSTEM

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 the Securities, in the aggregate principal amount of such issue, and will be deposited with DTC.

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.

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 the Fiscal 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 the Fiscal 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 the Fiscal 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).