

PRELIMINARY OFFICIAL STATEMENT DATED JUNE 26, 2015

New Issue
Book-Entry Only

Moody's Rating: Aa2
Standard & Poor's Rating: AA
(See "Other Bond Information—Ratings on the Bonds.")

In the opinion of Bond Counsel, under existing federal law and assuming compliance with applicable requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the issue date of the Bonds, interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the alternative minimum tax applicable to individuals. However, while interest on the Bonds also is not an item of tax preference for purposes of the alternative minimum tax applicable to corporations, interest on the Bonds received by corporations is taken into account in the computation of adjusted current earnings for purposes of the alternative minimum tax applicable to corporations, interest on the Bonds received by certain S corporations may be subject to tax, and interest on the Bonds received by foreign corporations with United States branches may be subject to a foreign branch profits tax. Receipt of interest on the Bonds may have other federal tax consequences for certain taxpayers. See "Legal and Tax Information" herein.

THE CITY OF SEATTLE, WASHINGTON
\$100,000,000⁽¹⁾
MUNICIPAL LIGHT AND POWER REVENUE BONDS, 2015B (SIFMA INDEX)

DATED: DATE OF INITIAL DELIVERY

DUE: AS SHOWN ON PAGE i

The City of Seattle, Washington (the "City"), will issue its Municipal Light and Power Revenue Bonds, 2015B (SIFMA Index) (the "Bonds"), as fully registered bonds without coupons under a book-entry only system, registered in the name of Cede & Co. as bond owner and nominee for The Depository Trust Company, New York, New York ("DTC"). DTC will act as initial Securities Depository for the Bonds. Individual purchases of the Bonds will be made in book-entry form, in denominations of \$5,000. Purchasers will not receive certificates representing their interest in the Bonds.

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

Both principal of and interest on the Bonds are payable in lawful money of the United States of America. Interest on the Bonds is payable on the first Business Day of each month, commencing September 1, 2015, until the end of the Initial Index Floating Rate Period, prior redemption, or conversion to a new Index Floating Rate or to another interest rate mode. The principal and Purchase Price of and interest on the Bonds are payable by U.S. Bank National Association, Seattle, Washington, as Registrar, to DTC, which is obligated to remit such principal, Purchase Price, and interest to its broker-dealer participants for subsequent disbursement to Beneficial Owners of the Bonds. See "Description of the Bonds—Registration and Payment" and Appendix F—Book-Entry System.

The Bonds are being issued to finance certain capital improvements to and conservation programs for the City's municipal light and power plant and system (the "Light System") and to pay the costs of capitalizing interest, if necessary, and issuing the Bonds. See "Use of Proceeds."

The Bonds are special limited obligations of the City payable from and secured solely by the Gross Revenues of the Light System, subject to reasonable charges for maintenance and operation of the Light System, and by money in the Parity Bond Fund and the Reserve Fund. The Bonds will be issued on a parity with \$1,817,075,000 stated principal amount of Outstanding Parity Bonds (as of June 23, 2015), the City's \$171,850,000 Municipal Light and Power Revenue Bonds, 2015A, expected to close on July 9, 2015, and any Future Parity Bonds. The Gross Revenues are pledged to make the required payments into the Parity Bond Fund and the Reserve Fund; this pledge is superior to all other charges upon the Gross Revenues except for reasonable charges for maintenance and operation of the Light System. Maintenance and operation charges include the unconditional obligation of the City to make payments under certain power purchase contracts, as more fully described in "Power Resources and Cost of Power—Purchased Power Arrangements." See "Security for the Bonds."

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

The Bonds are offered for delivery by the Underwriter of the Bonds when, as, and if issued, subject to the approving legal opinion of Foster Pepper PLLC, Seattle, Washington, Bond Counsel. The form of Bond Counsel's opinion is attached hereto as Appendix C. Certain legal matters will be passed upon for the Underwriter by its counsel, K&L Gates LLP, Seattle, Washington. It is expected that the Bonds will be available for delivery at DTC's facilities in New York, New York, or delivered to the Bond Registrar on behalf of DTC for closing by Fast Automated Securities Transfer, on or about July 23, 2015.

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

Dated: _____

CITIGROUP

(1) Preliminary, subject to change.

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

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

Information on website addresses set forth in this Official Statement is not incorporated into this Official Statement and cannot be relied upon to be accurate as of the date of this Official Statement, nor should any such information be relied upon in making investment decisions regarding the Bonds.

No dealer, broker, salesperson, or other person has been authorized by the City to give any information or to make any representations with respect to the Bonds other than those contained in this Official Statement and, if given or made, such information or representations must not be relied upon as having been authorized by the City. This Official Statement does not constitute an offer to sell or a solicitation of an offer to buy, nor shall there be any sale of the Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

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

In connection with this offering, the Underwriter may over allot or effect transactions which stabilize or maintain the market price of the Bonds at levels above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued or recommenced at any time without prior notice to any person.

The Bonds have not been registered under the Securities Act of 1933, as amended, and the Bond Legislation has not been qualified under the Trust Indenture Act of 1939, as amended, in reliance upon exemptions contained in such acts. The Bonds have not been recommended by any federal or state securities commission or regulatory authority. Furthermore, the foregoing authorities have not confirmed the accuracy or determined the adequacy of this Official Statement. Any representation to the contrary may be a criminal offense.

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

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

Certain statements contained in this Official Statement do not reflect historical facts, but rather are forecasts and “forward-looking statements.” No assurance can be given that the future results shown herein will be achieved, and actual results may differ materially from the forecasts shown. In this respect, the words “estimate,” “forecast,” “project,” “anticipate,” “expect,” “intend,” “believe,” and other similar expressions are intended to identify forward-looking statements. The forward-looking statements in this Official Statement are subject to risks and uncertainties that could cause actual results to differ materially from those expressed in or implied by such statements. All estimates, projections, forecasts, assumptions, and other forward-looking statements are expressly qualified in their entirety by the cautionary statements set forth in this Official Statement. These forward-looking statements speak only as of the date they were prepared. The City specifically disclaims any obligation to update any forward-looking statements to reflect occurrences or unanticipated events or circumstances after the date of this Official Statement, except as otherwise expressly provided in “Legal and Tax Information—Continuing Disclosure Undertaking.”

The CUSIP data herein are provided by CUSIP Global Services, managed on behalf of the American Bankers Association by Standard & Poor’s. CUSIP numbers are not intended to create a database and do not serve in any way as a substitute for CUSIP service. CUSIP numbers have been assigned by an independent company not affiliated with the City and are provided solely for convenience and reference. The CUSIP number is subject to change after the issuance of the Bonds. Neither the City nor the Underwriter takes responsibility for the accuracy of the CUSIP numbers.

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

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

THE CITY OF SEATTLE, WASHINGTON
\$100,000,000⁽¹⁾
MUNICIPAL LIGHT AND POWER REVENUE BONDS, 2015B (SIFMA INDEX)

\$100,000,000⁽¹⁾ Term Bonds due May 1, 2045, CUSIP No. _____

Adjusted SIFMA Index Floating Rate Bonds

Initial Reoffering Price: 100%

Adjusted SIFMA Rate: Index Floating Rate Spread of ___ basis points plus SIFMA Index

Maximum Interest Rate: 12%

End of Initial Index Floating Rate Period (Purchase Date): _____

Par Call Date: _____

(1) Preliminary, subject to change.

THE CITY OF SEATTLE
CITY OFFICIALS AND CONSULTANTS

MAYOR AND CITY COUNCIL

| | |
|------------------|-------------------------|
| Edward B. Murray | Mayor |
| Tim Burgess | President, City Council |
| Sally Bagshaw | Council Member |
| Jean Godden | Council Member |
| Bruce Harrell | Council Member |
| Nick Licata | Council Member |
| Mike O'Brien | Council Member |
| John Okamoto | Council Member |
| Tom Rasmussen | Council Member |
| Kshama Sawant | Council Member |

CITY ADMINISTRATION

| | |
|--------------|---------------------|
| Glen M. Lee | Director of Finance |
| Peter Holmes | City Attorney |

SEATTLE CITY LIGHT DEPARTMENT

| | |
|----------------------------|---|
| James Baggs | Interim General Manager and Chief Executive Officer |
| Sephir Hamilton | Chief of Staff |
| Jeff Bishop | Chief Financial Officer |
| Michael Haynes | Interim Chief Compliance Officer |
| Michael Jones | Power Supply and Environmental Affairs Officer |
| Philip West ⁽¹⁾ | Customer Service and Energy Delivery Officer |
| DaVonna Johnson | Human Resources Officer |

BOND COUNSEL

Foster Pepper PLLC
Seattle, Washington

FINANCIAL ADVISOR

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

BOND REGISTRAR

Washington State Fiscal Agent
U.S. Bank National Association

(1) Mr. West has announced his plans to retire in the fourth quarter of 2015.

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PRELIMINARY OFFICIAL STATEMENT

THE CITY OF SEATTLE, WASHINGTON

\$100,000,000⁽¹⁾

MUNICIPAL LIGHT AND POWER REVENUE BONDS, 2015B (SIFMA INDEX)

INTRODUCTION

The purpose of this Official Statement, which includes the cover, inside cover, and appendices, is to set forth certain information concerning The City of Seattle, Washington (the “City”), a municipal corporation duly organized and existing under and by virtue of the laws of the State of Washington (the “State”), the Seattle City Light Department (the “Department”), and its municipal light and power plant and system (the “Light System”), in connection with the offering of \$100,000,000⁽¹⁾ aggregate principal amount of its Municipal Light and Power Revenue Bonds, 2015B (SIFMA Index) (the “Bonds”). This Official Statement contains certain information related to such offering and sale concerning the City, the Bonds, the Light System, and the Department.

Appendix A to this Official Statement is a copy of Ordinance 124633, authorizing the issuance of the Bonds. Appendix B is a copy of Resolution 31593 (the “Bond Resolution”), providing the terms of the Bonds. Appendix C includes the form of legal opinion of Foster Pepper PLLC of Seattle, Washington (“Bond Counsel”). Appendix D contains the audited 2014 financial statements of the Department. Appendix E provides demographic and economic information for the City. Appendix F is a description provided on its website by The Depository Trust Company, New York, New York (“DTC”), of DTC procedures with respect to book-entry bonds. Capitalized terms that are not defined herein have the meanings set forth in the Bond Legislation (defined below).

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

DESCRIPTION OF THE BONDS

Authorization for the Bonds

The Bonds are to be issued by the City pursuant to the State Constitution, chapters 35.92 and 39.46 of the Revised Code of Washington (“RCW”), the Seattle City Charter, Ordinance 124633, passed on November 24, 2014 (the “Bond Ordinance”), and Resolution 31593, adopted on June 23, 2015 (the “Bond Resolution” and together with the Bond Ordinance, the “Bond Legislation”).

General Terms; Initial Period

The Bonds will be dated the date of their initial issuance and delivery (the “Issuance Date”) and will mature on May 1, 2045, as shown on page i. The Bonds will bear interest at the Adjusted SIFMA Rate not to exceed a Maximum Interest Rate as discussed herein, for the Initial Index Floating Rate Period ending on _____ (the “Purchase Date”), subject to prior optional redemption or Conversion to a new Index Floating Rate or to another interest rate mode, as described herein. The Adjusted SIFMA Rate is the SIFMA Index plus the Index Floating Rate Spread set forth on page i. Interest will be determined each Wednesday (or, if any such Wednesday is not a Business Day, the next succeeding Business Day), and the Bonds will bear interest at that rate from the immediately

(1) Preliminary, subject to change.

following Thursday through the next Wednesday. This Official Statement describes the Bonds only during the Initial Index Floating Rate Period.

The Bonds will be issued in denominations of \$5,000 or any integral multiple thereof (“Authorized Denominations”). The Bonds will bear interest from the Issuance Date (or most recent date to which interest has been paid thereon), payable on the first Business Day of each month (each, an “Interest Payment Date”), commencing on September 1, 2015, until the end of the Initial Index Floating Rate Period, prior redemption, or Conversion to a new Index Floating Rate or to another interest rate mode. Interest on the Bonds will be computed on the basis of a 365-day or 366-day year for the actual days elapsed during the Initial Index Floating Rate Period. Principal and interest is paid to the Registered Owners as of the Record Date, which for the Bonds in the Initial Index Floating Rate Period is the 15th day immediately preceding an Interest Payment Date.

At the end of the Initial Index Floating Rate Period, the Bonds are subject to mandatory purchase, as further described herein, and the Bonds may be redeemed or converted to a new Index Floating Rate or another interest rate mode. See page i of this Official Statement for the maturity schedule, Adjusted SIFMA Rate, Index Floating Rate Spread, price, Purchase Date, and Par Call Date for the Bonds. See “Other Interest Rate Modes and Conditions for Conversion” for a summary of the interest rate modes authorized by the Bond Resolution (see Appendix B—Resolution, Sections 5(d), 5(e), 5(f), and 5(g)) and the conditions for Conversion.

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

Registration and Book-Entry Transfer System

Book-Entry Transfer System. The Bonds will be issued initially as fully registered bonds and registered by the fiscal agent of the State (the “Bond Registrar”), currently U.S. Bank National Association in Seattle, Washington (or such other fiscal agent or agents as the State may from time to time designate), in the name of Cede & Co. as nominee for DTC, which will act as the original Securities Depository for the Bonds. The Bonds will be held fully immobilized in book-entry form by the Securities Depository. Individual purchases and sales of the Bonds will be made in book-entry form only in denominations of \$5,000 or any integral multiple thereof (“Authorized Denominations”). Purchasers (“Beneficial Owners”) will not receive certificates representing their interest in the Bonds. So long as the Bonds are held in book-entry form, the Securities Depository will be deemed to be the Registered Owner of the Bonds, and all references herein to the Registered Owners will mean Cede & Co., as nominee of DTC, or its successor and will not mean the Beneficial Owners of the Bonds. For information about DTC and its book-entry system, see Appendix F—Book-Entry Transfer System. The City makes no representation as to the accuracy or completeness of the information in Appendix F obtained from DTC. Purchasers of the Bonds should confirm this information with DTC or its participants.

Termination of Book-Entry System. If the Bonds are no longer held in book-entry only form by the Securities Depository, the City will execute, authenticate, and deliver, at no cost to the Beneficial Owners, Bonds in fully registered form, in Authorized Denominations. The principal of the Bonds will then be payable upon due presentment and surrender to the Bond Registrar, and interest on the Bonds will then be payable by electronic transfer on the interest payment date, or by check or draft of the Bond Registrar mailed on the interest payment date, to the Registered Owners, at the address appearing upon the registration books on the Record Date. The City is not required to make electronic transfers except pursuant to a request by a Registered Owner in writing received on or prior to the Record Date and at the sole expense of the Registered Owner.

Transfer and Exchange; Record Date. Registered ownership of any Bond registered in the name of Cede & Co., as nominee of the Securities Depository, may not be transferred except (i) to any successor Securities Depository, (ii) to any substitute Securities Depository appointed by the City or such substitute Securities Depository’s successor, or (iii) to any person if the Bond is no longer held in book-entry only form. If (i) the Securities Depository resigns from its functions as depository, and no substitute Securities Depository can be obtained, or (ii) the City determines that the Bonds are to be in certificated form, the ownership of Bonds may be transferred to any person as provided in the Bond Ordinance, and the Bonds no longer will be held in book-entry form. The Bond

Registrar is not obligated to exchange or transfer any Bond during the period between the Record Date and the corresponding interest or principal payment date or redemption date. During the Initial Index Floating Rate Period, Record Date means, in the case of each interest or principal payment date, the Bond Registrar's close of business on the 15th day of the month preceding the interest or principal payment date. With regard to redemption of a Bond prior to its maturity, 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.

Payment of the Bonds

Principal of and interest on each Bond registered in the name of Cede & Co., as nominee of the Securities Depository, are payable by wire transfer of the Bond Registrar to DTC, which is obligated to remit such principal and interest to its participants for subsequent disbursement to the Beneficial Owners of the Bonds, as further described in Appendix F–Book-Entry Transfer System.

Interest on each Bond not registered in the name of the Securities Depository is payable by electronic transfer on the interest payment date, or by check or draft of the Bond Registrar mailed on the interest payment date to the Registered Owner at the address appearing on the Bond Register on the Record Date. The City, however, is not required to make electronic transfers except pursuant to a request by a Registered Owner in writing received at least ten days prior to the Record Date and at the sole expense of the Registered Owner. Principal of each Bond not registered in the name of the Securities Depository is payable upon presentation and surrender of the Bond by the Registered Owner to the Bond Registrar.

The Adjusted SIFMA Rate

The Bonds initially will bear interest at the Adjusted SIFMA Rate, not exceeding the Maximum Interest Rate, commencing on and including the Issuance Date, but excluding the last day of the Initial Index Floating Rate Period. The "SIFMA Rate" means, for any day, the level of the most recently effective index rate which is compiled from the weekly interest rate resets of tax-exempt variable rate issues included in a database maintained by Municipal Market Data which meet specific criteria established from time to time by the Securities Industry and Financial Markets Association ("SIFMA") and is issued on Wednesday of each week, or if any Wednesday is not a Business Day, the next succeeding Business Day. If such index is no longer published or otherwise not available, the SIFMA Rate for any day will mean the level of the "S&P Weekly High Grade Index" (formerly the J.J. Kenny Index) maintained by Standard & Poor's Securities Evaluations Inc. for a seven-day maturity as published on the Interest Reset Date or most recently published prior to the Interest Reset Date. If at any time neither such index is available, the Bond Registrar will use instead an index that the Bond Registrar, after consultation with the City and the Remarketing Agent, if any, determines most closely approximates the SIFMA Index. Interest will be set on each Interest Determination Date. The determination of the SIFMA Rate by the Bond Registrar will be conclusive and binding upon the registered owners and the Beneficial Owners.

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

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

"Interest Reset Date" means, for each Index Floating Rate Period during which the Index is the SIFMA Index, each Thursday during such Index Floating Rate Period.

The SIFMA Index percentage resulting from any calculation of any interest rate for the Bonds will be truncated to the nearest one thousandth of a percentage point, with five ten-thousandths being rounded upward, and all dollar amounts rounded to the nearest cent, with one-half cent being rounded upward.

Optional Tender and Purchase

The Bonds are not subject to optional tender by the Beneficial Owners thereof while the Bonds bear interest at the Adjusted SIFMA Rate.

Optional Redemption

The Bonds are subject to redemption at the written direction of the City on any day on and after any Par Call Date, in whole or in part, at a redemption price of 100% of the principal amount thereof plus interest, if any, accrued to the date fixed for redemption.

Mandatory Redemption

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

| TERM BONDS | | | |
|------------|--------------|---------------------|--------------|
| Years | | Years | |
| (May 1) | Amount | (May 1) | Amount |
| 2026 | \$ 3,325,000 | 2036 | \$ 4,965,000 |
| 2027 | 3,460,000 | 2037 | 5,170,000 |
| 2028 | 3,600,000 | 2038 | 5,385,000 |
| 2029 | 3,750,000 | 2039 | 5,605,000 |
| 2030 | 3,905,000 | 2040 | 5,830,000 |
| 2031 | 4,065,000 | 2041 | 6,070,000 |
| 2032 | 4,230,000 | 2042 | 6,320,000 |
| 2033 | 4,405,000 | 2043 | 6,580,000 |
| 2034 | 4,585,000 | 2044 | 6,850,000 |
| 2035 | 4,770,000 | 2045 ⁽¹⁾ | 7,130,000 |

(1) Maturity.

If the City redeems Term Bonds under the optional redemption provisions described above or purchases Term Bonds, the Term Bonds so redeemed or purchased (irrespective of their redemption or Purchase Prices) will be credited at the par amount thereof against the remaining mandatory redemption requirements as determined by the Director of Finance. If the Director of Finance does not make such a determination, credit will be allocated on a *pro rata* basis.

Mandatory Tender for Purchase On or After the Par Call Date

Pursuant to the Bond Resolution, the City has the right at any time on or after the Par Call Date to convert the Bonds from bearing interest at the Adjusted SIFMA Rate to bearing interest in any other interest rate mode authorized by the Bond Resolution, including another SIFMA indexed rate, at which time the Bonds would be subject to mandatory tender for purchase.

Mandatory Tender for Purchase at End of the Initial Index Floating Rate Period

Pursuant to the Bond Resolution, at the end of the Initial Index Floating Rate Period, the Bonds will be subject to mandatory tender for purchase and the City will convert the Bonds from bearing interest at the Adjusted SIFMA Rate to bearing interest in any other interest rate mode, including another Index Floating Rate Period, authorized by the Bond Resolution.

Purchase Date/Conversion Date

The date chosen by the City on or after the Par Call Date, or, if no such date is chosen, the end of the Initial Index Floating Rate Period, is a Conversion Date and a Purchase Date, and on that date the Bonds are subject to mandatory tender for purchase by the Bond Registrar at a price equal to 100% of the stated principal amount to be redeemed plus accrued interest, if any. The Bond Registrar is required to give notice of mandatory tender of the Bonds to the registered owners of the Bonds (at their addresses as they appear on the Bond Register as of the date of such notice) by written notice not less than 30 days prior to the Purchase Date.

Notice of Mandatory Tender for Purchase

The notice of mandatory tender will state:

- (i) the Purchase Price;
- (ii) the Purchase Date (which, in the case of a Conversion, will be the same as the Conversion Date);
- (iii) that the Bonds are subject to mandatory tender for purchase on the Purchase Date;
- (iv) that registered owners may not elect to retain Bonds;
- (v) in the case of a Conversion, the mode into which the Bonds are to be converted and certain information specific to that mode as described in Sections 5(d), 5(e), 5(f), or 5(g) of the Bond Resolution (attached as Appendix B), as applicable;
- (vi) that any Bond that is not registered in the name of the Securities Depository must be delivered to the Bond Registrar at or prior to 10:00 a.m., New York time, on the Purchase Date at a specified place of delivery, and that if the registered owner of such a Bond fails to deliver its Bond to the Bond Registrar at the place and on the Purchase Date and by the time specified (or fails to deliver its Bond properly endorsed), such Bond will constitute an “Undelivered Bond;” and
- (vii) that if money sufficient to effect the purchase of a Bond is provided through (a) the remarketing of the Bonds by the Remarketing Agent or (b) funds provided by the City, each such Bond will be purchased, and any Bond that is not purchased will be subject to a Delayed Remarketing Period and the Stepped Interest Rate (as described below).

Undelivered Bonds

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

Delayed Remarketing Period; Stepped Interest Rate

No Credit Facility secures payment of the Purchase Price of Bonds that are not remarketed at the end of the Initial Index Floating Rate Period. “Purchase Price” means the purchase price to be paid to the Registered Owners of Bonds purchased, which will be equal to the principal amount thereof tendered for purchase, without premium, plus accrued interest from the immediately preceding Interest Accrual Date to the Purchase Date (if the Purchase Date is not an Interest Payment Date).

If the Purchase Price of all of the Bonds required to be purchased on a Purchase Date cannot be paid, only a portion of such Bonds in an amount equal to the funds available to pay the full Purchase Price thereof will be purchased on such Purchase Date. The remainder of such Bonds for which there are not sufficient available funds to pay the full Purchase Price thereof will not be purchased and a Delayed Remarketing Period will commence on such date with respect only to such Bonds. During a Delayed Remarketing Period, the following will apply to the Bonds subject to such Delayed Remarketing Period:

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

Pursuant to the Bond Legislation, during a Delayed Remarketing Period, the applicable Bonds will bear interest at the “Stepped Interest Rate,” which equals (i) for the period beginning on the applicable Purchase Date and for 90 days thereafter, a *per annum* interest rate equal to ____%, and (ii) thereafter, a *per annum* interest rate equal to ____%.

Selection of Bonds for Redemption

If fewer than all of the outstanding Bonds are to be redeemed at the option of the City, the Director of Finance will select the maturity or maturities to be redeemed. If fewer than all of the outstanding Bonds of a maturity are to be redeemed, then:

- (i) Bonds registered in the name of Cede & Co., as nominee of the Securities Depository, are to be redeemed in accordance with the Letter of Representations, and
- (ii) the Bond Registrar is required to select all other Bonds to be redeemed randomly in such manner as the Bond Registrar determines.

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

Notice of Redemption

The City is required to 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 Registered Owner of any Bond. Notice of redemption of Bonds registered in the name of Cede & Co., as nominee of the Securities Depository, will be given in accordance with the Letter of Representations. See “Registration and Book-Entry Transfer System” and Appendix F.

Conditional Notice of Redemption

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

Effect of Redemption

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

Other Interest Rate Modes and Conditions for Conversion

The City may establish a Conversion Date on or after the Par Call Date upon notice as provided in the prior section. On any Conversion Date, the City may convert the Bonds to a new Index Floating Rate (electing either the SIFMA Index, the One-Month LIBOR, the Three-Month LIBOR, or any other index chosen by the City) or to any of the following interest rate modes: the Daily Interest Rate, Weekly Interest Rate, or Long-Term Interest Rate.

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

Other Conditions for Conversion. Notwithstanding the City's delivery of a notice of Conversion, no Conversion will take effect unless each of the following conditions, to the extent applicable, has been satisfied.:

- (i) the City has obtained the written consent of the applicable Credit Provider, if any;
- (ii) if required pursuant to the notice of Conversion, a Credit Facility is in effect on the Conversion Date;
- (iii) the City has received a Favorable Opinion of Bond Counsel with respect to such Conversion dated the Conversion Date; and
- (iv) the Bond Registrar has sufficient 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.

If any of these conditions has not been met, the Conversion will not occur (whether or not notice of the Conversion has been given to the Registered Owners), and (i) the Bonds that are not purchased by the Registrar will bear interest at the Stepped Interest Rate commencing on the proposed Conversion Date, and (ii) the Bonds will be subject to mandatory tender for purchase at the Purchase Price on the first day of each Interest Rate Period and on each proposed Conversion Date for which notice has been given to the Registered Owners.

Special Considerations Relating to the Bonds While in the Adjusted SIFMA Rate

The Remarketing Agent is Paid by the City. The Remarketing Agent's responsibilities will include remarketing the Bonds that are mandatorily tendered by the Registered Owners thereof, as further described in this Official Statement. The Remarketing Agent will be appointed by the City prior to the Purchase Date and paid by the City for its services. As a result, the interests of the Remarketing Agent may differ from those of the Registered Owners or Beneficial Owners of the Bonds.

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

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

The Ability to Sell the Bonds May Be Limited. During the Initial Index Floating Rate Period, the Registered Owners of the Bonds do not have the right to optionally tender their Bonds for purchase through a tender process. Investors who purchase the Bonds, whether through the initial issuance or otherwise, should not assume that they will be able to sell their Bonds other than through the mandatory tender process set forth in the Bond Legislation.

The Remarketing Agent May Be Removed, Resign, or Cease Remarketing. The Remarketing Agent will be appointed by the City prior to the Purchase Date. The Remarketing Agent may be removed or have the ability to resign or cease its remarketing efforts, subject to the terms of the Remarketing Agreement, without a successor being named under certain circumstances.

Purchase

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

Failure to Pay Bonds

If any Bond is not paid when properly presented at its maturity or redemption date, the City will be obligated to pay, solely from the Parity Bond Fund and the other sources pledged in the Bond Ordinance, interest on that Bond at the same rate provided in that Bond from and after its maturity or redemption date until that Bond, principal 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.

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 to pay when due the principal of and interest on any Bond, or any portion thereof, included in a refunding or defeasance plan, and to redeem and retire, release, refund, or defease those Bonds (the “Defeased Bonds”) and to pay the costs of such refunding or defeasance. If money and/or Government Obligations (defined below) maturing at a time or times and in an amount sufficient, together with known earned income from the investments thereof, to redeem and retire, release, refund, or defease the Defeased Bonds in accordance with their terms, are set aside in a special trust fund or escrow account irrevocably pledged to such redemption, retirement, or defeasance (the “Trust Account”), then all right and interest of the Owners of the Defeased Bonds in the covenants of the Bond Ordinance and in the Gross 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. Notice of refunding or defeasance are to be given, and selection of Bonds for any partial refunding or defeasance are to be conducted, in the manner provided for the redemption of Bonds. See “Notice of Redemption.”

The term “Government Obligations” has the meaning given in RCW 39.53.010, currently: (i) direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, the United States of America, and bank certificates of deposit secured by such obligations; (ii) bonds, debentures, notes, participation certificates, or other obligations issued by the Banks for Cooperatives, the Federal Intermediate Credit Bank, the Federal Home Loan Bank system, the Export-Import Bank of the United States, Federal Land Banks, or the Federal National Mortgage Association; (iii) public housing bonds and project notes fully secured by contracts with the United States; and (iv) obligations of financial institutions insured by the Federal Deposit Insurance Corporation or the Federal Savings and Loan Insurance Corporation, to the extent insured or to the extent guaranteed as permitted under any other provision of State law.

USE OF PROCEEDS

Purpose

The Bonds are being issued to finance certain capital improvements to and conservation programs for the Light System (see “Capital Requirements”), and to capitalize interest, if necessary, and pay the costs of issuing the Bonds.

Sources and Uses of Funds

The proceeds of the Bonds will be applied as follows:

SOURCES OF FUNDS

Stated Principal Amount of Bonds

Net Original Issue Premium

Total Sources of Funds

USES OF FUNDS

Project Fund Deposit

Costs of Issuance⁽¹⁾

Total Uses of Funds

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

SECURITY FOR THE BONDS

Pledge of Net Revenue

The Bonds are special limited obligations of the City. The principal of and interest on the Bonds are payable out of the Seattle Municipal Light Revenue Parity Bond Fund (the "Parity Bond Fund"). The City has agreed to pay into the Parity Bond Fund on or prior to the respective dates on which principal of and interest on Parity Bonds will be payable certain amounts from the Gross Revenues of the Light System sufficient to pay such principal and interest as the same become due. The Gross Revenues of the Light System are pledged to make such payments, which pledge constitutes a charge upon such revenues prior and superior to all other charges whatsoever except reasonable charges for maintenance and operation of the Light System. Gross Revenues include all income, revenues, and receipts derived through the Light System, 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, including the federal credit payments for any federal subsidy bonds, but do not include Bond proceeds and certain insurance proceeds. See "Future Parity Bonds" for a discussion of the treatment of federal credit payments in calculating a value for Net Revenues for the purposes of the test for issuing Future Parity Bonds. See "Department Financial Information—Debt Service Requirements—Federal Sequestration" for a discussion of the impact of sequestration on federal interest payments for certain Department bonds and Appendix A—Bond Ordinance—Section 13(g). Maintenance and operation charges do not include any taxes paid to the City (see "Department Financial Information—Taxation and Intergovernmental Payments"), but do include the unconditional obligation to make payments under certain power purchase contracts. See "Contingent Obligations" below. See the discussion of the Rate Stabilization Account ("RSA") under "Security for the Bonds—Rate Stabilization Account," "Department Financial Information—Financial Policies," and Appendix A—Bond Ordinance—Section 17.

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 Legislation. Neither the full faith and credit nor the taxing power of the City, nor any revenues of the City derived from sources other than the Light System, are pledged to the payment of the Bonds.

Outstanding Parity Bonds

The Bonds are being issued on a parity of lien with the Outstanding Parity Bonds, which currently include eleven series of bonds issued since 2008. See “Department Financial Information—Debt Service Requirements.”

OUTSTANDING PARITY BONDS

| Bond Description | Original Par Amount | Outstanding Principal as of June 23, 2015 |
|----------------------------|----------------------------|--|
| 2008 Bonds | \$ 257,375,000 | \$ 169,465,000 |
| 2010A Bonds | 181,625,000 | 181,625,000 |
| 2010B Bonds | 596,870,000 | 421,185,000 |
| 2010C Bonds | 13,275,000 | 13,275,000 |
| 2011A Bonds | 296,315,000 | 253,035,000 |
| 2011B Bonds | 10,000,000 | 10,000,000 |
| 2012A Bonds | 293,280,000 | 272,550,000 |
| 2012C Bonds | 43,000,000 | 43,000,000 |
| 2013 Bonds | 190,755,000 | 187,730,000 |
| 2014 Bonds | 265,210,000 | 265,210,000 |
| Subtotal | \$ 2,147,705,000 | \$ 1,817,075,000 |
| 2015A Bonds ⁽¹⁾ | 171,850,000 | 171,850,000 |
| Total | \$ 2,319,555,000 | \$ 1,988,925,000 |

(1) Municipal Light and Power Revenue Bonds, 2015A, expected to close on July 9, 2015

Rate Covenant

In the Bond Legislation, the City has covenanted, among other things, to establish and maintain rates sufficient to provide for payment of debt service on the Outstanding Parity Bonds, any Future Parity Bonds, and all other obligations for which revenues have been pledged, to pay all costs of maintenance and operation, and to maintain the Light System in good order and repair. The Bond Legislation does not include a requirement that the City set rates to achieve a specific level of debt service coverage on Parity Bonds. See “Department Financial Information—Financial Policies” and Appendix A—Bond Ordinance—Section 13(d).

Reserve Fund Requirement

The City has created and is required to maintain the Municipal Light and Power Bond Reserve Fund (the “Reserve Fund”) for the purpose of securing the payment of the principal of and interest on all Parity Bonds outstanding. The City has covenanted and agreed that it will pay into the Reserve Fund, out of Parity Bond proceeds or out of Gross Revenues, within five years from the date of issuance of the Parity Bonds, such sums as will, together with money presently in the Reserve Fund, provide for the Reserve Fund Requirement. The Bond Legislation provides that, in calculating the Reserve Fund Requirement, the direct payments the City expects to receive from the U.S. Treasury with respect to any federal subsidy bonds may be deducted from Annual Debt Service. See Appendix A—Bond Ordinance—Section 13(b)).

For the Parity Bonds issued prior to 2011, Reserve Fund Requirement means, at any time, the lesser of (i) the maximum Annual Debt Service on all Parity Bonds then outstanding and (ii) the maximum amount permitted by the Code as a “reasonably required reserve or replacement fund.” Thereafter, the definition of Reserve Fund Requirement was amended to mean, for any issue of Parity Bonds, the Reserve Fund Requirement established in the authorizing resolution approving that issue.

The Reserve Fund Requirement for the 2011 Bonds and 2012 Bonds was established as the lesser of (i) the 2011 Bonds’ and 2012 Bonds’ proportionate share of the maximum Annual Debt Service on all Parity Bonds outstanding

at the time of issuance, and (ii) the maximum amount permitted by the Code as a “reasonably required reserve or replacement fund.”

The Reserve Fund Requirement for the 2013 Bonds, 2014 Bonds, and 2015A Bonds (expected to close on July 9, 2015) was established as the additional amount necessary at the time of issuance to achieve an overall Reserve Fund Requirement for all outstanding Parity Bonds and the Parity Bonds then being issued equal to the maximum amount permitted by the Code as a “reasonably required reserve or replacement fund.”

The Bond Legislation has established that there will be no Reserve Fund Requirement for the Bonds. For any issue of Future Parity Bonds, the “Reserve Fund Requirement” will mean the Reserve Fund Requirement specified for that issue in the legislation authorizing such bonds.

Upon the issuance of the 2015A Bonds, the aggregate Reserve Fund Requirement for all Parity Bonds outstanding, which is the sum of the Reserve Fund Requirements for each issue of Parity Bonds outstanding, including the Bonds, will be \$119,956,492.

Under the Bond Legislation, the City is permitted to provide for the Reserve Fund Requirement with a surety bond or letter of credit consistent with the Bond Legislation requirements. The City currently has a surety bond authorized under previous bond legislation (the “Surety Bond”) purchased from Financial Security Assurance, Inc. (“FSA”) in the amount of \$77,103,734, expiring on August 1, 2029, providing the majority of the Reserve Fund Requirement. Upon the issuance of the Bonds, there is expected to be a cash balance of \$42,852,758 in the Reserve Fund, which, together with the Surety Bond, fully satisfies the Reserve Fund Requirement for the Outstanding Parity Bonds. In addition to the cash balance described above, the City has deposited \$20,479,510 in the Reserve Fund that is expected to be used toward the eventual replacement of the Surety Bond upon its expiration.

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”). AGM is currently rated A2 and AA by Moody’s Investors Service and Standard & Poor’s Ratings Services, Inc., respectively. The Bond Legislation does not require that the Reserve Fund be funded with cash or a substitute surety bond or letter of credit if the provider of qualified insurance is downgraded. 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. See Appendix A—Bond Ordinance—Section 1.

The Surety Bond provides that, upon the later of (i) one day after the receipt by AGM of a demand for payment executed by the Bond Registrar certifying that provision for the payment of principal of or interest on the Parity Bonds when due has not been made, or (ii) the interest payment date specified in the demand for payment submitted to AGM, AGM will promptly deposit funds with the Bond Registrar sufficient to enable the Bond Registrar to make such payments due on the Parity Bonds, but in no event exceeding the policy limit of the Surety Bond.

Pursuant to the terms of the Surety Bond, the policy limit is automatically reduced to the extent of each payment made under the terms of the Surety Bond, and the City is required to reimburse AGM for any draws under the Surety Bond with interest at a market rate. Upon such reimbursement, the Surety Bond is reinstated to the extent of each reimbursement up to but not exceeding the policy limit. The reimbursement obligation of the City under the Surety Bond is subordinate to the City’s obligations with respect to the Parity Bonds.

If the amount on deposit in, or credited to, the Reserve Fund exceeds the amount of the Surety Bond, any draw on the Surety Bond will be made only after all the funds in the Reserve Fund have been expended. In the event that the amount on deposit in, or credited to, the Reserve Fund, in addition to the amount available under the Surety Bond, includes amounts available under a letter of credit, insurance policy, surety bond, or other such funding instrument, draws on the Surety Bond and additional funding instruments will be made on a *pro rata* basis to fund the insufficiency. The Bond Legislation provides for the replenishment of the Reserve Fund by payments of principal of and interest on the Surety Bond and on the additional funding instruments from first-available Gross Revenues on a *pro rata* basis. The Surety Bond does not insure against nonpayment caused by the insolvency or negligence of the Bond Registrar.

AGM is subject to the informational requirements of the Exchange Act and in accordance therewith files reports, proxy statements, and other information with the U.S. Securities and Exchange Commission (“SEC”). Certain SEC filings of AGM are available on the company’s website, *www.assuredguaranty.com* (which is not incorporated herein by this reference). 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 Bond Legislation authorizes the issuance of Future Parity Bonds if:

- (i) there is no deficiency in the Parity Bond Fund or in any of the accounts therein and provision has been made to meet the Reserve Fund Requirement for all Parity Bonds then outstanding plus the proposed Future Parity Bonds, and
- (ii) either:
 - (a) the Finance Director certifies that Net Revenue (see definition below) in any 12 consecutive months out of the most recent 24 months preceding the issuance of the 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 Future Parity Bonds proposed to be issued (except that if any adjustment in the rates, fees, and charges for the services of the Light System will be effective at any time prior to or within six months after the delivery of the proposed Parity Bonds, the Director of Finance will reflect in his or her certificate the Net Revenue he or she calculates would have been collected in the Base Period if such new rates, fees, and charges had been in effect for the entire Base Period), or
 - (b) the City has on file a certificate of a Professional Utility Consultant stating that the Adjusted Net Revenue for the Base Period, calculated as described in the Bond Legislation, is not less than 125% of maximum Annual Debt Service in any future calendar year on all Parity Bonds then outstanding and the Future Parity Bonds proposed to be issued. The Bond Legislation permits the Professional Utility Consultant to adjust Net Revenue based on certain conditions, as described in Section 13(g) of the Bond Ordinance.

“Net Revenue” means, for the purpose of these requirements for the issuance of Parity Bonds, the amount determined by deducting from Gross Revenues the expenses of operation, maintenance, and repair of the Light System and further deducting any deposits into the RSA and adding to Gross Revenues any withdrawals from the RSA and any amounts the City expects to receive from the federal government in respect of federal credit payments for federal subsidy bonds. See the discussion of the RSA under “Security for the Bonds—Rate Stabilization Account,” “Department Financial Information—Financial Policies,” and Appendix A—Bond Ordinance—Section 17. See also the discussion of the effect of federal sequestration on the receipt of federal credit payments for the City’s outstanding federal subsidy bonds under “Department Financial Information—Debt Service Requirements—Federal Sequestration.”

The Bond Legislation authorizes the issuance of Refunding Parity Bonds without the requirement of meeting the above provisions if such issuance does not cause Annual Debt Service to increase by more than \$5,000 in any calendar year. See Appendix A—Bond Ordinance—Section 13(h).

Other Covenants

In the Bond Legislation, the City has entered into other covenants, including those with respect to the sale or disposition of the Light System and the maintenance and operation of the Light System. See Appendix A—Bond Ordinance—Section 13.

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 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. The prerequisites described above for the issuance of Future Parity Bonds apply to the City’s incurrence of obligations under any Parity Payment

Agreements. See Appendix A—Bond Ordinance—Sections 1 and 13(g). The City currently has no Parity Payment Agreements.

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 Gross Revenues 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 RSA for inclusion in the 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 Net Revenue. See “Department Financial Information—Financial Policies” and Appendix A—Bond Ordinance—Section 17.

Defaults and Remedies; No Acceleration of the Parity Bonds

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

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

Subordinate Lien Bonds

The City has reserved the right to issue bonds or other obligations which are a charge or lien upon the Gross Revenues subordinate to the payments required to be made from Gross Revenues into the Parity Bond Fund and the accounts therein.

City Investment Pool

The City is authorized to make interfund loans 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 the Parity Bonds.

Contingent Obligations

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

SEATTLE CITY LIGHT DEPARTMENT

Introduction

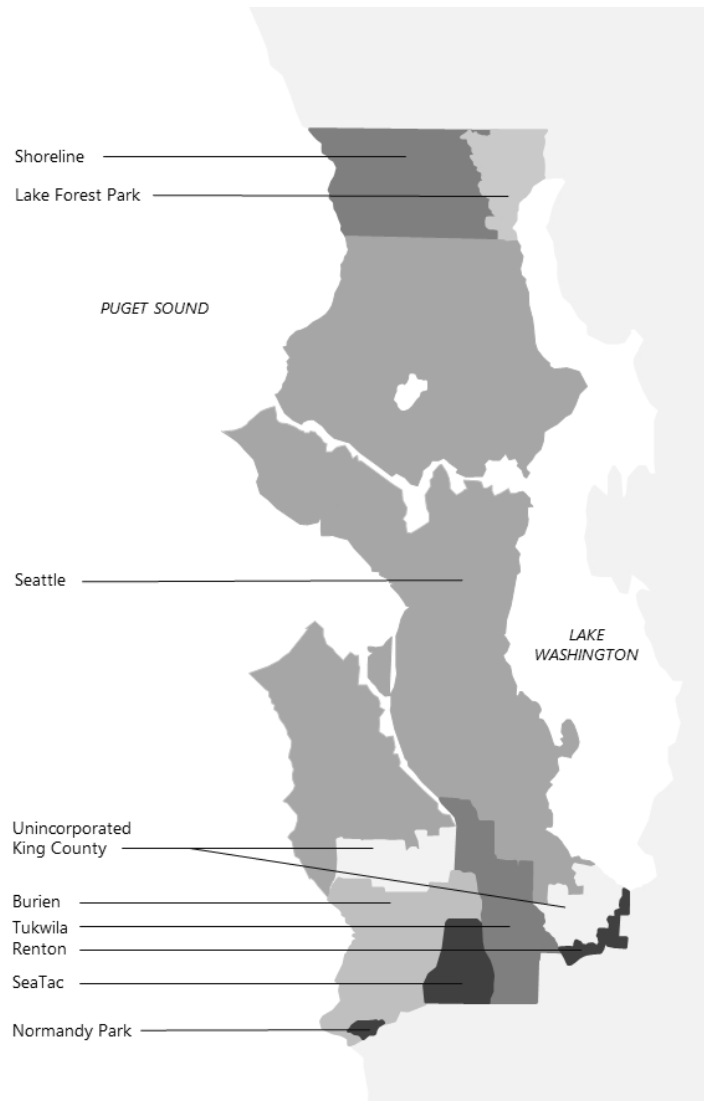
The Department is a municipally-owned electric utility. In 1905, the City began providing its customers with electricity generated by the Cedar Falls Hydroelectric Plant (the “Cedar Falls Project”), which was the first such municipally-owned facility in the nation. By 1910, operational responsibility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

Service Area

The Department’s 131-square-mile service area, depicted in the map in Figure 1, consists of all territory within the City plus areas extending three to four miles north and south of the City limits. The growth of the Department’s electric load since 1951 has resulted exclusively from development within the service area. The population of the Department’s service area is approximately 776,000.

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

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



Source: Seattle City Light Department, Financial Planning Unit

Management

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

The City Light Review Panel (the “Review Panel”) was created in March 2010 and replaced the City Light Advisory Committee and the Rates Advisory Committee. City of Seattle Ordinance 123256, which established the Review Panel, specifies the professions and qualifications that the members of the Panel should have. One should be an economist, preferably with a background in energy economics or commodity risk management. Another should be a financial analyst, preferably with a background in financing large capital projects. Five should 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 other two positions are to be filled by a representative of a non-profit or non-governmental organization whose mission is to advocate for energy efficiency and one at large representative.

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” below), 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 is organized into five operating units: Financial Services, Compliance, Power Supply and Environmental Affairs, Customer Service and Energy Delivery, and Human Resources. An officer leads each unit, and each officer reports to the General Manager and Chief Executive Officer. The Chief of Staff coordinates communication, government relations, and external affairs, and reports to the General Manager and Chief Executive Officer.

Jorge Carrasco was appointed to the position of Superintendent in 2004 and reconfirmed by the City Council in 2008 and 2012. In June 2013, his title was changed to General Manager and Chief Executive Officer. He retired from this position in May 2015. James Baggs was named the Interim General Manager and Chief Executive Officer in May 2015. The search for a permanent General Manager and Chief Executive Officer is under way. This position is expected to be filled by the end of 2015.

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

James Baggs, Interim General Manager and Chief Executive Officer, regularly holds the position of Chief Compliance Officer and joined the Department in 2011. As Chief Compliance Officer, he is engaged, among other duties, in following Federal Energy Regulatory Commission (“FERC”) rulemaking. 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. The search for a permanent General Manager and Chief Executive Officer is under way. This position is expected to be filled by the end of 2015.

Sephir Hamilton, Chief of Staff, joined the General Manager’s Office in 2013. Prior to this position, he was Director of Operational Excellence at Central Hudson Gas & Electric Corp. in New York. He also worked as an engineer and investment officer at the utility. He began his career with Arthur D. Little, Inc. in Cambridge, Massachusetts, where he worked on energy-efficiency standards for the U.S. Department of Energy. Mr. Hamilton holds a master’s degree in Business Administration from Cornell University, a master of science in Engineering from the Massachusetts Institute of Technology, and a bachelor of science in Engineering from Clarkson University.

Jeff Bishop, Chief Financial Officer, joined the Department in 2012. Before his appointment to this position, he served as Managing Director of Finance for PacifiCorp Energy in Portland, Oregon, and was a manager at Deloitte and Touche in San Diego, California, and Seattle. Mr. Bishop is a certified public accountant in Washington and holds bachelor’s degrees in Business Administration from Washington State University and Zoology from the University of Washington.

Michael Haynes, Interim Chief Compliance Officer, was appointed to this position in May 2015. He joined the Department in 2000 and regularly holds the title of 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.

Michael Jones, Power Supply and Environmental Affairs Officer, was appointed to this position in 2013. Most recently, he owned his own business, CEO Focus, which provided executive coaching, management consulting, and technical consulting services to non-profit and energy industry organizations. Prior to that, he spent 12 years with The Energy Authority in both Jacksonville, Florida, and Bellevue, Washington. He began his career as an Officer with the U.S. Navy. Mr. Jones holds a bachelor's degree in Mechanical Engineering from Ohio State University and a master's degree in Business Administration from the University of North Florida.

Philip West, Customer Service and Energy Delivery Officer, was appointed to this position in 2010. He previously served as Director of Customer Services at Sacramento Municipal Utility District ("SMUD"), where he was employed since 1998. Prior to joining SMUD, he was with Pacific Bell/Southwestern Bell. Mr. West has a master's degree in Finance and a bachelor's degree in Marketing from California State University. He has announced his plans to retire in the fourth quarter of 2015.

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

Department Employment and Labor Relations

As of February 2015, the Department had approximately 1,870 authorized full-time equivalent positions. State law requires municipal agencies to bargain in good faith with the recognized bargaining agents. Approximately 85% 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 City is currently negotiating its collective bargaining agreements with the Coalition of City Unions that expired on December 31, 2014. The City also has a collective bargaining agreement with IBEW Local 77 that expires January 23, 2017. In May 2010, the City voluntarily recognized the Washington State Council of County and City Employees Local 21C as the exclusive bargaining agent for the Department's managers, strategic advisors, and some supervisors. The union is part of the Coalition of City Unions agreement. There have been no strikes for more than 35 years, and the Department considers its employee relations to be satisfactory. See "The City of Seattle—Labor Relations."

In May 2015, the Mayor announced plans to create a new consolidated Information Technology ("IT") department. The new Seattle IT Department ("Seattle IT") will be responsible for the delivery of IT services for the entire City, including the Department. As a result of this reorganization, the Department's existing IT staff of approximately 120 full-time employees will be transferred to Seattle IT. Seattle IT is scheduled to become operational on April 6, 2016.

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 Retirement Benefits," and Appendix D—2014 Audited Financial Statements of the Department—Note 10.

Strategic Plan

The City Council unanimously approved the Department's 2015-2020 Strategic Plan Update on June 30, 2014. The fundamentals of this Strategic Plan remain unchanged from the prior Strategic Plan. The new Strategic Plan calls for rate increases averaging 4.4% annually from 2015 to 2020, excluding any Bonneville Power Administration ("BPA") pass-throughs or RSA surcharges. The rate plan is based on certain assumptions, including that demand for electricity will increase 0.3% per year during the period 2015-2020 and inflation and wholesale prices will

remain low. See “Department Financial Information—Retail Rates—Rate Changes—2010-2016,” “Management Discussion of Historical Operating Results 2010-2014—Operating Revenues—2014 vs. 2013,” and “Security for the Bonds—Rate Stabilization Account.” The Strategic Plan Update includes initiatives aimed at repairing aging infrastructure and acquiring new infrastructure to meet future customer needs; improving the customer’s experience and rate predictability, including improving customer service interactions and customers’ ability to manage their own electrical use in real time; continuing conservation and environmental stewardship leadership; meeting the increased cost of compliance with renewable energy Initiative 937 (“I-937”) and mandatory North American Electric Reliability Corporation (“NERC”) reliability standards; and increasing workforce performance and safety practices. These initiatives are consistent with the previous Strategic Plan approved in 2012 and are reflected in the Department’s adopted Capital Improvement Program (“CIP”) for 2015-2020. See “Capital Requirements.”

Enterprise Risk Management and Emergency Response

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

The Department has an active Emergency Response 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, prevent, respond to, and recover from an emergency. It establishes a response organization structure (consistent with the National Incident Management System and Incident Command System structure) designed by the Department 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.

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

Cyber attacks continue to become more sophisticated and are increasingly capable of impacting control systems and components. The Department has instituted processes, training, and controls to maintain the reliability of its systems and protect against cyber threats as well as mitigate intrusions and plan for business continuity via data recovery. Steps taken by the Department include hardening Department networks and systems, isolating command and control systems from the Internet or hardening security protocols where isolation is not feasible, network surveillance, and controlling access to systems. The Department is in compliance with the cyber security standards mandated by NERC. See “Transmission and Distribution—Federal Regulations.” In addition, the Department has exceeded the NERC-mandated elements by devising a comprehensive cyber security program covering internet protocol networks as well as point-to-point communications. The Department regularly conducts voluntary cyber security assessments with the intent to identify areas for continual improvement. These findings are integrated into a work program that forms the basis of its cyber security program.

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

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

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 typically meets the majority of its power requirements from three major 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. Currently, the Boundary Project, the Skagit Project, and the BPA contract can provide approximately 113% of the energy needed to meet the Department’s retail demand under average water conditions. Critical water conditions are defined as the lowest water conditions observed for 12 consecutive months during the period 1929 to 2008. The critical period for the Boundary Project and federal dams remarketed by BPA is 1936-1937; the critical period for the Skagit Project is 1943-1944. Under critical water conditions, the Department’s owned and contracted resources are sufficient to meet 100% of retail sales on an annual basis. The Boundary Project and the Skagit Project together include four large hydroelectric facilities and, combined with three small hydroelectric facilities (the Newhalem Creek Hydroelectric Project (the “Newhalem Project”), the Cedar Falls Project, and the Tolt River South Fork Hydroelectric Project (the “Tolt Project”)), generated approximately 7.1 million megawatt hours (“MWh”) of electrical energy in 2014, which was about 48% of the Department’s total resources. Like most 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 2015. Output from the Department’s hydroelectric plants can vary significantly from year to year due to the variability in water conditions.

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

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; even so, summer peak load is well below winter peak load.

During the west coast energy crisis of 2000-2001, water levels were extremely low, wholesale energy prices were extraordinarily high, and the Department did not have sufficient resources to meet its load. In response to this situation, the Department acquired additional resources, primarily a long-term contract with BPA, intended to meet projected loads under critical water conditions. As a result, the Department has had surplus energy to sell under most water conditions. See Table 2—Historical Energy Resources.

Since 2012, the Department has led an effort with the region’s utilities to study whether forming a regional energy market would be beneficial. Under the auspices of the Northwest Power Pool Market Assessment and Coordination Initiative (“MC Initiative”), the Department is studying whether hiring a market operator to dispatch loads and resources across the region, rather than as individual utilities do so now, would provide economic and reliability benefits to the region’s customers. The utilities are studying intermediate tools needed to enable the regional market as well as governance and regulatory matters.

Table 1 lists the Department’s owned and contracted power resources as of March 1, 2015, and gives estimates of output under critical and average water conditions based on historical data. The owned and purchased resources comprising the Department’s supply portfolio in 2015 were nearly identical to the resources in 2014. 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 contracted 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 outlook for the 2015 water year and market prices.

TABLE 1
OWNED AND PURCHASED POWER RESOURCES FOR 2015
(as of March 1, 2015)

| | Nameplate Capability (MW) | Energy Available Under Critical Water Conditions (MWh) ⁽¹⁾ | Energy Available Under Average Water Conditions (MWh) ⁽²⁾ | Year FERC License Expires | Year Contract Expires |
|--|---------------------------------|---|--|------------------------------|--------------------------|
| Department-Owned Resources | | | | | |
| Boundary Project ⁽³⁾ | 1,022 | 2,610,772 | 3,638,812 | 2055 | N/A |
| Skagit Hydroelectric Project | | | | | |
| Gorge | 173 | 698,908 | 956,939 | 2025 | N/A |
| Diablo | 169 | 583,618 | 791,134 | 2025 | N/A |
| Ross | 460 | 556,352 | 786,199 | 2025 | N/A |
| Small Hydro ⁽⁴⁾ | 48 | 121,000 | 139,835 | Varies | N/A |
| Department's Share of Purchased Resources | | | | | |
| BPA Block ⁽⁵⁾ | | 2,360,182 | 2,360,182 | N/A | 2028 |
| BPA Slice ⁽⁵⁾ | | 2,324,862 | 2,814,988 | N/A | 2028 |
| Priest Rapids | 6 | 16,540 | 24,467 | 2052 | 2052 |
| GCPHA ⁽⁶⁾ | 64 | 233,598 | 240,039 | 2030/2032 | 2022/2027 |
| High Ross ⁽⁷⁾ | 72 | 310,225 | 310,242 | N/A | 2066 |
| Lucky Peak ⁽⁸⁾ | 113 | 236,817 | 293,359 | 2030 | 2038 |
| Stateline Wind Project ⁽⁹⁾ | 175 | N/A | 371,162 | N/A | 2021 |
| Small Renewables ⁽¹⁰⁾ | 20 | N/A | 205,772 | N/A | Various |

- (1) Critical water conditions represent the lowest sequence of streamflows experienced in the Pacific Northwest over a historical period of record (1929-2008). The firm energy capability of hydroelectric resources is the amount of electrical energy produced under critical water conditions, current operating constraints, generation technology, and availability. Actual water conditions would be expected to be better than critical water conditions about 95% of the time.
- (2) Figures in this column represent the average historical amount of electrical energy that would be produced over all of the water conditions in the period 1929-2008.
- (3) Amounts are net of the 48 megawatts ("MW") obligated to Public Utility District No. 1 of Pend Oreille County ("Pend Oreille PUD") under the FERC license. 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 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." Figures reflect the percentage of the Federal System allocated to the Department in the current two-year BPA rate period. This percentage may vary from rate period to rate period, but such variances typically are not substantial.
- (6) Grand Coulee Project Hydroelectric Authority ("GCPHA"), the Department's 50% share of installed capacity of five hydroelectric plants, has varying FERC license expiration dates. The project is part of an irrigation project and does not provide capacity in the Department's winter peak period.
- (7) The Department's contract with British Columbia provides capacity from November through March in an amount equal to 532 MW minus the actual peak capability of the Ross Plant for each week, which varies between 50 and 150 MW depending on water conditions.
- (8) The project is part of an irrigation project and does not provide capacity in the Department's winter peak period.
- (9) The project is not a hydroelectric project; therefore, average output is based on historic performance under the contract.
- (10) Small renewables are Columbia Ridge, SPI-Burlington, and King County West Point. See "Purchased Power Arrangements." Average output is based on historic performance under the contract.

Source: Seattle City Light Department, Power Production Division and Power Contracts and Resource Acquisition Division

TABLE 2
HISTORICAL ENERGY RESOURCES
(MWh)

| | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|-------------------|-------------------|-------------------|-------------------|-------------------|
| Department-Owned Generation | | | | | |
| Boundary Project | 3,161,351 | 4,499,134 | 3,802,251 | 3,465,890 | 4,249,957 |
| Skagit Hydroelectric Project | | | | | |
| Gorge | 871,686 | 1,094,529 | 1,081,349 | 955,265 | 1,057,865 |
| Diablo | 720,244 | 920,969 | 937,646 | 828,200 | 857,757 |
| Ross | 647,899 | 870,310 | 939,943 | 726,560 | 796,513 |
| Cedar Falls/Newhalem | 69,948 | 111,959 | 122,615 | 77,397 | 65,687 |
| Tolt | 54,010 | 50,004 | 63,284 | 55,596 | 63,589 |
| Subtotal | 5,525,138 | 7,546,905 | 6,947,088 | 6,108,908 | 7,091,368 |
| Energy Purchases | | | | | |
| Bonneville | 5,242,301 | 6,214,839 | 5,633,906 | 5,079,991 | 5,155,271 |
| Priest Rapids ⁽¹⁾ | 168,251 | 32,285 | 36,381 | 33,205 | 21,961 |
| GCPHA | 240,787 | 237,785 | 255,569 | 254,568 | 272,842 |
| High Ross | 307,390 | 313,817 | 308,365 | 312,350 | 307,873 |
| Lucky Peak ⁽²⁾ | 285,757 | 388,786 | 401,400 | 215,587 | 308,334 |
| Stateline Wind Project | 348,524 | 413,697 | 365,192 | 363,099 | 357,325 |
| Columbia Ridge ⁽³⁾ | 50,955 | 50,120 | 49,779 | 51,577 | 68,920 |
| Seasonal and Other Exchange ⁽⁴⁾ | 278,885 | 276,656 | 100,782 | 69,940 | 411,555 |
| Wholesale Market Purchases ⁽⁵⁾ | 1,550,224 | 1,696,861 | 2,592,354 | 2,072,066 | 900,527 |
| Subtotal | 8,473,074 | 9,624,846 | 9,743,728 | 8,452,383 | 7,804,608 |
| Total Department Resources | 13,998,212 | 17,171,751 | 16,690,816 | 14,561,291 | 14,895,976 |
| Minus Offsetting Energy Sales | | | | | |
| Firm Energy Sales and Marketing Losses ⁽⁶⁾ | 376,249 | 439,014 | 491,724 | 421,375 | 393,844 |
| Seasonal and Other Exchange ⁽⁴⁾ | 376,337 | 476,488 | 491,980 | 236,864 | 507,117 |
| Wholesale Market Sales ⁽⁷⁾ | 3,334,872 | 6,053,258 | 5,625,088 | 3,854,352 | 4,083,391 |
| Total Net Energy Resources⁽⁸⁾ | 9,910,754 | 10,202,992 | 10,082,024 | 10,048,700 | 9,911,624 |

(1) The Department made an election for 2010 to purchase the energy instead of reselling at auction.

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

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

(4) Includes exchange contracts with the Northern California Power Agency ("NCPA"), SMUD until 2013, and the Lucky Peak Project.

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

(6) 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.

(7) Wholesale market sales are highly dependent on regional hydro flows. Regional hydro flows measured at The Dalles dam on the Columbia River between January and July were 79% of historical average in 2010, 133% in 2011, 121% in 2012, 96% in 2013, and 104% in 2014.

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

Source: Seattle City Light Department, Accounting Division

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

| | 2010 | 2011 | 2012 | 2013 | 2014 |
|--|-------------------|-------------------|-------------------|-------------------|-------------------|
| BPA ⁽¹⁾ | \$ 159,955 | \$ 151,607 | \$ 145,986 | \$ 146,832 | \$ 152,282 |
| Priest Rapids | 9,396 | 3,127 | 2,981 | 2,977 | 3,174 |
| GCPHA | 5,263 | 4,444 | 5,360 | 5,441 | 6,047 |
| High Ross | 13,411 | 13,423 | 13,430 | 13,430 | 13,439 |
| Lucky Peak | 5,560 | 6,810 | 7,255 | 5,186 | 6,289 |
| State Line Wind Project | 18,979 | 21,844 | 24,256 | 23,830 | 23,686 |
| Columbia Ridge - Biogas | 2,677 | 2,685 | 2,720 | 3,063 | 5,469 |
| SMUD - Biomass | 2,245 | 2,379 | 1,731 | 1,464 | 1,628 |
| Seasonal and Other Exchange ⁽²⁾ | 5,491 | 3,821 | 2,873 | 4,640 | 4,330 |
| Total | \$ 222,978 | \$ 210,138 | \$ 206,592 | \$ 206,863 | \$ 216,344 |
| Contracted Resources (MWh) | 6,922,850 | 7,927,985 | 7,151,374 | 6,380,317 | 6,904,081 |
| Average Unit Cost (Dollars/MWh) ⁽³⁾ | \$ 32.73 | \$ 26.96 | \$ 28.89 | \$ 32.05 | \$ 32.66 |

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

(2) Includes exchanges with NCPA, SMUD, and other parties.

(3) Average cost of contracted 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 Tolt Project.

Boundary Project. The Boundary Project is located on the Pend Oreille River in northeastern Washington near the British Columbia and Idaho borders, approximately 250 miles from Seattle. 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 nameplate capability of 1,070 MW and expected power output of 4.0 million MWh under average water conditions. The Department delivers up to 48 MW of energy to Pend Oreille PUD. Net of this obligation, the nameplate capability of the Boundary Project is 1,022 MW and the expected power output is 3.6 million MWh, under average water conditions. The Boundary Project provides between 20% and 40% of the Department's total resource requirements and supplied approximately 29% of the Department's total resources in 2014.

The Department received a new license from FERC for the Boundary Project in March 2013. The new license has a 42-year term and incorporates the terms and conditions of the settlement filed by the Department in 2010 (the "Settlement"). The Settlement is among the Department, the Bureau of Indian Affairs, the National Park Service, the U.S. Fish and Wildlife Service ("USFWS"), the U.S. Forest Service, the Kalispel Tribe, the Washington State Department of Fish and Wildlife ("WDFW"), the Washington State Department of Ecology ("Ecology"), The Lands Council, American Whitewater, the Selkirk Conservation Alliance, and Pend Oreille PUD (collectively referred to as the "Settlement Parties"). Pend Oreille PUD is the licensee for the Sullivan Lake Hydroelectric Project (the "Sullivan Lake Project"), which is adjacent to the Boundary Project. As part of the Settlement, Pend Oreille PUD agreed to surrender to FERC the license for the Sullivan Lake Project, and the Department and Pend Oreille PUD will decommission the Sullivan Lake Project. The Settlement and new license conditions made no material changes to previous operations at the Boundary Dam, which is a significant benefit to the Department's customers, given the load-following nature of operations at the Boundary Project described below. Pursuant to the Settlement and FERC license conditions, the Department will build facilities at the Boundary Project to improve Boundary Dam survival of target species (Bull Trout, Westslope Cutthroat Trout, and Mountain Whitefish) or implement appropriate non-operational measures to improve survival of target species, construct upstream passage, improve the habitat

condition and function of tributaries draining to Boundary Reservoir, acquire land for wildlife habitat restoration and management, construct a native fish propagation facility, and construct improvements to improve water quality. The levelized cost of these measures over the license term is estimated to be less than \$4/MWh in 2009 dollars. A portion of the Department's CIP includes the environmental and other improvements to the Boundary Project that meet the requirements of the Settlement and FERC license. The various mitigation provisions included in the FERC license will be implemented over the term of the license. See "Capital Requirements."

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

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

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

As authorized in the High Ross Agreement (described below under "Skagit Project"), 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 2014, this encroachment amounted to 0.3% of the Boundary Project's electrical energy output.

The most recent FERC-mandated independent safety inspection, in 2010, concluded that the Boundary Project facilities were in good condition. The next inspection is scheduled for August 2015. 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.

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 ten-mile stretch of the Skagit River above Newhalem, Washington, approximately 120 miles northeast of Seattle. Power is delivered to the Department's service area via two double-circuit Department-owned 230,000-volt transmission lines. The Ross Plant, located upstream of the other two projects, has a reservoir with usable storage capacity of 1,052,000 acre-feet. Because the Diablo Plant, with usable storage capacity of 50,000 acre-feet, and the Gorge Plant, with usable storage capacity of 6,600 acre-feet, are located downstream from the Ross Dam, their operation is coordinated with water releases from the Ross Reservoir and the three plants are operated as a single system. The combined nameplate capability of the three plants is 802 MW. Expected power output under average water conditions is 2.5 million MWh. The Skagit Project supplied approximately 18% of the Department's total resources in 2014.

The three plants that comprise the Skagit Project are licensed as a unit by FERC under a license that expires in 2025. As a condition of the FERC license, the Department has taken and will continue to take various mitigating actions relating to fisheries, wildlife, erosion control, archaeology, historic preservation, recreation, and visual quality resources. Independent safety inspections of the Skagit Project in 2011 required by the FERC license revealed no

dam safety issues and provided a few minor maintenance items to be addressed prior to the next inspection scheduled for 2016. 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.

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

The Department's annual payments to British Columbia include a fixed charge of \$21.8 million annually through 2020, which represents the estimated debt service costs that would have been incurred had the addition been constructed and financed with bonds. In 2000, the Department began amortizing the remaining annual \$21.8 million payments over the period through 2035. Payment of equivalent maintenance and operation costs and certain other charges began in 1986 and will continue for 80 years. The power delivered from B.C. Hydro under this agreement amounted to 307,873 MWh in 2014. 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 government of Canada.

Small Hydro.

CEDAR FALLS PROJECT. The Cedar Falls Project, built in 1905, is located on the Cedar River, approximately 30 miles southeast of Seattle. The Cedar Falls Project was constructed before the adoption of the Federal Water Power Act of 1920 and is not subject to licensing by FERC, making it a State-jurisdictional project under Ecology. Cedar Falls Project power is delivered through an interconnection with Puget Sound Energy. The nameplate capability of the plant is 30 MW. Power production in 2014 at the Cedar Falls Project was 65,683 MWh. As a State-jurisdictional project, the Cedar Falls Project is not required to have independent inspections. However, the Department chose to conduct an independent inspection in 2013 and received the final report on the project in August 2014. The report concluded that the project is suitable for continued safe and reliable operation, with some recommendations to ensure continued safe and reliable operations that the Department is implementing. The most recent periodic inspection by the State was conducted in 2011 and concluded the project was in good condition and safe for operations. The next inspection is planned for 2018. Daily, weekly, and monthly visual inspections, and drain measurements are performed by the Department and Seattle Public Utilities ("SPU") crews.

NEWHALEM PROJECT. The Newhalem Project is located on Newhalem Creek, a tributary of the Skagit River, and was built in 1921 to supply power for the construction of the Skagit Project. The plant was rebuilt and modernized in 1970. It is operated under a FERC license that expires January 31, 2027. The plant's power is delivered over Department-owned transmission lines. The nameplate capability of the plant is 2.3 MW. Four MWh were generated in 2014. Five-year inspections by FERC are not required of the Newhalem Project, due to its size and low criticality. In-house review of the project is performed annually, and the project is in good condition.

TOLT PROJECT. The 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 Tolt Project operates under a 40-year FERC license which expires in 2028. The nameplate capability of the installed unit is 16 MW. Power production at the Tolt Project in 2014 was 63,589 MWh. To reduce its cost of power from the 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 Tolt Project approximately equal to the cost of equivalent power from BPA. This agreement expires in 2028. Payments to the Department under the agreement commenced in 1996 and amounted to \$3.3 million in 2014. Without this agreement, the cost of power would still be very low, as debt service has been paid off and the only expenses are associated with operations and capital refurbishment. The most recent FERC-mandated dam safety inspections, completed in 2012, concluded that the Tolt Project was in good condition. The next inspection is scheduled for 2017. Daily, weekly, and monthly visual inspections and manual readings of all instruments are conducted by SPU dam safety staff. Annual dam safety inspections are performed by FERC.

Purchased Power Arrangements

In 2014, the Department purchased approximately 46% 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 Net Revenue.”

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

Bonneville Power Administration. BPA markets power from the Federal Columbia River Power System (the “Federal System”), comprised of 31 federal hydroelectric projects, several non-federally-owned hydroelectric and thermal projects in the Pacific Northwest region, and various contractual rights. Currently, under low water conditions, approximately 8,136 average annual megawatts are available annually for sale, at BPA’s lowest cost 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 (the “Bureau”) and the U.S. Army Corps of Engineers (the “Corps”), and are located primarily in the Columbia River basin. The Federal System currently produces more than 33% of the electric power consumed in the region. BPA’s transmission system includes over 15,000 circuit miles of transmission lines and provides about 75% of the high-voltage bulk transmission capacity in the Pacific Northwest. Its service area covers over 300,000 square miles and has a population of about 12 million.

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

The Department’s Power Sales Agreement with BPA provides for purchases of power by the Department over the 17-year period beginning October 1, 2011. 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. The Department’s Slice and Block deliveries are approximately equal on an annual basis. Currently, the Department receives 269 aMW of the Block power annually, reduced by the amount of conserved energy savings purchased by BPA from the Department. See “Conservation.” The Department’s Slice product provides it with a fixed 3.62762% of the actual output of the Federal System for federal fiscal year (“FFY”) 2015 and obligates the Department to pay

the same percentage of the actual costs of the Federal System. Under critical water conditions, the Slice purchase amounts to 265 aMW over the year. Power available under the Slice product varies with water conditions, federal generating capabilities, and fish and wildlife restoration requirements. The Department may resell output from the Slice product under specified conditions and may use the Slice product to displace Department generation. The BPA contract requires prior notice by the Department before the Department may use, or discontinue using, a generating resource to serve the Department's own firm loads.

Under the BPA Block and Slice contract, the Department expects to be able to purchase annually approximately 534 aMW under critical water conditions and 591 aMW under average water conditions. BPA purchases accounted for approximately 35% of the Department's resources in 2014.

Under the BPA contract, the amount of power that BPA's preference customers (including the Department) may purchase under BPA's lowest cost 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 higher 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 determined 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. Preference customers have the option to purchase additional power from BPA above their Tier 1 loads at a Tier 2 Rate. The Department has declined to purchase additional energy from BPA during the contract years 2012-2014 and 2015-2019, and will evaluate future purchases based on need and cost.

BPA Rates. BPA is required by federal law to recover all of its costs through the power and transmission rates it charges its customers. BPA's current average rate for Tier 1 power is \$31.50 per MWh, excluding delivery charges. BPA conducts a rate case every two years, but the rates are subject to a cost recovery adjustment clause that allows power rates to increase during a two-year rate period if certain events occur. In July 2013, BPA adopted rates for FFY 2014-2015. The Tier 1 average net cost increase was 9.0%. BPA bills Slice customers their respective shares of the estimated cost of the Federal System, which is subject to a true-up at the end of the year. The current Slice rate is approximately \$30.70 per MWh under average water conditions. BPA is in the process of setting rates for FFY 2016-2017. The Department will not know the size of the anticipated rate increase until BPA's rate case is finalized, which is expected to be in July 2015. 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, which currently has 27 public utility districts and cities, all located within the State, as members. 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 engaged in the construction of five nuclear generating facilities (Projects 1 through 5), of which one (Columbia Generating Station, formerly Project 2) was placed in commercial operation in 1984. Construction of the others was terminated in the 1980s and 1990s. The Department, Energy Northwest, and BPA entered into separate Net Billing Agreements with respect to Projects 1, 2 and 3 (the "Net Billed Projects"), under which the Department purchased a share of the Net Billed Projects from Energy Northwest and assigned that share to BPA. The Department's share of each is as follows: 8.605% of Project 1, 7.193% of the Columbia Generating Station, and 7.206% of Project 3.

Under the Net Billing Agreements, the Department is obligated to pay Energy Northwest its share of the total annual costs of the Net Billed Projects, including debt service on approximately \$5.1 billion of bonds outstanding on the

Net Billed Projects, and accept assignment of the shares of defaulting participants, subject to a cap of 25% of the Department's share. BPA is obligated to credit the Department the same amount of the Department's share (plus any assigned shares) under any power sales agreement between BPA and the Department. These obligations exist regardless of the status, operability, or output of the Net Billed Projects. To the extent BPA cannot credit the Department because the Department's obligations under a power sales agreement are not sufficient to allow BPA to credit the Department its full share, BPA is obligated, after certain assignment procedures, to pay the uncredited and unassigned amount to the Department, subject to available appropriations.

Subsequently, in 2006, Energy Northwest and BPA executed agreements with respect to the Net Billed Projects (the "Direct Pay Agreements") pursuant to which BPA agreed to pay directly to Energy Northwest all costs (including the debt service on the outstanding bonds) for the Net Billed Projects, including the Department's share. Since 2006, this has resulted in no payments by or credits to the Department under the Net Billing Agreements. In the event 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. 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 may 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."

BPA and the Corps collectively are the "United States Entity" which, in conjunction with a Canadian counterpart, the "Canadian Entity," formulates and carries out operating arrangements necessary to implement the Treaty. Although the Treaty does not expire by its own terms, either the U.S. or Canada may elect to terminate it by providing not less than ten years' notice. In December 2013, the United States Entity sent a final regional recommendation concerning the future of the Treaty to the U.S. Department of State. In general, the recommendation is to modernize the Treaty to more fairly reflect the distribution of operational benefits between the U.S. and Canada, to ensure that flood risk management and other key river uses are preserved, and to address key ecosystem functions in a way that complements the significant investments made to protect Columbia River basin fish and wildlife since 1964. The Department has been an active participant in the U.S. Entity's regional review process leading up to the final regional recommendation and supports that recommendation.

The Department of State has subsequently begun a federal policy review process to determine whether to proceed with a Treaty modernization effort with Canada. The Department expects that this review process will conclude by the end of 2015, culminating in a notification to Canada by the U.S. Entity.

Priest Rapids Project. Under two agreements effective through 2052, the Department purchases a portion of the output of the Priest Rapids Project, which is owned and operated by Public Utility District No. 2 of Grant County ("Grant PUD"). The Priest Rapids Project is comprised of two dams on the Columbia River, with a combined installed capacity of 1,893 MW. As of November 2009, the Department is obligated to purchase 6.14% of the output of the two dams after Grant PUD meets its retail load. As Grant PUD's retail load increases, less electrical energy is available for the Department. The Department currently receives only about 2 aMW from these contracts. The Department also receives a portion of the revenues from an auction of 30% of the project power, totaling \$6.4 million in 2010, \$5.0 million in 2011, \$4.5 million in 2012, \$5.2 million in 2013, and \$5.5 million in 2014. 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 2014 and early 2015, Grant PUD repaired a crack in the spillway of Wanapum Dam that was discovered in February 2014. The crack at Wanapum Dam and operational changes that have occurred as a result have not had any substantial effects on the Department's operations or ability to serve its customers. Grant PUD's repair efforts

allowed the Wanapum dam to resume normal operations in March 2015. Some preventive maintenance work will continue on the dam in 2015.

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 2014, the Department received 272,842 MWh from the project.

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

Lucky Peak Project. The Lucky Peak Hydroelectric Power Plant (the “Lucky Peak Project”) was developed by three Idaho irrigation districts and one Oregon irrigation district (the “Districts”) and began operation in 1988. Its FERC license expires in 2030. The plant is located on the Boise River, approximately ten miles southeast of Boise, Idaho, at the Lucky Peak Dam and Reservoir. Power generation was 308,334 MWh in 2014. The nameplate capacity is 113 MW, but the plant operates only during the irrigation season, so it provides no peak capacity during the Department’s winter peak period.

In 1984, the Department entered into a power purchase and sales contract with the Districts under which the Department purchases all power generated by the Lucky Peak Project, 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 the Lucky Peak Project to a point of interconnection with the BPA transmission system.

Stateline Wind Project. An agreement with J.P. Morgan Ventures Energy Corp. (“J.P. Morgan”), which became effective on January 1, 2002, provides for the Department’s purchase of wind-generated power and associated renewable energy credits (“RECs”) from the Stateline Wind Project in eastern Washington and Oregon. In February 2015, J.P. Morgan agreed to sell its interest in the Stateline Wind Project to Exelon Corporation, subject to the Department’s consent. As of March 2015, the parties were in the process of finalizing the agreement. Wind power received by the Department has a maximum delivery rate of 175 MW per hour; historical output has been about 27% of the maximum delivery rate. The project contributes to the Department’s I-937 compliance. See “Washington’s Renewable Portfolio Standard (Initiative 937).” The contract ends in 2021; the Department has not currently exercised a renewal or extension of the contract but has the option to do so in the future. However, the Department agreed to buy RECs from J.P. Morgan for the period 2021-2026, which will extend the I-937 compliance component of the project. The Department received 357,325 MWh of wind-generated power under the Stateline Wind Project purchase contract in 2014. The Department’s purchases are not in BPA’s balancing authority and thus are not subject to the BPA curtailment.

The Department also entered into a related ten-year agreement with PacifiCorp to purchase integration and exchange services for all of the Department’s 175 MW share of Stateline Wind Project output. Under this agreement, PacifiCorp delivers the Department’s share of Stateline Wind Project output to the Mid-Columbia market hub two months after it is generated. The integration and exchange agreement with PacifiCorp terminates at the end of 2021.

Small Renewables.

BURLINGTON RENEWABLE BIOMASS. In 2007, the Department began an arrangement with SMUD. SMUD purchases the output from the Sierra Pacific Industries Burlington Biomass Facility, which burns wood waste and produces electrical energy. The Department provides scheduling and delivery services to SMUD for up to 15 MW of power at the California-Oregon border and receives financial compensation for these services. The Department purchases from SMUD all of the renewable energy and environmental attributes associated with the resource output in excess of 15 MW. The arrangement expires in 2017.

COLUMBIA RIDGE LANDFILL GAS. In December 2009, the Department began taking delivery from Columbia Ridge in Arlington, Oregon, under a 20-year agreement. The plant, which has a nameplate capacity of

6.4 MW and generates an average of 50,500 MWh per year, burns methane produced by the decomposition of solid waste in the landfill. The City sends its solid waste to the landfill. Waste Management Renewable Energy (“WMRE”) is the developer, owner, and operator of the project. The Department has firm transmission for project output to the Department’s retail load. WMRE added six MW of additional generation in summer 2014, and the Department is buying the output from the expansion under contract. The Department received 68,920 MWh of power under the Columbia Ridge purchase contract in 2014.

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

Seasonal and Other Exchanges. The NCPA exchange agreement provides for the Department to deliver 60 MW of capacity and 90,580 MWh of power to NCPA in the summer. In return, NCPA delivers 46 MW of capacity and 108,696 MWh of power to the Department in the winter. Deliveries to NCPA started in 1995 and will end in 2018.

In 2013, the Department agreed to an exchange with Shell Energy for the output of the Lucky Peak Project for 2014 and 2015. Shell Energy will take the generation during the irrigation season and return a fixed amount of generation to the Department during the winter heating season. See “Purchased Power Arrangements—Lucky Peak.”

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 2014, hydro flows were 104% of the historical average. As a result, the Department had more surplus power to sell to the wholesale market than in the previous year. The average revenue per MWh realized from surplus sales in 2014 was \$27.43/MWh, the highest since 2010. Net wholesale revenue in 2014 was \$88.6 million, slightly higher than the budgeted amount of \$85 million. As of May 15, 2015, net wholesale revenue is forecast to be \$52.9 million, \$12.1 million lower than the budget. This variance will be supplemented with the transfers from the RSA. Average peak Mid-Columbia Hub electricity price for 2015 is forecast to be \$28.13 per MWh. See “Department Financial Information—Management Discussion of Historical Operating Results 2010-2014” and “—2015 Expectations.”

Table 4 displays the Department's purchases and sales of power in the wholesale market over the 2010-2014 period.

TABLE 4
SUMMARY OF WHOLESALE MARKET SALES AND PURCHASES

| | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|------------|------------|-----------|-----------|------------|
| Cost of Wholesale Purchases (\$000) | \$ 55,306 | \$ 26,667 | \$ 22,805 | \$ 31,063 | \$ 23,404 |
| Wholesale Market Purchases (MWh in 000s) | 1,550 | 1,697 | 2,592 | 2,072 | 901 |
| Average Cost (\$/MWh) | \$ 35.68 | \$ 15.71 | \$ 8.80 | \$ 14.99 | \$ 25.98 |
| Revenue from Sales (\$000) ⁽¹⁾ | \$ 109,457 | \$ 125,117 | \$ 86,728 | \$ 82,628 | \$ 111,993 |
| Wholesale Market Sales (MWh in 000s) | 3,335 | 6,053 | 5,625 | 3,854 | 4,083 |
| Average Revenue (\$/MWh) | \$ 32.82 | \$ 20.67 | \$ 15.42 | \$ 21.44 | \$ 27.43 |
| Net Revenue (\$000) ⁽¹⁾ | \$ 54,151 | \$ 98,450 | \$ 63,923 | \$ 51,565 | \$ 88,589 |
| Sales Net of Purchases (MWh in 000s) | 1,785 | 4,356 | 3,033 | 1,782 | 3,182 |

(1) Shown as gross, prior to netting of bookouts. Audited financial statements are shown net of bookouts. Bookouts occur when counterparties agree to net financially settle the purchase and sale of physical energy that was separately transacted but calls for delivery at the same time and point of delivery. Wholesale market sales only include contracts for less than 24 months.

Source: *Seattle City Light Department, Accounting Division*

Federal Energy Market Legislation. The Energy Policy Act of 2005 (“EPAct”) implemented additional regulations that prohibit electric energy market manipulation. The catalyst for these regulations was the market manipulation associated with the 2000-2001 western energy crisis. FERC Order 690 implemented final anti-market manipulation rules, which became effective January 19, 2006. The regulations and rules broadly apply to and affect municipal utilities such as the Department. The Department requires annual classroom training for employees with responsibilities associated with the purchase and sale of energy and transmission, system operations, finance/risk management, and 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.

Wholesale Energy Risk Management

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

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

Under the WERM Policy, the Department has the authority to enter into agreements to manage various risks associated with power transactions as long as any agreements are not purely speculative and can be tied to managing an underlying power purchase, asset, or price risk. The policy contains limits on the dollar amount and volume for

physical calls and puts. The Department has not entered into any hedging agreements under an International Swaps and Derivatives Master Agreement. The Department has entered into certain forward purchase and sale of electricity contracts that meet the Governmental Accounting Standards Board (“GASB”) definition of a “derivative instrument,” although they are intended to result in the purchase or sale of electricity delivered and used in the normal course of operations. See Appendix D—2014 Audited Financial Statements of the Department—Note 14.

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.

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

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

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

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

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

Washington’s Renewable Portfolio Standard (Initiative 937)

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

The law is specific about what types of renewable generation are eligible to meet the renewable portfolio standard. Existing hydropower is not considered a renewable resource, but incremental hydropower is considered renewable if it is the result of efficiency improvements completed after March 30, 1999. The City evaluated I-937 during the preparation of its 2010 Integrated Resource Plan (“IRP”) and the potential for cost-effective, reliable, and feasible

conservation measures that could be derived from more efficient energy use by customers and by the Department's production and distribution facilities. Planned turbine replacements at the Boundary Project are incremental hydropower projects eligible under I-937, and will provide the Department with additional renewable resources when the projects are on-line and the efficiency increases are documented, currently planned for 2017.

The Department met the renewable energy targets for January 1, 2012, with renewable resources currently under contract (primarily, the Stateline Wind Project). The Department estimates that, with the current renewable resources and recent acquisitions of low-cost RECs, it will be in compliance with I-937's January 1, 2016, and January 1, 2020, targets. The Department conducts requests for proposals for renewable resources and engages in discussions with resource developers in furtherance of these goals. I-937 allows for alternative compliance options if a utility has no load growth or if the utility reaches a cost cap on spending for eligible resources.

Conservation

The Department has pursued a policy of managing energy needs through a significant energy efficiency effort. As a result of the "Energy 1990" study, prepared in 1976, the City decided to pursue conservation as an alternative to participating in certain Energy Northwest projects. During the 1980s, single-family residential measures dominated the Department's conservation program. Conservation incentive programs in the commercial, industrial, and multifamily sectors were added in the 1990s. The Department measures energy conservation results in terms of cost, amount, and duration of savings using regionally and nationally recognized methods. In 2014, the Department achieved 18.37 aMW (160,894 MWh) of energy savings from completed projects, which cost the Department \$41.7 million in incentives and expenditures associated with the delivery of the energy savings. Total savings in place in 2014 amounted to approximately 156.7 aMW (1,372,6044 MWh), representing more than 10% of the Department's total energy needs in 2014.

The Department's Strategic Plan has identified an annual energy savings target of 14 aMW per year for 2015-2020 and has identified budgets and resources necessary to meet this energy savings target. With the passage of I-937 in 2006, the Department is required to establish two-year conservation targets. For 2014 and 2015, the total energy savings target associated with I-937 is 23.68 aMW per year, and the Department is on track to meet this target. A new conservation potential assessment is being worked on to establish the 2016-2017 target.

The Department's Conservation Resources Division has a long-standing relationship with BPA. Through various contractual agreements over a 30-year period, BPA has provided funding for energy conservation activities. BPA is providing \$10 million for energy conservation activities over FFY 2014 and 2015, which will fund approximately 15% of the Department's total energy savings delivered in FFY 2014 and FFY 2015. In addition to the current funding, BPA is providing technical assistance for industrial projects and is offering regional conservation programs to the Department.

Integrated Resource Plan

The Department's IRP evaluated a range of resource portfolios that are designed to meet the Department's future resource needs and the State's I-937 renewable portfolio standard. A key objective of the IRP is to ensure with a high degree of certainty that expected long-term customer demand can be met with firm resources under variable hydro and weather conditions. The IRP preferred resource portfolio was selected after being evaluated against four criteria: reliability, cost, environmental impact, and risk. The main feature of the preferred portfolio is conservation. The Department is continuing an accelerated conservation strategy, doubling the pace of conservation acquisition since 2008 and delaying the need for new, higher cost, generating resources.

A 2014 update of the 2012 IRP is complete and affirms the conservation-centered resource strategy of the 2012 IRP. The Department projects load growth at 1.5% annually for the period 2015-2020. Conservation offsets this load growth by 1.2%, reducing it to 0.3% per year. In 2014, distributed generation was 0.08% of total retail sales. Sufficient RECs have been acquired to meet forecasted State renewable portfolio standard requirements through 2020 and beyond. Modest gains in generation efficiencies are expected at Boundary Dam, with about 39 MW in each of 2016 and 2017. Given the gains in resources and the load forecast, the Department expects to continue to be net surplus in resources on average until at least 2022.

The resource strategy continues to be:

- (i) Acquire cost-effective conservation;
- (ii) Acquire RECs and/or renewable resources, whichever is more cost-effective, for compliance with I-937;
- (iii) Make increased use of the flexibility available in existing power contracts for meeting seasonal variability in supply and demand; and
- (iv) Manage second-quarter hydro surpluses and, using the Department's seasonal exchange contracts, provide spring and summer energy in return for winter energy to enhance reserves for serving peak demand and reduce price risk in the second quarter, due to concurrent high hydro flows and high regional wind output.

The recommended resource strategy continues the Department's policy of obtaining low-cost power with low environmental impacts for its ratepayers while making the most of its existing resources. Conservation is the first choice resource, followed by purchases and sales of 24 months or less that reshape seasonal resources to better match seasonal changes in customer demand.

TRANSMISSION AND DISTRIBUTION

Introduction

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

Department-Owned Transmission

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

In 1994, the Department signed an agreement with BPA for the acquisition of ownership rights to one-thirtieth (160 MW at full rating) of the transmission capability over BPA's share of the Third AC Intertie, which connects the Pacific Northwest region 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. The Department has re-assigned a share of capacity on the Third AC Intertie, up to 80 MW at full rating, to EDF Trading North America for the period October 2010 to September 2015.

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." Contracts with BPA provide the Department with 1,962 MW of transmission capacity through 2025. This capacity amount ensures that the Department can deliver the maximum output of the Boundary Project and the BPA purchase contract to its customers. BPA raised its transmission rates by 11% for FFY 2014 and FFY 2015, the first transmission rate increase in eight years.

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 the Lucky Peak Project, with Avista and Grant PUD for transmission of power from the Grand Coulee Project Hydroelectric Authority, with Puget Sound Energy for transmission of power from the Cedar Falls Project and Tolt Project, and with other utilities. The Department also has a contract with PacifiCorp for transmission of power from the Stateline Wind Project.

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

ColumbiaGrid

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

Open Access Transmission Services

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

Retail Service

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

Operation and Maintenance

The Department updates its six-year horizon plan periodically to track changes in electrical power system loads. Through this plan, the Department makes provisions and recommendations for capacity projects related to transmission, substation, communications, and distribution facilities to serve the system loads.

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

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

The Department routinely inspects the vaults through which transmission lines run, and future maintenance programs are being established for steel lattice tower and monopole transmission equipment. The Department conducts monthly inspections, biannual maintenance, and either load capacity testing or replacement on a five-year cycle for batteries that supply protection for certain higher capacity transmission lines. Relays are tested and maintained on a periodic basis to satisfy NERC compliance.

Federal Regulations

The Department's Internal Compliance Office oversees the Department's efforts to comply with FERC reliability standards, foster a culture of compliance, and support the Department's mission to deliver reliable power to its customers. The Chief Compliance Officer leads Internal Compliance and reports directly to the General Manager and Chief Executive Officer. Internal Compliance has eight employees and operates independently of the four Department operating divisions.

The Internal Compliance Program Policy documents the Department's reliability compliance program. This policy provides the framework and key elements of the Department's internal compliance program and describes the responsibilities of the Department's officers and employees. The Department's Internal Compliance Program incorporates a compliance framework of five interdependent elements, including policies and operating procedures, communication and training, assessment and audit, processes for addressing and remedying compliance concerns, and periodic operating division review, designed to promote an effective and sustainable compliance program that will ensure compliance and prevent, detect, and correct non-compliance.

Internal Compliance conducts assessments internally and through external consultants. Comprehensive assessments of all applicable NERC reliability standards (currently 98 standards) occur on a three-year basis. Internal Compliance retained an external consultant to perform assessments in 2008, 2011, and 2013-2014. The most recent assessment identified no significant compliance concerns but did provide some best practice suggestions. The Department adopted the majority of the recommendations, which were implemented in the first half of 2014. In early 2013, Internal Compliance hired an external auditing team to perform an internal control-based assessment to focus on the effectiveness of both the overall Internal Compliance Program and also nine select standards identified based on assessed risk. The assessment differed from previous compliance-based assessments in its focus on internal control-centered practices, based on the Committee of Sponsoring Organizations Model. Other assessments at the Department are performed by Internal Compliance for standards it has identified as higher risk. Higher risk standards include substantially complex standards, standards with a Department compliance violation history, or standards affected by changes in Department operational practices and/or personnel. For 2014, the Department augmented its annual Self-Certification process. Internal Compliance identified 17 high-risk standards and requested that the Department's operating divisions submit additional compliance documentation, process information, and evidence for these standards. Upon review of this additional material, Internal Compliance identified sufficient evidence of compliance.

The Western Electricity Coordinating Council ("WECC") audits the Department triennially; WECC completed its last audit of the Department on August 8, 2014. A 17-member WECC Audit Team reviewed Department compliance for 36 reliability standards (28 Operations and Planning Standards and eight Cyber Security Standards), which comprise 245 individual requirements and sub-requirements. The WECC Audit Team found no possible violations in its review of the Operations and Planning Standards and identified possible violations of three requirements associated with the Cyber Security Standards. The possible violations were all low impact and posed minimal risk to the Department and the region. The Department corrected the situation and will implement process improvements to protect against future occurrences.

WECC Enforcement reviewed and verified the WECC Audit Team findings. WECC Enforcement found that one violation qualified for NERC's Find, Fix, Track, and Report processing, with a zero penalty award. The Department and WECC settled the two remaining violations through an Expedited Settlement Agreement, with a nominal penalty award.

Evolving and changing reliability standards are a fixture for the FERC reliability compliance program. As such, Internal Compliance establishes review and coordination practices to ensure Department compliance prior to a standard's effective date. Currently, one Operation and Planning Standard, for protection system maintenance, and

one Cyber Security Standard suite are of particular import to the Department because these standards represent significant change, from both an operational and a regulatory standpoint. Internal Compliance, together with the responsible Department operating divisions, established structured and coordinated processes to ensure the Department will be compliant by the standards' respective enforcement date. See "Seattle City Light Department—Enterprise Risk Management and Emergency Response" and "Power Resources and Cost of Power—Wholesale Energy Risk Management."

DEPARTMENT FINANCIAL INFORMATION

Historical Sales

Retail load fell in 2009 and 2010 due to the recession. After recovering in 2011, retail load has largely varied with weather from 2012 through 2014. There was a 2% decrease in retail load in 2014 due to an unusually warm winter.

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; even so, 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 0.8%. The peak load for the period 2010-2014 was 1,867 MW in February 2014. A record peak load of 2,055 MW was recorded in December 1990 due to unusually cold weather.

TABLE 5
RETAIL CUSTOMER ACCOUNTS, POWER SALES AND ENERGY REQUIREMENTS

| | 2010 | 2011 | 2012 | 2013 | 2014 |
|--|-------------|-------------|-------------|-------------|-------------|
| Average Number of Customer Accounts | | | | | |
| Residential | 359,079 | 360,442 | 362,658 | 367,837 | 374,619 |
| Non-Residential | 39,779 | 39,909 | 39,950 | 40,218 | 40,437 |
| Total Customer Accounts | 398,858 | 400,351 | 402,608 | 408,055 | 415,056 |
| Energy Sales (MWh) ⁽¹⁾ | | | | | |
| Residential | 3,073,405 | 3,217,101 | 3,098,745 | 3,158,629 | 2,987,711 |
| Non-Residential | 6,297,591 | 6,383,131 | 6,367,897 | 6,347,771 | 6,352,873 |
| Total Energy Sales | 9,370,996 | 9,600,232 | 9,466,642 | 9,506,400 | 9,340,584 |
| Peak Demand (MW) ⁽²⁾ | 1,847 | 1,749 | 1,805 | 1,841 | 1,867 |
| Energy Requirements (MWh) | | | | | |
| Total Energy Sales | 9,370,996 | 9,600,232 | 9,466,642 | 9,506,400 | 9,340,584 |
| Energy used in Operation | 30,726 | 32,752 | 31,072 | 30,910 | 29,717 |
| System Losses ⁽³⁾ | 509,032 | 570,008 | 584,310 | 511,390 | 541,323 |
| Total Energy Requirements ⁽⁴⁾ | 9,910,754 | 10,202,992 | 10,082,024 | 10,048,700 | 9,911,624 |

(1) Amounts include an allocation for the net change in unbilled revenues. Effective in 2013, the allocation of the net change in unbilled revenue excludes retail customer voluntary payments for conservation and solar energy. Prior years presented were not revised.

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

(3) Includes transmission and distribution losses.

(4) 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 2014.

TABLE 6
TOP TEN CUSTOMERS

| Customer | Customer Profile | % Total Retail Revenue |
|--------------------------------|---------------------------------|-------------------------------|
| University of Washington | Higher Education | 3.06% |
| Nucor Corporation | Steel Manufacturer | 3.01% |
| City of Seattle ⁽¹⁾ | Government | 2.68% |
| Boeing Company | Airplane Manufacturer | 2.18% |
| King County | Government | 1.43% |
| International Gateway/Sabey | Data Center Operator/Developer | 1.40% |
| U.S. Government | Government | 0.96% |
| 2001 Sixth LLC | Data Center | 0.86% |
| Saint-Gobain | Building Materials Manufacturer | 0.83% |
| Martin Selig | Developer | 0.76% |
| Total | | 17.16% |

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

Source: Seattle City Light Department, Finance Division

Financial Policies

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

Rate Stabilization Account. The RSA is drawn down to supplement revenues when surplus power sales revenues are below the budgeted amount (due to low water or lower wholesale prices, for example), and deposits are made to the RSA if surplus power sales exceed expectations. The budgeted amount of net wholesale revenues is known as the RSA baseline. The financial policies specify the target size of the RSA between \$100 million and \$125 million and authorize the collection of a temporary automatic surcharge on electric rates in the event the RSA drops to \$90 million or below. Pursuant to City ordinance, the City Council is required to take action to bring the RSA balance down to \$125 million within a period of 12 or fewer months if, at any time, the balance exceeds \$125 million. In April 2015, the City Council voted to delay the implementation of this requirement to January 1, 2016. The reason for the City Council action was that the amount in the account early in the year exceeded the \$125 million limit; however, the excess was expected to be temporary, with the account being drawn down below \$125 million later in the year. See "Security for the Bonds—Rate Stabilization Account" and "Retail Rates—Rate Changes 2010-2016."

TABLE 7
AUTOMATIC SURCHARGES

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

The RSA has been in use since January 1, 2011. As of December 31, 2014, the balance in the RSA was \$114.4 million. See “Retail Rates—Rates Changes 2010-2016.”

The Strategic Plan includes a transition to less dependence on sales of surplus wholesale power that aligns with lower expected net wholesale volumes and market prices. The reduction is being implemented gradually over the period 2013-2020. 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 Revenues divided by Annual Debt Service) of 1.80x based on the annual Department budget.

Funding of Capital Improvement Program. The Department’s policy is to fund its CIP so that on average, over the term of any given six-year CIP, 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 adopted CIP for 2015-2020 is expected to meet this target. See “Capital Requirements.”

City Investment Pool

The City’s Finance Department invests the Department’s funds. See “The City of Seattle—Investments” and Appendix D—2014 Audited Financial Statements of the Department—Note 4. The City’s Director of Finance is authorized to make loans to individual funds participating in the City’s common investment portfolio (the “Investment Pool”), including the Light Fund, by carrying such funds in a negative cash position for a period of up to 90 days, or for a longer period upon approval by the City Council by ordinance, to the extent such loans can be supported prudently by the Investment Pool and the borrowing fund is reasonably expected to be able to repay the loan. Such loans bear interest at the Investment Pool’s rate of return. Currently there are no Investment Pool loans to the Department. See “The City of Seattle—Investments—Interfund Loans.”

Taxation and Intergovernmental Payments

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

Certain contractual payments are made to Pend Oreille and Whatcom Counties in Washington for services rendered by these jurisdictions where the Department has generating facilities. In addition, under the terms of franchise agreements with several suburban cities, the Department makes monthly payments to the cities of Shoreline, Burien, Lake Forest Park, SeaTac, and Tukwila in amounts ranging from 3.644% to 6% of the revenue from rates charged to customers residing in those cities. The Department incorporates expected payments to the suburban cities into the retail rates that it charges retail customers residing in those cities. See “Retail Rates” and “Power Resources and Cost of Power—Department-Owned Resources—Boundary Project.”

Retail Rates

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

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

The current rate-setting objectives recommended by the Review Panel and adopted by the City Council include encouraging the efficient use of resources needed to provide electrical service, achieving rate predictability in an orderly way so as to avoid large changes for some customers or customer classes, providing for public involvement, achieving consistency with the strategic plan and financial policies, establishing rates sufficient to meet annual revenue requirements, basing rates on the marginal cost to customers, fairly apportioning costs of providing service among customer classes, and allocating the costs of conservation and providing low-income residential service to all customer classes.

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 ordinance was amended by the City Council in 2013 to clarify that changes to both power and transmission rates are covered by the pass-through ordinance. These rate changes take effect without passage of a new ordinance by the City Council. See “Power Resources and Cost of Power—Purchased Power Arrangements.”

Rate Changes 2010-2016. Table 8 summarizes the Department’s rate changes for the period 2010-2016.

TABLE 8
RATE CHANGES, 2010-2016

| <u>Effective Date</u> | <u>Percent Change</u> | <u>Type</u> |
|--------------------------------|-----------------------|--------------------|
| January 1, 2010 | 13.80% | Base Rate Increase |
| May 1, 2010 ⁽¹⁾ | 4.50% | RSA Surcharge |
| October 1, 2010 | 0.50% | BPA Pass-Through |
| January 1, 2011 | 4.30% | Base Rate Increase |
| January 1, 2012 | 3.20% | Base Rate Increase |
| January 1, 2013 | 4.40% | Base Rate Increase |
| October 1, 2013 | 1.20% | BPA Pass-Through |
| January 1, 2014 | 5.60% | Base Rate Increase |
| January 1, 2015 | 4.20% | Base Rate Increase |
| January 1, 2016 ⁽²⁾ | 4.90% | Base Rate Increase |

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

(2) Approved by the City Council.

The Department initiated a temporary surcharge of 4.5% from May 1, 2010, to December 31, 2010, to help initially fund the RSA. There was no RSA surcharge in 2011, 2012, 2013, or 2014, and the Department does not anticipate

requiring an RSA surcharge in 2015. See “Department Financial Information—Financial Policies—Rate Stabilization Account.”

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

A new 15-year franchise agreement with Shoreline went into effect on August 1, 2014, and a new agreement with Burien went into effect on January 1, 2015. The agreements with Lake Forest Park and SeaTac have been adopted by their respective City Councils and are in the process of acceptance by the Seattle City Council. Tukwila’s franchise renewal discussions will commence in advance of the agreement expiry in 2018. The Department has two franchise agreements with the County that have expired, but services are continuing to be provided to those unincorporated areas under the expired contracts. The Department is in negotiations with the County to renew its expired agreements. The Franchise Cities represented approximately 85.6% of the Department’s retail power sales outside the City but within the service area in 2014; the unincorporated areas of the County represented 14.0%.

The franchise agreements include provisions for payment for service levels that exceed the standard levels normally provided by the Department. The Department currently collects revenue from suburban franchise customers to reimburse the capital costs of the five completed undergrounding projects: three 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 has completed one more undergrounding project in Shoreline and is scheduled to start collecting reimbursements in the second half of 2015.

The Department’s service area also includes portions of the cities of Normandy Park and Renton, which represent the remaining 0.4% of sales outside the City’s boundaries. These areas are charged the suburban rates but do not have franchise agreements with the Department.

Voluntary Green Power Program. Pursuant to State law, since 2002 the Department has provided customers the option of making voluntary payments to fund new renewable resources. Currently, there is one voluntary green power program for residential and non-residential customers, Green Up, which allows customers to purchase green power at a retail rate of \$15 per MWh or a bulk rate of \$6 per MWh for purchases of 1,000 MWh per year or more. Green Up revenues are used to acquire RECs, to administer and market the program, and to invest in local solar projects and education programs. Monthly payments for residential customers are \$3, \$6, or \$12 (for 200, 400, or 800 kWh per month). Suggested (marketed) monthly payments for non-residential customers are \$15 or \$150, although non-residential customers may participate at any level they choose. They may also purchase RECs separately from their bill, for example, to earn LEED (Leadership in Energy and Environmental Design) credits, or to purchase green power for events. As of December 31, 2014, 13,497 customers participated in Green Up through payments on their bill. Green Up revenue in 2014 totaled \$1.43 million. REC sales in 2014 totaled 95.246 MWh.

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

TABLE 9
AVERAGE RATE IN CENTS PER KWH AND MONTHLY BILLS
(AS OF APRIL 1, 2015)

| | Average Revenue in Cents per kWh | | | | | | Average Monthly Bills (\$) | | | | | |
|-------------------------------------|----------------------------------|------------------------|----------------|----------------|----------------|----------|----------------------------|-------------------------|----------------|----------------|----------------|-----------|
| | City | City | City of | City of | City of | City | City | Suburban ⁽²⁾ | City of | City of | City of | |
| | Standard | Network ⁽¹⁾ | Burien | Shoreline | Tukwila | Standard | Network ⁽¹⁾ | Burien | Shoreline | Tukwila | | |
| Residential | | | | | | | | | | | | |
| 500 kWh per month | 7.8 | | 8.1 | 8.1 | 8.4 | 7.9 | 39 | | 40 | 40 | 42 | 39 |
| 1,000 kWh per month | 9.8 | ⁽³⁾ | 10.2 | 10.2 | 10.5 | 10.3 | 98 | ⁽³⁾ | 102 | 102 | 105 | 103 |
| 2,000 kWh per month | 10.9 | | 11.2 | 11.2 | 11.5 | 11.5 | 217 | | 224 | 224 | 230 | 229 |
| Small General Service | | | | | | | | | | | | |
| 10,000 kWh per month (40kW) | 8.0 | ⁽³⁾ | 8.2 | 8.2 | 8.4 | 8.3 | 799 | ⁽³⁾ | 822 | 822 | 838 | 832 |
| Medium General Service | | | | | | | | | | | | |
| 20,000 kWh per month (60kW) | 7.0 | 9.3 | 7.4 | 7.4 | 7.6 | 7.6 | 1,402 | 1,857 | 1,474 | 1,474 | 1,522 | 1,520 |
| 200,000 kWh per month (500kW) | 6.9 | 9.1 | 7.3 | 7.3 | 7.5 | 7.5 | 13,800 | 18,120 | 14,520 | 14,520 | 15,000 | 14,980 |
| Large General Service | | | | | | | | | | | | |
| 400,000 kWh per month (1,000kW) | 6.8 | 8.7 | 7.3 | 7.3 | 7.5 | 7.4 | 27,025 | 34,632 | 29,275 | 29,351 | 29,808 | 29,421 |
| 1,800,000 kWh per month (5,000kW) | 6.8 | 8.8 | 7.4 | 7.4 | 7.5 | 7.4 | 122,613 | 157,841 | 132,747 | 133,091 | 135,144 | 133,398 |
| High Demand General Service | | | | | | | | | | | | |
| 6,000,000 kWh per month (20,000kW) | 6.5 | ⁽⁴⁾ | ⁽⁴⁾ | ⁽⁴⁾ | ⁽⁴⁾ | 6.7 | 388,861 | ⁽⁴⁾ | ⁽⁴⁾ | ⁽⁴⁾ | ⁽⁴⁾ | 399,035 |
| 18,000,000 kWh per month (60,000kW) | 6.5 | | | | | 6.7 | 1,166,582 | | | | | 1,197,106 |

- (1) City Network includes Medium and Large General Service customers in downtown Seattle that are serviced 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, Shoreline, and Tukwila.
- (3) Residential and Small General Service customers receiving network service are charged City standard rates.
- (4) All High Demand General Service customers are located in Seattle or Tukwila.

Source: Seattle City Light Department, Finance Division

TABLE 10
ANNUAL BILL COMPARISONS WITH OTHER PUGET SOUND UTILITIES
(AS OF APRIL 1, 2015)

| Monthly Use | | Seattle | Puget Sound | Snohomish | Tacoma |
|-----------------------------|--------|---------------------------|-----------------------|---------------------------|----------------------|
| kWh | kW | City Light ⁽¹⁾ | Energy ⁽²⁾ | County PUD ⁽³⁾ | Power ⁽⁴⁾ |
| Residential | | | | | |
| 100 | | \$ 120 | \$ 199 | \$ 186 | \$ 215 |
| 500 | | 467 | 593 | 589 | 571 |
| 1,000 | | 1,180 | 1,181 | 1,178 | 1,016 |
| 3,000 | | 4,034 | 3,631 | 3,534 | 2,795 |
| Small General Service | | | | | |
| 300 | 1 | \$ 288 | \$ 487 | \$ 439 | \$ 506 |
| 3,000 | 10 | 2,876 | 3,708 | 3,242 | 3,003 |
| 12,000 | 40 | 11,506 | 14,445 | 12,583 | 11,330 |
| Medium General Service | | | | | |
| 150,000 | 500 | \$ 127,560 | \$ 180,995 | \$ 150,402 | \$ 119,746 |
| 200,000 | 500 | 165,600 | 218,969 | 191,138 | 144,461 |
| 360,000 | 900 | 298,080 | 393,021 | 342,862 | 259,549 |
| Large General Service | | | | | |
| 300,000 | 1,000 | \$ 249,232 | \$ 360,585 | \$ 299,321 | \$ 238,891 |
| 1,000,000 | 5,000 | 870,831 | 1,417,561 | 1,083,318 | 944,904 |
| 2,500,000 | 7,500 | 2,056,901 | 2,885,124 | 2,438,952 | 1,911,360 |
| High Demand General Service | | | | | |
| 6,000,000 | 20,000 | \$ 4,666,327 | \$ 7,185,000 | \$ 5,958,258 | \$ 4,766,424 |
| 18,000,000 | 60,000 | 13,998,980 | 21,552,189 | 17,871,810 | 14,298,072 |
| 24,000,000 | 60,000 | 18,188,581 | 26,109,103 | 22,760,106 | 17,263,896 |
| Last Rate Change | | 01/01/15 | 01/01/15 | 01/01/15 | 04/01/15 |

(1) The Department's electric rates includes 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 4.5% to reflect the city of Everett's utility tax rate.

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

Source: Seattle City Light Department, Finance Division

Billing and Collection Processes

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

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

The Department has established various payment programs for its customers, including a levelized payment program to allow for monthly payments and an Automatic Bill Payment program. The majority of the customers on the levelized payment program are billed bi-monthly with an option to pay one half of the amount by the bill due date and the remainder in the following month. An exception is made when a customer is enrolled in both the levelized

payment plan and the automatic bill payment program, in which case all of the billed amount is drafted from the customer's bank account by the bill due date.

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

Accounts receivable write-offs by the Department in 2014 were \$3.9 million or 0.53% of retail electrical energy sales revenue, comparable to write-offs of \$3.8 million or 0.55% in 2013. The Department's collection policy provides for disconnection of power for nonpayment of amounts due the Department, subject to statutory limitations on disconnections in winter months. See Appendix D—2014 Audited Financial Statements of the Department—Note 5.

Historical Operating Results 2010-2014

Table 11 presents information on operating results for the period 2010-2014, along with revenue available for debt service. Revenue available for debt service is then used in Table 12 to calculate the debt service coverage ratio in each of those years.

The financial statements of the Light Fund as of and for the fiscal year ended December 31, 2014, included herein as Appendix D, have been audited by Baker Tilly Virchow Krause, LLP ("Baker Tilly"), independent accountants, as stated in its report appearing herein. The City has not requested that Baker Tilly provide consent for inclusion of its audited financial statements in this Official Statement, and neither the City's independent auditors nor the State Auditor nor any other independent accountants have compiled, examined, or performed any procedures with respect to this Official Statement or any financial information contained herein, nor have they expressed any opinion or any other form of assurance on such information, and they assume no responsibility for, and disclaim any association with, this Official Statement and such information.

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

| | 2010 | 2011 | 2012 | 2013 | 2014 |
|--|-------------------|-------------------|-------------------|-------------------|-------------------|
| Operating Revenues: | | | | | |
| Retail Energy Sales | | | | | |
| Residential | \$ 227,907 | \$ 244,675 | \$ 240,689 | \$ 262,074 | \$ 259,979 |
| Non-Residential | 396,477 | 411,309 | 423,574 | 435,622 | 460,798 |
| Subtotal | \$ 624,384 | \$ 655,984 | \$ 664,263 | \$ 697,696 | \$ 720,777 |
| Wholesale Power Sales | \$ 74,535 | \$ 102,663 | \$ 70,402 | \$ 63,035 | \$ 96,815 |
| Power Exchanges and Other ⁽¹⁾⁽²⁾⁽³⁾ | 63,621 | 50,100 | 23,665 | 35,083 | 44,454 |
| Transmission Revenues ⁽⁴⁾ | 2,953 | 4,596 | 5,640 | 5,356 | 6,371 |
| Transfer from/(to) the Rate Stabilization Account ⁽⁵⁾ | (54,266) | (62,225) | 13,219 | 18,285 | (4,369) |
| Other Revenues | 21,950 | 21,039 | 23,085 | 22,774 | 22,395 |
| Total Revenue | \$ 733,177 | \$ 772,157 | \$ 800,274 | \$ 842,229 | \$ 886,443 |
| Operating Expenses Before Debt Service: | | | | | |
| Wholesale Market Purchases | \$ 24,484 | \$ 11,433 | \$ 11,764 | \$ 19,759 | \$ 14,912 |
| Long-Term Purchased Power Contracts | 223,591 | 206,852 | 204,133 | 203,126 | 214,262 |
| Power-Related Purchases ⁽²⁾⁽³⁾ | 25,091 | 9,024 | 7,806 | 14,149 | 17,656 |
| Production | 32,719 | 39,498 | 42,571 | 52,176 | 48,187 |
| Wheeling | 38,539 | 38,924 | 36,488 | 37,394 | 42,112 |
| Other Operating and Maintenance Expenses ⁽⁶⁾ | 170,739 | 187,240 | 189,519 | 202,818 | 211,140 |
| Taxes (excluding City taxes) | 31,722 | 33,583 | 33,935 | 36,488 | 35,399 |
| Total Operating Expenses Before Debt Service | \$ 546,885 | \$ 526,554 | \$ 526,216 | \$ 565,910 | \$ 583,668 |
| Net Operating Revenue | \$ 186,292 | \$ 245,603 | \$ 274,058 | \$ 276,319 | \$ 302,775 |
| Add ⁽⁷⁾ | | | | | |
| Amortization Included in Operating Expenses ⁽⁶⁾ | \$ 17,389 | \$ 20,943 | \$ 21,518 | \$ 22,250 | \$ 24,679 |
| Valuation on Exchange Power, Net ⁽²⁾⁽³⁾ | 69 | 190 | 240 | (251) | 271 |
| BPA Conservation Augmentation/Agreement Revenue | (6,043) | (14,302) | (187) | (464) | (722) |
| Interest | 3,846 | 5,582 | 4,390 | 4,724 | 5,430 |
| Non-Cash Expenses ⁽⁸⁾ | 5,301 | 6,491 | 2,828 | 10,796 | 1,935 |
| Other ⁽⁹⁾ | 3,558 | 5,355 | 3,292 | 6,192 | 7,004 |
| Revenue Available for Debt Service | \$ 210,412 | \$ 269,862 | \$ 306,139 | \$ 319,566 | \$ 341,372 |

NOTES TO TABLE:

- (1) Includes conservation and renewable credits under the power sales contract with BPA, the recognition of payments from BPA for the purchase of conservation savings, revenue from deliveries of power to Pend Oreille PUD pursuant to the Boundary Project's FERC license, and other energy credits.
- (2) Effective in 2012, the Department adopted GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. Non-monetary transactions are measured at fair value in accordance with GASB No. 62.
- (3) Includes significant activity for the valuation of energy delivered under seasonal exchanges, basis sales, and other power exchange contracts.
- (4) Includes revenue from the short-term sale of excess transmission capacity.
- (5) Transfers from/(to) the RSA, primarily to address fluctuations in surplus power sales.
- (6) Includes certain non-cash amortization expenses. Non-cash expenses are not taken into account in determining the amount of net revenue available for debt service. Net revenues are adjusted to exclude these non-cash items.
- (7) Remaining lines in the table are unaudited.
- (8) Amount presented in 2013 includes a portion of the claims expenses and capital project expenditures from prior years which were subsequently determined not to be capital expenditures.
- (9) Includes a one-time true-up downward adjustment to unbilled revenue, a noncash item recorded in 2014. Prior years presented were not revised.

Source: Audited Financials (except as noted in footnote 7), Seattle City Light Department, Accounting Division

TABLE 12
HISTORICAL DEBT SERVICE COVERAGE
(\$000)

| | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|------------|------------|------------|------------|------------|
| Revenue Available for Debt Service ⁽¹⁾ | \$ 210,412 | \$ 269,862 | \$ 306,139 | \$ 319,566 | \$ 341,372 |
| Debt Service ⁽¹⁾ | | | | | |
| Parity Bonds | \$ 118,372 | \$ 146,688 | \$ 169,124 | \$ 172,800 | \$ 184,756 |
| Debt Service Ratios-Times Covered | | | | | |
| Parity Bonds ⁽²⁾ | 1.78 | 1.84 | 1.81 | 1.85 | 1.85 |

(1) Federal payments received in respect of outstanding Build America Bonds, Recovery Zone Economic Development Bonds, and New Clean Renewable Energy Bonds are excluded from Revenue Available for Debt Service. Federal payments excluded were \$4.6 million, \$5.2 million, and \$5.1 million, respectively, for years 2012, 2013, and 2014. In accordance with a change in Department policy in 2012, federal subsidy payments received are netted against debt service and the debt service requirements shown for 2012, 2013, and 2014 reflect this change. Federal payments were also received in 2011, but are not netted from the debt service amount shown. For a description of the effect of the federal sequestration that began in March 2013 on these federal direct-pay tax credit bond programs, see "Department Financial Information—Debt Service Requirements—Federal Sequestration."

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

Source: Seattle City Light Department, Accounting Division

Management Discussion of Historical Operating Results 2010-2014

This section provides a discussion of operating results for the period 2010-2014, based on information in Tables 11 and 12, and an expanded discussion for the period 2013-2014, based on a summary of the Management's Discussion and Analysis included in Appendix D—2014 Audited Financial Statements of the Department.

Summary 2010-2014. Retail revenues increased from \$624.4 million in 2010 to \$720.8 million in 2014, primarily due to the Department's average system rate increases during this time period (see "Retail Rates"). This increase in retail revenues also reflects the increase in the number of customers, from 398,858 in 2010 to 415,056 in 2014.

Net wholesale revenues varied during this period, ranging from a low of \$43.3 million in 2013 to a high of \$91.2 million in 2011. This variability is primarily due to fluctuations in hydro volumes, wholesale power market prices, and retail load. The RSA has been in place since January 1, 2011, and higher-than-budgeted net wholesale revenue in 2014 resulted in a net transfer into the RSA.

Debt service on Parity Bonds increased from \$118.4 million in 2010 to \$184.8 million in 2014. Debt service coverage ranged from a high of 1.85x in 2013 and 2014 to a low of 1.78x in 2010, reflecting the effect of reduced wholesale revenues and net transfers from the RSA. The Department's financial policies require the Department to set electric rates designed to achieve a debt service coverage ratio of 1.80x. Table 12 shows that, historically, the Department has been able to achieve this level of coverage in most recent years.

Operating Revenues—2014 vs. 2013. Retail revenues in 2014 were \$720.8 million, \$23.1 million or 3.3% higher than in 2013, primarily due to a 5.6% average system rate increase effective January 1, 2014, and a 1.2% BPA pass-through effective October 1, 2013, even with incrementally lower energy consumption in 2014 compared to 2013. The number of retail customers also increased to 415,056 in 2014, a 1.7% increase from 2013.

The increase in net wholesale revenues in 2014 from 2013 was \$38.6 million, or 89.3%. Wholesale power sales were \$96.8 million in 2014, an increase of \$33.8 million from 2013, whereas wholesale power purchases decreased by \$4.8 million, to \$14.9 million. The increase in net wholesale revenues was due to more energy available for sale and higher wholesale energy prices in 2014 compared to 2013. The average peak Mid-Columbia Hub electricity price for 2014 was \$38.72 per MWh, compared to \$36.88 per MWh in 2013.

Power exchanges and other revenues increased by \$9.4 million to \$44.5 million. Power-related purchases increased by \$3.5 million to \$17.7 million in 2014, resulting in net power-related revenues of \$26.8 million in 2014, a 28.0% increase from \$20.9 million in 2013. The increase in both power-related sales and power-related purchases in 2014 was due to the higher volume of surplus power available for sale and higher market prices compared to 2013.

Transmission revenues increased by \$1.0 million to \$6.4 million in 2014, and revenues from other sources decreased by \$0.4 million, totaling \$22.4 million in 2014.

In 2014, net transfers to the RSA were \$4.4 million and in 2013, net transfers from the RSA were \$18.3 million.

Operating Expenses—2014 vs. 2013. In 2014, long-term purchased power contract expenses increased by \$11.1 million to \$214.3 million, due in large part to higher BPA power charges and an increased block load shaping rate. In addition, there were higher prices and volume for power purchases, higher fair value recording of energy exchanges, and lower booked out long-term purchases.

Production costs, at \$48.2 million, were \$4.0 million lower than in 2013. Production costs in 2013 were unusually high because of a write-off of Gorge second tunnel costs. Wheeling expenses were \$42.2 million, an increase of \$4.7 million from 2013, due mostly to higher BPA transmission rates. Other operating and maintenance expenses increased by \$8.3 million in 2014, to \$211.1 million, due to higher salaries for cost of living adjustments, new positions, higher professional service fees, and higher pension and benefits expenses. Non-City taxes in 2014 were \$35.4 million, a decrease of \$1.1 million from 2013, primarily due to the 2014 conservation incentive tax credits, offset by higher taxes due to a 2014 rate increase.

Net Operating Revenue—2014 vs. 2013. Net operating revenue in 2014 was \$302.8 million, \$26.5 million higher than in 2013, due to higher retail energy sales as a result of the overall rate increase in January 2014 and the BPA pass-through in October 2013, offset by higher operating expenses and lower transfers-in from the RSA in 2014.

Although not included in Table 11, changes in nonoperating revenues and expenses provide additional information on the financial condition of the Department. Nonoperating revenues increased by \$7.4 million to \$18.5 million in 2014 from \$11.1 million in 2013. The major reason was the result of unrealized gains from the change in fair value of the Department's share of investments from the City's investment pool.

Nonoperating expenses decreased by \$1.4 million to \$77.9 million in 2014, due in part to higher interest charged to construction projects, which is an offset to interest expense.

Capital contributions and grants were \$28.4 million in 2014, a decrease of \$21.3 million from 2013, due primarily to a decrease in in-kind contributions.

2015 Expectations

As of May 15, 2015, the full-year forecast indicates that the Department's debt service coverage ratio will be 1.76x, slightly below the financial policy target of 1.80x. Retail revenues in 2015 are forecasted to be higher than in 2014 because of the 4.2% average system rate increase effective January 1, 2015, but lower than the 2015 plan because of warmer and wetter than expected weather in the winter of 2015. No RSA surcharge is expected in 2015. As of May 15, 2015, generation volumes for the calendar year are forecasted to be 93% of the average of the past five years. While poor water and snowpack conditions exist in much of the U.S. West and Southwest, the Northwest situation is more positive. The Federal System benefits from a diversity of watersheds, with five distinct basins throughout the region. The Department's owned generation resources are located in the northern part of the State and, on average, have experienced higher levels of precipitation. The Department experienced record generation levels and above budget net wholesale revenues in the first quarter of 2015, due to the early water runoff. As of April 30, 2015, the RSA balance was \$131.1 million and as of May 15, 2015, net wholesale revenue is expected to be \$52.9 million, \$12.1 million lower than the budgeted amount of \$65 million. Operating expenses are expected to be higher in 2015 than 2014, largely due to increased depreciation, inflation, cost of living adjustments, and taxes on retail sales. Net income is expected to be higher in 2015 than in 2014, primarily due to a sale of real property that the Department expects to occur in late 2015.

Debt Service Requirements

As of December 31, 2014, the principal amount of Outstanding Parity Bonds totaled \$1,903,845,000. Principal and interest payments due on the Department's Outstanding Parity Bonds are shown in Table 13. See "Capital Requirements—Financing" for a discussion of the Department's future financing plans.

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 2015 is expected to be a 7.3% reduction in the amount the Department expects to receive from the federal government in connection with its Municipal Light and Power Revenue Bonds, 2010A (Taxable Build America Bonds—Direct Payment), Municipal Light and Power Revenue Bonds, 2010C (Taxable Recovery Zone Economic Development Bonds—Direct Payment), and Municipal Light and Power Improvement Revenue Bonds, 2012C (Taxable New Clean Renewable Energy Bonds—Direct Payment). Because of this reduction, the Department will receive approximately \$400,000 less in interest subsidies than originally anticipated for 2015. The Department has sufficient revenues to pay the interest without these subsidies. Sequestration was originally in effect through FFY 2021 and has subsequently been extended through FFY 2024.

**TABLE 13
DEBT SERVICE REQUIREMENTS**

| Year | Outstanding Parity Bonds ⁽¹⁾ | | | The Bonds ⁽³⁾ | | Total Parity Bonds ⁽¹⁾⁽³⁾ | | |
|--------------|---|-------------------------|-------------------------|--------------------------|----------------------|--------------------------------------|-------------------------|-------------------------|
| | Principal | Interest ⁽²⁾ | Total | Principal | Interest | Principal | Interest ⁽²⁾ | Total |
| 2015 | \$ 104,915,000 | \$ 89,457,001 | \$ 194,372,001 | \$ - | \$ 358,904 | \$ 104,915,000 | \$ 89,815,905 | \$ 194,730,905 |
| 2016 | 105,915,000 | 96,154,926 | 202,069,926 | - | 1,344,816 | 105,915,000 | 97,499,743 | 203,414,743 |
| 2017 | 109,130,000 | 88,441,388 | 197,571,388 | - | 1,947,842 | 109,130,000 | 90,389,230 | 199,519,230 |
| 2018 | 109,590,000 | 83,234,288 | 192,824,288 | - | 2,458,904 | 109,590,000 | 85,693,192 | 195,283,192 |
| 2019 | 106,210,000 | 77,922,138 | 184,132,138 | - | 2,958,904 | 106,210,000 | 80,881,042 | 187,091,042 |
| 2020 | 105,570,000 | 72,509,913 | 178,079,913 | - | 3,460,529 | 105,570,000 | 75,970,441 | 181,540,441 |
| 2021 | 105,040,000 | 67,356,486 | 172,396,486 | - | 3,957,160 | 105,040,000 | 71,313,646 | 176,353,646 |
| 2022 | 104,445,000 | 62,013,538 | 166,458,538 | - | 4,000,000 | 104,445,000 | 66,013,538 | 170,458,538 |
| 2023 | 106,165,000 | 56,703,466 | 162,868,466 | - | 4,000,000 | 106,165,000 | 60,703,466 | 166,868,466 |
| 2024 | 109,245,000 | 51,197,955 | 160,442,955 | - | 4,001,856 | 109,245,000 | 55,199,811 | 164,444,811 |
| 2025 | 98,015,000 | 45,677,301 | 143,692,301 | - | 3,998,144 | 98,015,000 | 49,675,444 | 147,690,444 |
| 2026 | 91,165,000 | 40,924,353 | 132,089,353 | 3,325,000 | 3,922,022 | 94,490,000 | 44,846,375 | 139,336,375 |
| 2027 | 65,200,000 | 36,896,545 | 102,096,545 | 3,460,000 | 3,785,856 | 68,660,000 | 40,682,401 | 109,342,401 |
| 2028 | 66,480,000 | 33,601,901 | 100,081,901 | 3,600,000 | 3,646,134 | 70,080,000 | 37,248,035 | 107,328,035 |
| 2029 | 59,930,000 | 30,509,241 | 90,439,241 | 3,750,000 | 3,494,991 | 63,680,000 | 34,004,232 | 97,684,232 |
| 2030 | 43,045,000 | 27,875,089 | 70,920,089 | 3,905,000 | 3,343,020 | 46,950,000 | 31,218,109 | 78,168,109 |
| 2031 | 44,690,000 | 25,806,066 | 70,496,066 | 4,065,000 | 3,183,067 | 48,755,000 | 28,989,133 | 77,744,133 |
| 2032 | 46,410,000 | 23,653,169 | 70,063,169 | 4,230,000 | 3,018,315 | 50,640,000 | 26,671,484 | 77,311,484 |
| 2033 | 48,200,000 | 21,414,309 | 69,614,309 | 4,405,000 | 2,841,926 | 52,605,000 | 24,256,235 | 76,861,235 |
| 2034 | 50,225,000 | 19,072,583 | 69,297,583 | 4,585,000 | 2,662,872 | 54,810,000 | 21,735,455 | 76,545,455 |
| 2035 | 52,400,000 | 16,690,216 | 69,090,216 | 4,770,000 | 2,475,134 | 57,170,000 | 19,165,349 | 76,335,349 |
| 2036 | 54,650,000 | 14,204,274 | 68,854,274 | 4,965,000 | 2,281,191 | 59,615,000 | 16,485,465 | 76,100,465 |
| 2037 | 41,900,000 | 11,997,685 | 53,897,685 | 5,170,000 | 2,075,333 | 47,070,000 | 14,073,018 | 61,143,018 |
| 2038 | 43,555,000 | 10,095,736 | 53,650,736 | 5,385,000 | 1,864,511 | 48,940,000 | 11,960,247 | 60,900,247 |
| 2039 | 45,280,000 | 8,119,186 | 53,399,186 | 5,605,000 | 1,643,951 | 50,885,000 | 9,763,137 | 60,648,137 |
| 2040 | 47,080,000 | 6,031,352 | 53,111,352 | 5,830,000 | 1,415,568 | 52,910,000 | 7,446,920 | 60,356,920 |
| 2041 | 34,940,000 | 4,251,575 | 39,191,575 | 6,070,000 | 1,175,034 | 41,010,000 | 5,426,609 | 46,436,609 |
| 2042 | 25,340,000 | 3,012,725 | 28,352,725 | 6,320,000 | 926,983 | 31,660,000 | 3,939,708 | 35,599,708 |
| 2043 | 26,410,000 | 1,943,000 | 28,353,000 | 6,580,000 | 668,085 | 32,990,000 | 2,611,085 | 35,601,085 |
| 2044 | 16,530,000 | 828,000 | 17,358,000 | 6,850,000 | 399,252 | 23,380,000 | 1,227,252 | 24,607,252 |
| 2045 | 8,025,000 | 160,500 | 8,185,500 | 7,130,000 | 117,854 | 15,155,000 | 278,354 | 15,433,354 |
| Total | \$ 2,075,695,000 | \$ 1,127,755,904 | \$ 3,203,450,904 | \$100,000,000 | \$ 77,428,159 | \$ 2,175,695,000 | \$1,205,184,063 | \$ 3,380,879,063 |

(1) Includes the City of Seattle Municipal Light and Power Revenue Bonds, 2015A, expected to close on July 9, 2015.

(2) Reflects taxable rates on certain bonds issued as taxable bonds with a federal subsidy, but does not reflect the federal subsidy payments associated with those bonds. For a description of the effect of federal sequestration on these direct-pay tax credit bonds, see “Department Financial Information—Debt Service Requirements—Federal Sequestration.”

(3) Preliminary, subject to change. Assumes interest rates on the Bonds ranging from 1.00% to 4.00%, per the Department’s financial plan.

CAPITAL REQUIREMENTS

Every year during its annual budget process, the City adopts a six-year CIP, which outlines anticipated investments over that timeframe. The Department's CIP is a part of the City's CIP. The Department owns, maintains, and operates a multi-billion-dollar physical plant that includes power generation hydroelectric plants, transmission lines, distribution system, substations, and other utility assets. The Department's CIP is the vehicle for repairing, upgrading, and expanding this infrastructure. This section describes the adopted 2015-2020 CIP and other capital requirements that the Department intends to implement over the period 2015-2020.

Generation

Generation plant includes facilities used to produce electricity. Typical assets are reservoirs, dams, waterways, waterwheels, turbines, generators, and accessory electrical equipment. Generation expenditures are projected to total \$403.3 million during the six-year planning period, averaging about \$67.2 million per year and representing about 21% of planned capital expenditures for that period. A large percentage of generation investment is dedicated to core Department functions that maintain or add to generation infrastructure and ensure system reliability and power availability to customers, including the Department's generator and turbine runner rebuild programs (\$89.8 million) and improvements at the Skagit (\$105.9 million) and Boundary (\$59.3 million) Projects. A large portion of the funds provides for environmental mitigation requirements primarily related to the terms and conditions of the FERC license for the Boundary Project (\$106.0 million) and upcoming relicensing of the Skagit Project (\$10.8 million), which is scheduled to begin in 2019.

Transmission

Transmission plant includes poles, towers, and conductors used to carry electricity from generation facilities to substations. Transmission expenditures are projected to total \$85.7 million during the six-year planning period, averaging about \$14.3 million per year and representing about 4% of planned capital expenditures for that period. The transmission reliability project (\$15.4 million) is an ongoing project that replaces one percent of the Department's transmission structures and conductors each year. It provides engineering, construction, and related work, improving and maintaining the reliability of the overhead or underground transmission system. The Denny Substation Transmission Lines project (\$45.5 million) designs and constructs transmission lines to support the new Denny Substation.

Distribution

Distribution plant includes poles, wires and cables, transformers, manholes, vaults, ducts, and other electrical equipment and infrastructure needed to deliver power from the substation to the customer connection at home or business in both network and non-network areas. The Department plans to spend about \$958.1 million from 2015 through 2020 on distribution system improvements and additions, averaging \$159.7 million per year and representing about 50% of planned capital expenditures for that period. Significant expenditures are required for the following purposes:

- (i) constructing new and enlarged overhead and underground service connections within the Department's service territory;
- (ii) relocating infrastructure and providing capacity related to a number of large local transportation and regional transit projects, including the Alaskan Way Viaduct and the seawall replacement (see "The City of Seattle—Considerations Related to Alaskan Way Viaduct and Seawall Replacement Program");
- (iii) replacement of older equipment in the Department's distribution system that is nearing the end of its usable life, is overloaded, or is of an outdated design, which requires replacement due to the lack of spare parts;
- (iv) network power distribution system design and construction to connect customers to the new Denny Substation; and
- (v) investing in Smart Grid technology.

General Plant

General plant includes non-electrical system assets including buildings and facilities, such as the North and South Service Centers, and investments in office-related computer equipment, information and communications systems, furniture, and mobile equipment. Programmed expenditures of \$262.8 million provide for general plant improvements and/or replacement over the period 2015-2020, averaging about \$43.8 million per year and representing about 14% of planned capital expenditures for that period. The Department plans to fund major replacement and improvement of its information technology infrastructure (\$79.2 million), replace and expand its light and heavy duty mobile equipment fleet (\$31.8 million), and continue installation and configuration of an asset management system. Investments in communications systems are also scheduled. The largest communications project is the Distribution Area Communications Networks project (\$10.9 million), for installation of fiber cable and equipment to all the Department's dams, substations, and service centers to create a secure, reliable, fast, and redundant digital communications system for operations command and control. Other general plant major investments include service center development (\$37.8 million) to begin in 2019, security improvements (\$19.5 million), and technical training center development (\$10.2 million).

Substations

Substation expenditures are projected to total \$199.1 million during the six-year planning period, averaging about \$33.2 million per year and representing about 10% of planned capital expenditures for that period. The major project is the design and construction of the new Denny Substation (\$83.9 million). Other projects include the replacement of existing substation equipment, including transformers and breakers to maintain reliability and to increase capacity to provide for load growth.

Conservation

Conservation resource 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 84 aMW of cumulative annual energy savings between 2015 and 2020. The Department is forecasting an annual achievement of 14.0 aMW over this six-year period, and the expenditure forecast reflects this level of effort.

High Ross Payment Amortization

In setting rates for the 2000-2003 period, the City Council directed the Department to amortize the \$21.8 million capital portion of the annual payment to B.C. Hydro under the High Ross Agreement through 2035. The Department pays B.C. Hydro \$21.8 million each year from 2000 through the final capital payment in 2020, \$9.1 million of the annual payment is deferred, and \$12.7 million is recognized as an expense. From 2021 through 2035, the remaining balance of deferred costs will be amortized. The deferred portion of the payments to B.C. Hydro is capitalized and therefore is treated as a component of capital requirements. See "Department-Owned Resources—Skagit Project" for a discussion of the High Ross Agreement.

Relicensing, Mitigation, and Other Costs

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

Financing

Capital requirements of \$2,275.3 million from 2015 through 2020 (including \$1,909.2 million of the CIP and \$366.1 million of certain capitalized costs) are expected to be financed through a combination of cash from operations, contributions in aid of construction, capital grants, and the proceeds of the Bonds and Future Parity Bonds. The Department forecasts that bond proceeds will fund approximately 60% of the capital requirements over the 2015 through 2020 period.

The Department does not as a matter of course make public projections as to future sales, earnings, or other results. However, the Department has prepared the prospective financial information as set forth in Table 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 public disclosure or with a view toward complying with the guidelines established by the American Institute of Certified Public Accountants with respect to prospective financial information, but, in the view of the Department, was prepared on a reasonable basis, reflects the best currently available estimates and judgments, and presents, to the best of management's knowledge and belief, the expected course of action and the expected future capital expenditures of the Department. However, this information is not fact and should not be relied upon as being necessarily indicative of future results, and potential purchasers of the Bonds and the readers of this Official Statement are cautioned not to place undue reliance on the prospective information.

TABLE 14
ADOPTED CAPITAL IMPROVEMENT AND CONSERVATION PROGRAMS AND OTHER CAPITAL REQUIREMENTS
2015-2020
(\$000,000)

| | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | Total |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-------------------|
| Generation | \$ 55.3 | \$ 68.4 | \$ 78.3 | \$ 73.5 | \$ 55.2 | \$ 72.7 | \$ 403.3 |
| Transmission | 8.0 | 12.6 | 11.3 | 10.1 | 23.5 | 20.2 | 85.7 |
| Distribution ⁽¹⁾ | 189.4 | 211.8 | 189.1 | 126.5 | 115.8 | 125.5 | 958.1 |
| General Plant | 54.4 | 46.4 | 29.0 | 26.2 | 39.1 | 67.8 | 262.8 |
| Substation | 45.1 | 54.4 | 41.6 | 19.8 | 19.2 | 19.0 | 199.1 |
| Total CIP | \$ 352.2 | \$ 393.5 | \$ 349.3 | \$ 256.2 | \$ 252.8 | \$ 305.2 | \$ 1,909.2 |
| Conservation ⁽²⁾ | \$ 35.1 | \$ 40.9 | \$ 42.1 | \$ 43.3 | \$ 44.6 | \$ 45.9 | \$ 252.0 |
| High Ross Payment Amortization | 9.1 | 9.1 | 9.1 | 9.1 | 9.1 | 9.1 | 54.6 |
| Relicensing, Mitigation and Other Costs ⁽³⁾ | 18.6 | 4.5 | 4.4 | 9.1 | 9.4 | 13.5 | 59.6 |
| Total Funds Required | \$ 415.0 | \$ 448.1 | \$ 404.9 | \$ 317.7 | \$ 315.9 | \$ 373.7 | \$ 2,275.3 |
| Sources of Funds | | | | | | | |
| Cash from Operating Account | \$ 105.0 | \$ 120.6 | \$ 137.9 | \$ 126.5 | \$ 81.3 | \$ 97.0 | \$ 668.4 |
| Cash from Contributions | 31.9 | 47.0 | 30.8 | 27.6 | 23.9 | 24.2 | 185.5 |
| Cash from Bond Sale | 278.0 | 280.4 | 236.2 | 163.6 | 210.7 | 252.5 | 1,421.4 |
| Total Funds Available | \$ 415.0 | \$ 448.1 | \$ 404.9 | \$ 317.7 | \$ 315.9 | \$ 373.7 | \$ 2,275.3 |

- (1) Includes Alaskan Way Viaduct and seawall replacement. See "The City of Seattle—Considerations Related to Alaskan Way Viaduct and Seawall Replacement Program."
- (2) The City Council passed resolutions authorizing the debt financing and/or deferral of certain costs in accordance with ASC 980-10-05, *Effect of Regulatory Accounting*. Programmatic conservation costs are amortized to expense over 20 years. The deferred portion of annual payments to B.C. Hydro under the High Ross Agreement, which amounts to \$9.1 million per year, is amortized over 15 years through 2035, beginning in 2020. See "Power Resources and Cost of Power—Department-Owned Resources."
- (3) Relicensing, mitigation, toxic cleanup, and other costs such as City and State taxes on suburban undergrounding. These costs are deferred and amortized to expense over the respective project license period or other relevant period.

Source: *Seattle City Light Department, Finance Division*

ENVIRONMENTAL MATTERS

Impact of Environmental Matters

Environmental responsibility and stewardship are identified as corporate values in the Department's mission and strategic and business planning efforts. 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.

Waste Management and Disposal Issues

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.

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

In 2001, the U.S. Environmental Protection Agency (the "EPA") listed the Lower Duwamish Waterway as a Superfund site. The City (through the Department and SPU), the County, the Port of Seattle, and the Boeing Company signed an Administrative Settlement Agreement Order on Consent with the EPA and Ecology to perform a remedial investigation and feasibility study along the Lower Duwamish Waterway and to conduct a study and cleanup of early action sites, which were completed in 2012. EPA released its Record of Decision in November 2014. EPA estimates the cost to be \$342 million, with a seven-year construction period beginning in 2019. More than 100 entities have been identified as potentially responsible parties ("PRPs"). Over the next three years, a third party will determine the liability of each of the PRPs in accordance with a voluntary allocation agreement. The East Waterway was designated as a Superfund site in 2001 as an operable unit of the overall Harbor Island Superfund Site, which was listed by EPA in 1983. Current PRPs include the City, the Port of Seattle, the County, and Seattle Iron & Metals Corporation ("SIMC"). In 2005, EPA requested that the City, the County, and SIMC assist the Port with a Supplemental Remedial Investigation and Feasibility Study ("SRI/FS") and possible cleanup actions. Potential Department liability derives from Department transformers sold to SIMC, from which contaminants are thought to have drained into the waterway. The Port is the lead on the study, which began in 2006. The City has agreed to an interim sharing of on-going costs of the SRI/FS with the Port and the County. The Department is sharing City costs with SPU. Completion of the SRI/FS is anticipated in 2016. Clean-up construction timing and cost estimates will not be known until the SRI/FS identifies a preferred remedy. In addition, the Department signed an order with Ecology to clean up an upland area encompassing the Georgetown Steam Plant and North Boeing Field (which is partly owned by the Department and leased to the Boeing Company), and is also conducting voluntary remedial actions related to pesticides, PCB, and lead contamination at some of its discontinued electrical facilities.

As of December 31, 2014, the Department had recorded environmental liability amounts net of recoveries of \$57.6 million under the GASB reporting requirements. This amount is evaluated semi-annually and is subject to adjustment based on future developments. It is likely that the Department will be liable for a portion of the costs of future remediation of other areas on the Lower Duwamish site, and on the East Waterway alongside Harbor Island and adjacent to the Lower Duwamish.

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

Endangered Species Act

Columbia and Snake River Anadromous Fish. There are three federal action agencies responsible for the operation of the Federal System: the Corps, the Bureau of Reclamation, and BPA. These agencies have been engaged in Endangered Species Act ("ESA") Section 7 consultation for a number of years and, as a result of litigation, the National Oceanic and Atmospheric Administration ("NOAA Fisheries") has been required to develop a series of Biological Opinions relating to the Columbia and Snake River fisheries. In 1995, NOAA Fisheries developed a broad species recovery plan, including recommendations for upstream and downstream passage requirements. These requirements include minimum flow targets for the entire Columbia River basin designed to maximize the survival of downstream migrating juvenile salmon and steelhead and upstream migrating adult salmon and steelhead. NOAA Fisheries and the USFWS developed supplemental recovery plans in 1998 and 2000 that identified reasonable and prudent alternatives to protect and recover not only listed salmon and steelhead but also Bull Trout and sturgeon, which have been listed under the ESA in the Columbia River Basin. Biological Opinions for the Columbia-Snake River Basin were released by NOAA Fisheries in 2008. Two of these Biological Opinions govern the federal operation of 14 hydropower dams in the Federal System, while the third governs salmon harvest by the states and tribes. The Biological Opinion for the Federal System was the subject of litigation in U.S. District Court (Oregon). In response to this litigation, the U.S. Department of Commerce and NOAA Fisheries, in coordination with the U.S. Department of Justice, completed an extensive review of the Biological Opinion and filed the findings of the review and an Adaptive Management Implementation Plan ("AMIP") for the salmon recovery with the U.S. District Court in 2009. NOAA Fisheries submitted a supplemental Biological Opinion on May 20, 2010, that considered new research and fully integrated the AMIP into the 2008 Biological Opinion. In May 2011, the U.S. District Court ruled that the 2008/2010 Biological Opinion was illegal because it failed to identify specific mitigation plans beyond 2013, and issued a remand order for a new Biological Opinion to be submitted by NOAA Fisheries. In response to this remand order, NOAA Fisheries issued a new Biological Opinion on January 17, 2014, that addresses the concerns identified by the court in 2011. While NOAA Fisheries has successfully met the conditions of the court's remand order, the new Biological Opinion has been recently challenged in court by fishing and conservation groups and oral arguments are scheduled for June 2015. The anadromous fish and ESA issues in the Columbia River system affect the amount of electricity the Department receives from BPA's Slice program. See "Power Resources and Costs of Power—Purchased Power Arrangements."

The Department's power generation at the Boundary Project has been affected by the salmon and steelhead recovery plans and the Biological Opinions on which they were based. Specifically, the Biological Opinions require reservoirs upstream from the Boundary Project to store more water during the winter for release in the spring and summer when it is needed for downstream juvenile fish migration. Generation at the Boundary Project therefore is reduced in the fall and winter, when the region experiences its highest sustained energy demand. Due to the recommendations of the Biological Opinions, the water not released in the fall and winter 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 results in a reduction in the Boundary Project's firm capability under the terms of the Coordination Agreement. See "Power Resources and Cost of Power—Overview of Resources." The new Biological Opinion issued by NOAA Fisheries will likely result in changes in flows that could have an impact on the Boundary Project. These Biological Opinions may have similar effects on the amounts the Department receives under contracts with Grant PUD and BPA. For a discussion of additional environmental issues and the Boundary Project, see "Power Resources and Cost of Power—Department-Owned Resources—Boundary Project."

Skagit, Tolt, and Cedar River ESA-Listed Fish. Other ESA fish listings that may affect Department operations include Bull Trout, Chinook Salmon, and steelhead in Puget Sound. Bull Trout, which were listed as a threatened species in 1999 by the USFWS, have a wide geographic range in the Pacific Northwest. The Skagit River populations of Bull Trout are recognized as being among the healthiest in the U.S. due to excellent habitat conditions, cold water temperatures, and an abundant food supply. Bull Trout are also found in Chester Morse Lake and the Cedar River in the vicinity of the Cedar Falls Project. This species is also occasionally observed in the South Fork Tolt River, downstream of the Tolt Project. The Skagit River downstream of the Skagit Project is listed

as Critical Habitat for Bull Trout by the USFWS, as are the major tributaries to the three project reservoirs. The Tolt and Cedar Rivers and reservoirs are excluded from the Critical Habitat designations for this species. The draft recovery plan for Bull Trout throughout the coterminous United States was completed by the USFWS in 2004. A final version of this recovery plan is currently being prepared by the USFWS, and is expected to be completed in September 2015.

Bull Trout are also found in the Boundary Reservoir. In March 2013, FERC issued a license that includes requiring additional measures to support the recovery efforts for Bull Trout, including habitat enhancements and the suppression of non-native trout. See “Power Resources and Cost of Power—Department-Owned Resources.” The Settlement includes the participation of State and federal agencies responsible for the protection of Bull Trout. The measures to be implemented as part of the Settlement will not affect power generation, although there will be costs associated with implementing protection measures for native salmonids, which include Bull Trout. See “Power Resources and Costs of Power—Department-Owned Resources—Boundary Project.”

Chinook Salmon in the Puget Sound were listed as threatened by NOAA Fisheries in 1999, and are present in the Skagit, Cedar, and Tolt Rivers downstream of the Department’s hydroelectric facilities. Chinook Salmon populations increased to 30-year-high levels on the Skagit River from 2004 through 2006, declined to average levels in 2007 and 2008, further declined from 2009 to 2011, and improved to average levels in both 2012 and 2013. The Skagit River downstream of the Skagit Project continues to sustain the largest native population of Chinook Salmon in the Puget Sound region. The Skagit, Cedar, and Tolt Rivers downstream of the Department’s hydroelectric facilities were designated as Critical Habitat for Chinook Salmon by NOAA Fisheries. The Department’s hydroelectric facilities on the Skagit and Tolt Rivers are located above natural passage barriers to salmon and steelhead.

Steelhead were listed as threatened by NOAA Fisheries in 2007. Winter steelhead populations are located in the Skagit, Cedar, and Tolt Rivers downstream of the Department’s hydroelectric facilities. The South Fork Tolt River also has one of the few summer steelhead populations in the Puget Sound region. Steelhead populations declined to 30-year-low levels in most Puget Sound rivers during the early 2000s. Steelhead returns to the Skagit basin remained below the floor level established by WDFW from 2006 to 2009, and reached an historic low point in 2009. Since then, the returns have shown incremental improvement, and exceeded the floor level in 2013 and 2014. Steelhead returning to the upper Skagit River, the area most affected by the Skagit Project, exceeded average annual counts for this reach from 2010 through 2014. NOAA Fisheries is in the process of developing a recovery plan for steelhead in the Puget Sound region, with the plan expected to be completed in early 2018.

A wide range of actions has been taken by the Department to reduce and mitigate the 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 authorizes operations with regard to all listed species of the Cedar Falls Project and by an incidental take permit. Both the Skagit and Tolt Projects were licensed through a collaborative process involving State and federal regulatory agencies, including NOAA Fisheries, USFWS, WDFW, and tribes. These agreements include extensive measures to protect fish, including complex flow management measures and non-flow measures such as habitat restoration, conservation land acquisition, and research and monitoring. In addition, the Department is continuing an ESA Early Action program that is supporting the recovery of Bull Trout, Chinook Salmon, and steelhead populations in the Skagit and Tolt watersheds. This program has funded several major habitat restoration projects for the three listed fish species in the Skagit and Tolt watersheds. The Department has also acquired more than 3,000 acres of high quality habitat for listed fish species in these watersheds for permanent conservation protection. Monitoring and research studies by the Department are continuing in partnership with WDFW, National Park Service, U.S. Fish and Wildlife Service, Skagit River System Co-op, and the Upper Skagit Tribe to determine the population status of and the factors potentially limiting Bull Trout, Chinook Salmon, and steelhead populations downstream of the Skagit Project, and Bull Trout populations in the three Skagit Project reservoirs. These studies will be used to develop management and recovery plans in cooperation with State and federal agencies to improve habitat conditions for listed fish species.

The Skagit Project Biological Opinion for Chinook Salmon and steelhead was completed by NOAA Fisheries in November 2012; it included the adoption of four additional flow protection measures that had already been in effect on a voluntary basis by the Department to provide for the ongoing protection and recovery of steelhead and Chinook Salmon. The Skagit Project Biological Opinion for Bull Trout was completed by the USFWS in February 2013 and

adopted the same flow protection measures contained in the NOAA Fisheries Biological Opinion, as well as specific habitat conservation measures and population monitoring requirements, to aid in the protection and recovery of Bull Trout. Continued implementation of these required conservation measures will have no significant effect on the Department's operations at the Skagit Project.

Clean Water Act

Section 401 of the federal Clean Water Act ("CWA") requires states to provide a "water quality certification" regarding compliance of discharges with state water quality requirements as a precondition for federal actions including licensing of hydroelectric projects. The purpose of the certification is to ensure that the project complies with state water quality standards. These standards address various physical and chemical parameters. Section 401 also has been interpreted to authorize states to condition their certification on maintenance of a minimum stream flow determined to be necessary to protect fish.

An agreement with State and federal agencies was reached on minimum flows for the Newhalem Project, and incorporated into the FERC license issued in 1997. These minimum flows were a condition of the Section 401 certification issued in 1996. Ecology implemented new water quality standards for the State 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 April 21, 2014, the EPA and the Corps proposed a rule defining the waters protected under the CWA. The proposed rule will redefine the definition of the "waters of the United States," which is used to determine whether individual water bodies are jurisdictional under the CWA and thus subject to federal permitting requirements. The public comment period for this proposed rule extended through October 20, 2014, and the rule is now being finalized. The proposed rule provides greater clarity on the type of water bodies that are under protected by the CWA, including tributaries, wetlands, and ditches that are connected to designated "waters of the United States." The impacts of the proposed rule to the Department are expected to be minimal.

Renewable Energy and Greenhouse Gas Mitigation

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

The Department currently uses hydroelectric resources for 90% of the power it provides, the primary reason the Department's greenhouse gas emissions are so low. The Department's carbon emissions are further reduced by its aggressive energy efficiency and conservation programs, which help customers to save energy and money. 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 on only new renewables and conservation to meet future load growth.

The Department has a very low emission factor as reported to and verified through the Climate Registry. The direct costs of carbon dioxide (CO₂) regulation are likely to be paid by direct emitters; the Department has no fossil fuel plants and very small operational emissions. The Department purchases greenhouse gas offsets for these emissions. One offset is created when one metric ton of greenhouse gas emissions (CO₂ equivalents) is avoided, reduced, or sequestered. The Department purchases high quality registered offsets and favors local and innovative projects with exemplary environmental co-benefits.

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. On June 2, 2014, the EPA issued a proposed rule, "The Clean Power Plan," under Section 111(d) of the Clean Air Act designed to regulate greenhouse gas emissions from existing power plants. The proposed rule includes state-specific goals and guidelines for states to develop plans for meeting these goals. The Department is reviewing this proposed

rule and is working with key stakeholders to monitor it as it moves toward possible final implementation. At this time, it is unknown how the State will choose to implement the rule once it is finalized. The Department reports a small amount of emissions of a potent greenhouse gas used in electrical equipment to EPA, but any cost impacts resulting from future legislation are expected to be low. In addition, IRP analyses suggest that a carbon tax or carbon cap and trade regime could increase the competitiveness of the Department's wholesale power sales, because 90% are from power resources with no CO₂ emissions.

Climate Change

The Western Governors' Association has published a climate adaptation scoping report that emphasizes the need for coordination between state and federal efforts to identify key science that is Western-specific. Department staff are involved in a U.S. Department of Energy Partnership for Energy Sector Climate Resilience, developing best practices to increase resilience to climate change and extreme weather.

The physical effects of climate change are expected to affect the amount, timing, and availability of hydroelectric generation in the future. The Department's resource mix is 90% hydro-based generation. In cooperation with the University of Washington's Civil and Environmental Engineering Department, the Department is studying how projected changes in temperature, rainfall, and snowpack could affect glaciers and stream flow in the region and future output from its hydropower generating plants and other hydro purchases. The climate change studies described in the 2010 through 2014 IRPs suggest gradually increasing runoff during the winter peak demand period, accompanied by gradually decreasing runoff during the late summer and fall, as well as a potential increase in the intensity of short-term heavy rainfall events. The projected impacts of climate change are much less adverse for the Department as a winter-peaking utility than for many summer-peaking utilities. In cooperation with the University of Washington's Climate Impacts Group, the Department is researching how projected changes in extreme weather could affect transmission and distribution reliability. The Department will be less affected than other City departments but coordinates with other City departments to understand potential impacts. The Department continues to monitor new information on potential climate change impacts through its Climate Research Initiative.

VARIOUS FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY

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

- (i) effects of compliance with changing environmental, safety, licensing, regulatory, and legislative requirements;
- (ii) changes resulting from conservation and demand-side management programs on the timing and use of electric energy;
- (iii) changes resulting from a national energy policy;
- (iv) effects of competition from other electric utilities (including increased competition resulting from mergers, acquisitions, and "strategic alliances" of competing electric and natural gas utilities and from competitors transmitting less expensive electricity from much greater distances over an interconnected system) and new methods of, and new facilities for, producing low-cost electricity;
- (v) the repeal of certain federal statutes that would have the effect of increasing the competitiveness of many investor-owned utilities;
- (vi) increased competition from independent power producers and marketers, brokers, and federal power marketing agencies;
- (vii) "self-generation" or "distributed generation" (such as microturbines and fuel cells) by industrial and commercial customers and others;
- (viii) effects of inflation on the operating and maintenance costs of an electric utility and its facilities;
- (ix) changes from projected future load requirements;

- (x) increases in costs and uncertain availability of capital;
- (xi) shifts in the availability and relative costs of different fuels (including the cost of natural gas);
- (xii) increases or decreases in the price of energy purchased or sold on the open market that may occur in times of high peak demand or supply;
- (xiii) issues with transmission capacity and integrating wind power generation;
- (xiv) inadequate risk management procedures and practices with respect to, among other things, the purchase and sale of energy and transmission capacity;
- (xv) other legislative changes, voter initiatives, referenda, statewide propositions, sequestration, and other failures of Congress to act;
- (xvi) effects of changes in the economy;
- (xvii) effects of possible manipulation of the electric markets;
- (xviii) natural disasters or other physical calamities, including, but not limited to, earthquakes, tsunamis, floods, mud slides, volcanic eruptions, and wind storms;
- (xix) security breaches, including cyber security breaches;
- (xx) variations in the weather and changes in the climate; and
- (xxi) failures of or other issues with infrastructure.

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

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

THE CITY OF SEATTLE

The following provides general information about the City.

Municipal Government

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

The City is a general purpose government that provides a broad range of services typical of local municipalities, such as streets, parks, libraries, human services, law enforcement, fire fighting and emergency medical services, planning, zoning, animal control, municipal court, and utilities. King County also provides certain services throughout the County and within the City, including courts of general jurisdiction, felony prosecution and defense, jail, public health, and transit services.

The City is organized under the mayor-council form of government and operates under its City Charter. The Mayor, the city attorney, and the Municipal Court judges are all elected to four-year terms. Until 2013, City Council members served four-year terms. Pursuant to a charter amendment approved by voters in November 2013 that created seven City Council districts and two at-large positions, all nine City Council positions will be up for election in 2015. The City Council members elected by district will serve a four-year term and the at-large City Council members elected in 2015 will serve a two-year term. In 2017, the at-large positions will be up for election again, and thereafter, all City Council positions will be for staggered four-year terms.

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

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

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

Financial Management

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

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

Auditing. The State Auditor is required to examine the affairs of all local governments at least once every three years; the City is audited annually. The examination must include, among other things, the financial condition and resources of the City, compliance with the State Constitution and laws of the State, and the methods and accuracy of the accounts and reports of the City. Reports of the State Auditor's examinations are required to be filed in the office of the State Auditor and in the Department of Finance and Administrative Services. The City's Comprehensive Annual Financial Report may be obtained from the Department of Finance and Administrative Services and is available at <http://www.seattle.gov/cafrs/default.htm>.

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

Municipal Budget. City operations are guided by a budget prepared under the direction of the Mayor by the City Budget Office pursuant to State statute (chapter 35.32A RCW) and based in part on General Fund revenue forecasts prepared by the City's Department of Finance and Administrative Services. The proposed budget is submitted to the City Council by the Mayor each year not later than 90 days prior to the beginning of the next fiscal year. Currently the fiscal year of the City is January 1 through December 31. The City Council considers the proposed budget, holds public hearings on its contents, and may alter and revise the budget at its discretion, subject to the State requirement that budgeted revenues must at least equal expenditures. The City Council is required to adopt a balanced budget at least 30 days before the beginning of the next fiscal year, which may be amended or supplemented from time to time by ordinance. The Mayor may choose to approve the City Council's budget, veto it, or permit it to become law without the Mayor's signature. The Mayor does not have line-item veto power. The 2015 budget was adopted on November 24, 2014.

The City's adopted General Subfund budget is \$1,023.9 million in 2014 and \$1,048.1 million in 2015. According to the City's November 2014 forecast, total General Fund revenues are expected to increase by about 3.5% in 2015. As part of its budgeting and management process, the City updates its projections for major revenue sources three times per year. This process is conducted utilizing a dedicated team of four economists with the assistance of regularly updated third-party national and local data and economic forecasts.

Investments

Authorized Investments. Chapter 35.39 RCW permits the investment by cities and towns of their inactive funds or other funds in excess of current needs in the following: United States bonds, United States certificates of indebtedness, State bonds or warrants, general obligation or utility revenue bonds of its own or of any other city or town in the State, its own bonds or warrants of a local improvement district that are within the protection of the local improvement guaranty fund law, and any other investment authorized by law for any other taxing district. Under chapter 39.59 RCW, a city or town also may invest in the following: bonds of any local government in the State that have at the time of investment one of the three highest credit ratings of a nationally recognized rating agency, general obligation bonds of any other state or local government of any other state that have at the time of the investment one of the three highest credit ratings of a nationally recognized rating agency, registered warrants of a local government in the same county as the government making the investment, and any investments authorized by law for the State Treasurer or any local government of the State other than a metropolitan municipal corporation (other than bank certificates of deposit of banks or bank branches not located in the State). Under chapter 43.84 RCW, the State Treasurer (and, under chapter 39.59 RCW, cities and towns) may invest in the following: obligations of the United States or its agencies and of any corporation wholly owned by the government of the United States; State, county, municipal, or school district general obligation bonds or general obligation warrants of taxing districts of the State, if within the statutory limitation of indebtedness; motor vehicle fund warrants; Federal Home Loan Bank notes and bonds, Federal Land Bank bonds, Fannie Mae notes, debentures, and guaranteed certificates of participation and obligation of any other government-sponsored corporation whose obligations are eligible for collateral for advances to Federal Reserve System member banks; bankers' acceptances purchased in the secondary market; negotiable certificates of deposit of any national or state commercial or mutual savings bank or savings and loan association doing business in the United States; and commercial paper.

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

Authorized Investments for Bond Proceeds. Funds derived from the sale of bonds or other instruments of indebtedness will be invested or used in such manner as the initiating ordinances, resolutions, or bond covenants may lawfully prescribe. In addition to the eligible investments discussed above, bond proceeds may also be invested, subject to certain restrictions, in mutual funds with portfolios consisting of (i) only United States government bonds or United States government guaranteed bonds issued by federal agencies with average maturities of less than four years; bonds of the State or of any local government in the State that have at the time of the investment one of the four highest credit ratings of a nationally recognized rating agency; general obligation bonds of any other state or local government of any other state that have at the time of the investment one of the four highest credit ratings of a nationally recognized rating agency; (ii) bonds of states and local governments or other issuers authorized by law for investment by local governments that have at the time of investment one of the two highest credit ratings of a nationally recognized rating agency; or (iii) securities otherwise authorized by law for investment by local governments.

City Investments. The information in this section does not pertain to pension funds that are administered by the City (see "Pension Plans"), and certain refunding bond proceeds that are administered by trustee service providers.

All cash-related transactions for the City, including the Department and other City utilities, are administered by the Department of Finance and Administrative Services. City cash is deposited into a single bank account and cash expenditures are paid from a consolidated disbursement account. Investments of temporarily idle cash may be made, according to existing City Council-approved policies, by the Treasury Division of the Department of Finance and Administrative Services in securities described above under "Authorized Investments."

State statutes, City ordinances, and Department of Finance and Administrative Services policies require the City to minimize market risks by safekeeping all purchased securities according to governmental standards for public institutions and by maintaining safety and liquidity above consideration for returns. Current City investment policies require periodic reporting on the City's investment portfolio to the Mayor and the City Council. The City's investment operations are reviewed by the City Auditor and by the State Auditor.

As of December 31, 2014, the combined investment portfolios of the City, not including pensions, totaled \$1,613 million at par value. The City’s investment portfolios consist solely of City funds. The City does not invest funds in any other pools, with the exception of tax collection receipts initially held by the County. As of December 31, 2014, the annualized yield on the City’s investment portfolios was 0.94%. As of December 31, 2014, the average maturity of the City’s investment portfolios was 895 days. Approximately 24.7%, or \$399.3 million, was invested in securities with maturities of three months or less. The City held no securities with maturities longer than 15 years.

Investments were allocated as follows:

| | |
|---------------------------------------|-----|
| U.S. Government-Sponsored Enterprises | 34% |
| Commercial Paper | 20% |
| Taxable Municipal Bonds | 15% |
| U.S. Treasuries | 14% |
| Mortgage-Backed Securities | 11% |
| Repurchase Agreements | 5% |
| Certificates of Deposit | 2% |

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

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

Risk Management

The City purchases excess liability insurance to address general, automobile, professional, public official, and other exposures. The policies provide \$40 million limits above a \$6.5 million self-insured retention per occurrence, but coverage excludes partial or complete failure of any of the City’s hydroelectric dams. The City also purchases all risk property insurance, including earthquake and flood perils, that provides up to \$500 million in limits subject to a schedule of deductibles and sublimits. City hydroelectric generation and transmission equipment and certain other utility systems and equipment are not covered by the property insurance policy.

The City insures a primary level of fiduciary, crime liability, inland marine, and various commercial general liability, medical, accidental death and dismemberment, and miscellaneous exposures. Surety bonds are purchased for certain public officials, notary publics, and workers who are permanently and totally disabled from a workplace injury or occupational disease.

See “Seattle City Light Department—Enterprise Risk Management and Emergency Response.”

Pension Plans

The information below describes pension plans available to City employees generally. The Seattle City Employees’ Retirement System (“SCERS”) described below is the only plan available to employees of the Department and is the only plan to which the Department contributes.

City employees are covered by one of the following defined benefit pension plans: Seattle City Employees’ Retirement System (“SCERS”), Firefighters’ Pension Fund, Police Relief and Pension Fund, and Law Enforcement Officers’ and Fire Fighters’ Retirement System (“LEOFF”). The first three are administered by the City and are reported as pension trust funds as part of the City’s reporting entity. The State administers LEOFF through the State Department of Retirement Systems (“DRS”).

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

Nearly all permanent non-uniformed City employees and certain grandfathered employees of the County (and a predecessor agency of the County) are eligible for membership in SCERS. Current uniformed police and fire personnel are eligible for membership in LEOFF.

In June 2012, GASB approved Statements 67 and 68 that modify the accounting and financial reporting of pensions by state and local governments and pension plans. Statement No. 67, Financial Reporting for Pension Plans, addresses financial reporting for state and local government pension plans. Statement No. 68, Accounting and Financial Reporting for Pensions, establishes new accounting and financial reporting requirements for governments that provide their employees with pensions. The guidance contained in these statements will change how governments calculate and report the costs and obligations associated with pensions. SCERS and LEOFF will be subject to GASB 67; the City will be subject to GASB 68. GASB 67 is effective for the City’s fiscal year ending December 31, 2014; GASB 68 is effective beginning in the City’s fiscal year ending December 31, 2015.

Seattle City Employees’ Retirement System. SCERS is a single-employer defined benefit public employee retirement plan, administered in accordance with Chapter 4.36 of the Seattle Municipal Code (“SMC”), by the Retirement System Board of Administration (the “Board”). The Board consists of seven members, including the Chair of the Finance Committee of the Seattle City Council, the City’s Director of Finance, the City’s Personnel Director, two active members and one retired member of the system, and one outside board member who is appointed by the other six board members. Elected and appointed board members serve for three-year terms.

SCERS provides retirement, death, and disability benefits. Retirement benefits vest after five years of credited service, while death and disability benefits vest after ten years of service. Retirement benefits are calculated as 2% multiplied by years of creditable service, multiplied by average salary, based on the highest 24 consecutive months. The benefit is actuarially reduced for early retirement. As of January 1, 2014, there were 5,880 retirees and beneficiaries receiving benefits, and 8,603 active members of SCERS. There are an additional 2,037 terminated employees entitled to future benefits. From January 1, 2013, to January 1, 2014, the net number of active members increased by 1.6%, the net number of retirees receiving benefits increased by 2.4%, and the net number of vested terminated members increased by 3.2%.

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

**TABLE 15
PLAN MEMBER DEMOGRAPHIC INFORMATION**

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

(1) Includes everyone under the age of 50.

Source: 2013 Actuarial Valuation

FINANCIAL CONDITION AND ACTUARIAL VALUATIONS. As a department of the City, SCERS is subject to the City’s internal control structure and is required by SMC 4.36.140.D to transmit a report to the City Council annually regarding the financial condition of SCERS. The most recent such audited report, the 2013 Annual Report, for the year ended December 31, 2013, was transmitted on June 19, 2014, by CliftonLarsonAllen LLP.

On July 17, 2014, the Washington State Auditor’s Office issued a finding of a significant deficiency in internal controls over financial reporting relating to SCERS account reconciliations. As described, the

finding stated that general ledger accounts were not analyzed and reconciled with subsidiary information on a monthly basis. The City responded to this finding by stating that SCERS would work with the City's central accounting unit to establish a common understanding of how investments and investment activities should be reflected in the City's general ledger. A copy of that audit report is available on the State Auditor's website (www.sao.wa.gov).

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

As of January 1, 2014, the actuarial value of net assets available for benefits was \$2.094 billion and the actuarial accrued liability was \$3.260 billion. The 2013 Actuarial Valuation utilized the following assumptions:

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

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

To the extent that actuarial accrued liability exceeds plan assets, an unfunded actuarial accrued liability ("UAAL") exists. The UAAL increased from \$1,105.2 million as of January 1, 2013, to \$1,165.8 million as of January 1, 2014. The funded ratio increased from 63.5% as of January 1, 2013, to 64.2% as of January 1, 2014, which increase is primarily due to recognition of asset gains which were offset somewhat by the adoption of more conservative assumptions in the most recent actuarial valuation. Recognized asset gains in 2009, 2010, 2012, and 2013 more than offset the recognition of asset losses from 2011. Unlike most public pension systems, prior to January 1, 2011, all valuations were reported on a mark-to-market basis. Consequently, the full impact of annual asset gains or losses occurring in recent years was reflected in each actuarial valuation. To improve its ability to manage short-term market volatility, the City adopted a five-year asset smoothing methodology in 2011 that recognizes the asset gain or loss occurring in each year evenly over a five-year period.

The following table provides historical plan funding information:

TABLE 16
HISTORICAL SCERS ACTUARIAL VALUATION INFORMATION⁽¹⁾

| Actuarial Valuation Date (January 1)⁽²⁾ | Actuarial Value of Assets (AVA) | Actuarial Accrued Liability (AAL)⁽³⁾ | Unfunded AAL (UAAL) | Funded Ratio | Covered Payroll⁽⁴⁾ | UAAL as % of Covered Payroll |
|---|--|--|----------------------------|---------------------|--------------------------------------|-------------------------------------|
| 2004 | \$ 1,527.5 | \$ 1,778.9 | \$ (251.4) | 85.9% | \$ 424.7 | 59.2 % |
| 2006 | 1,791.8 | 2,017.5 | (225.7) | 88.8% | 447.0 | 50.5 % |
| 2008 | 2,119.4 | 2,294.6 | (175.2) | 92.4% | 501.9 | 34.9 % |
| 2010 | 1,645.3 | 2,653.8 | (1,008.5) | 62.0% | 580.9 | 173.6 % |
| 2011 ⁽⁵⁾ | 2,013.7 | 2,709.0 | (695.4) | 74.3% | 563.2 | 123.5 % |
| 2012 ⁽⁵⁾ | 1,954.3 | 2,859.3 | (905.0) | 68.3% | 557.0 | 162.5 % |
| 2013 ⁽⁵⁾ | 1,920.1 | 3,025.3 | (1,105.2) | 63.5% | 567.8 | 194.6 % |
| 2014 ⁽⁵⁾ | 2,094.3 | 3,260.1 | (1,165.8) | 64.2% | 597.9 | 195.0 % |

(1) Dollar amounts shown in millions.

(2) Actuarial valuations were performed biennially until 2010, after which the City began performing an actuarial valuation annually.

(3) Actuarial present value of benefits less actuarial present value of future normal cost. Based on Entry Age Actuarial Cost Method, defined below under "SCERS Contribution Rates."

(4) Covered Payroll shown for the prior calendar year; includes compensation paid to all active employees on which contributions are calculated.

(5) Beginning with the January 1, 2011, Actuarial Valuation, SCERS has used five-year asset smoothing.

Source: 2013 Actuarial Valuation

SCERS CONTRIBUTION RATES. Member and employer contribution rates are established by Chapter 4.36 of the SMC, which provides that the City contribution must match the normal contributions of members and does not permit the employer rate to drop below the employee rate. The SMC also requires that the City contribute, in excess of the matching contributions, the amount determined by the most recent actuarial valuation that is required to fully fund the plan. Contribution rates are recommended annually by the Board, based on the system's actuarial valuation. Benefit and contribution rates are set by the City Council.

The actuarially required contribution ("ARC") rate is based on amortizing the required contribution over 30 years, meaning that the total contribution rate must be sufficient to pay for the costs of benefits earned during the current year, as well as the annual cost of amortizing the plan's UAAL over 30 years. The City Council may from time to time set the amortization period by resolution, and in 2013, it passed a resolution to close the 30-year amortization period for calculating UAAL. As a result, for purposes of the 2013 Actuarial Valuation calculation, a 29-year amortization period was used. This policy may be revised by the City Council in future years. The 2013 Actuarial Valuation was prepared using the Entry Age Actuarial Cost Method. Under this method, the actuarial present value of the projected benefits of each individual included in the valuation is allocated as a level percent of the individual's projected compensation between entry age into the system and assumed exit age (e.g., termination or retirement).

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

**TABLE 17
EMPLOYER AND EMPLOYEE SCERS CONTRIBUTION RATES**

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

- (1) Reflects total actuarial required contribution (employer plus employee contribution rates). Beginning November 21, 2011, this rate is used for City budgeting purposes.
- (2) The primary difference between the Total ARC calculation and that calculated under GASB Statement No. 27 is that the Total ARC calculation uses a 0.50% membership growth assumption, while GASB specifies no membership growth assumption. Beginning with calendar year 2011, the GASB rate calculations take into account the lag between the determination of the ARC and the expected contribution date associated with that determination (for example, contribution rates for calendar year 2012 were based on the ARC determined as part of the January 1, 2011, Actuarial Valuation).

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

In 2011, the City failed to increase contribution rates sufficiently to fund the ARC. The City limited its contribution to matching the employee contribution (which was capped pursuant to certain collective bargaining agreements described in the following paragraph), without regard to any amortization of UAAL. This resulted in an increase in unfunded liability, underfunded the pension obligations, and deferred pension funding. On November 21, 2011, the City Council adopted Resolution 31334, affirming the City’s intent to fully fund the annual ARC each year in its budget. See Table 17—Employer and Employee SCERS Contribution Rates and Table 18—Projected Actuarially Required Total Contribution Rates by Employer and Employee.”

The City’s contracts with all labor unions that represent SCERS members describe how contribution rates would be changed in the event that higher contributions are needed to improve the funding status of the system. Under these contracts, the City and employees will share in any contribution rate increase equally, up to a maximum increase of 2% in the employee contribution. The 2% employee contribution rate increase was implemented via 1% increases in 2011 and 2012. This contractual restriction shifts the risk of future increases to the City’s employer contribution. Most of the City’s existing collective bargaining contracts expired at the end of either 2013 or 2014, and the City is actively negotiating renewals. See “Labor Relations.” The negotiations include exploring options for managing the system more cost-effectively in the long term, including the creation of another system for new employees.

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

TABLE 18
PROJECTED ACTUARIALLY REQUIRED TOTAL CONTRIBUTION RATES
BY EMPLOYER AND EMPLOYEE

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

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

Source: 2013 Actuarial Valuation

Employer contributions were \$76.6 million in 2013, of which approximately \$18.4 million was from the Seattle City Light Fund. In 2014, employer contributions were approximately \$89.6 million, of which approximately 24% were from the Seattle 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.

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

Table 19 below shows the historical market value of SCERS' net assets (as of each December 31). Table 20 shows the revenue or loss from investment activity for the last ten years.

TABLE 19
MARKET VALUE OF ASSETS

| Year (As of December 31) | Market Value of Assets (MVA) ⁽¹⁾ |
|-----------------------------|--|
| 2004 | \$ 1,684.5 |
| 2005 | 1,791.8 |
| 2006 | 2,011.2 |
| 2007 | 2,119.4 |
| 2008 | 1,477.4 |
| 2009 | 1,645.3 |
| 2010 | 1,812.8 |
| 2011 | 1,753.5 |
| 2012 | 1,951.4 |
| 2013 | 2,216.9 |

(1) In millions.

Source: SCERS Actuarial Valuations

TABLE 20
SCERS INVESTMENT RETURNS

| Year (As of December 31) | Net Investment Income (Loss) | |
|-----------------------------|------------------------------|------------------|
| | Amount ⁽¹⁾ | % ⁽²⁾ |
| 2004 | \$ 171.3 | 11.5% |
| 2005 | 129.6 | 8.1% |
| 2006 | 242.7 | 13.9% |
| 2007 | 138.8 | 7.3% |
| 2008 | (619.7) | -26.8% |
| 2009 | 194.7 | 10.8% |
| 2010 | 208.5 | 13.2% |
| 2011 | (15.8) | 0.0% |
| 2012 | 230.7 | 14.0% |
| 2013 | 289.8 | 15.5% |

(1) In millions.

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

Source: SCERS Annual Reports

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

TABLE 21
HISTORICAL SCERS DISTRIBUTION OF INVESTMENTS BY CLASS

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

(1) Includes investments in U.S. government obligations, corporate bonds, mortgage-backed securities, and other government-related investments. Prior to 2011, SCERS tracked some of these categories separately.

(2) Includes investments in the “mezzanine debt” category prior to 2011. Prior to 2011, SCERS tracked investments in a category called “mezzanine debt,” which investments were reassigned to the “alternative investments” and a minor portion was assigned to the “real estate” category, as appropriate for each investment.

Source: SCERS Actuarial Valuations

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

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

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

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

These pension plans provide retirement benefits, death benefits, and certain medical benefits for eligible active and retired employees. Retirement benefits are determined under chapters 41.18 and 41.26 RCW for the Firefighters' Pension Fund and under chapters 41.20 and 41.26 RCW for the Police Relief and Pension Fund. As of December 31, 2013, membership in these plans consisted of 775 fire employees (27 of whom are active employees) and 790 police employees (21 of whom are active employees). See "Other Post-Employment Benefits" below for a discussion of medical benefits paid to retirees.

These pension plans do not issue separate financial reports. The most recent actuarial valuation, dated January 1, 2014, uses the Entry Age Normal Actuarial Cost Method, values plan assets at fair value, and uses the following actuarial assumptions: inflation rate (CPI), 2.50%; investment rate of return, 5.25%; and projected salary increases, 3.00%. Postretirement benefit increases are projected based on salary increase assumptions for benefits that increase based on salary and based on CPI assumptions for benefits based on CPI.

Since both pension plans were closed to new members effective October 1, 1977, the City is not required to adopt a plan to fund the actuarial accrued liability of these plans. In 1994, the City established an actuarial fund for the Firefighters' Pension Fund and adopted a policy of fully funding the actuarial accrued liability ("AAL") by the year 2018 (which was subsequently extended to 2023). For 2013, the City funded 100% of the ARC but only a portion of the projected payment necessary to fully fund the AAL by 2023. The City's 2014 budget also anticipates fully funding the ARC and making partial payments toward the full funding of the AAL. As of January 1, 2014, the actuarial value of net assets available for benefits in the Firefighters' Pension Fund was \$12.7 million, and the AAL was \$84.3 million. As a result, the UAAL was \$71.6 million and the funded ratio was 15.1%. The City's employer contribution to the fund in 2013 was \$6.5 million, representing 124% of the ARC; there were no current member contributions. Under State law, partial funding of the Firefighters' Pension Fund may be provided by an annual property tax levy of up to \$0.225 per \$1,000 of assessed value within the City. The City does not currently levy this additional property tax, but makes contributions out of the General Fund levy. The fund also receives a share of the State tax on fire insurance premiums.

The City funds the Police Relief and Pension Fund as benefits become due. As of January 1, 2014, the actuarial value of net assets available for benefits in the Police Relief and Pension Fund was \$3.2 million, and the AAL was \$92.6 million. As a result, the UAAL was \$89.4 million and the funded ratio was 3.5%. The City's employer contribution to the fund in 2013 was \$7.1 million, representing 111% of the ARC; there were no current member contributions. The fund also receives police auction proceeds of unclaimed property.

Law Enforcement Officers' and Fire Fighters' Retirement System. Substantially all of the City's current uniformed firefighters and police officers are enrolled in LEOFF. LEOFF is a defined benefit plan administered by the DRS. Contributions by employees, employers, and the State are based on gross wages. LEOFF participants who joined the system by September 30, 1977, are Plan 1 members. LEOFF participants who joined on or after October 1, 1977, are Plan 2 members. For all of the City's employees who are covered under LEOFF, the City contributed \$12.9 million in 2013 and \$12.5 million in 2012. The following table outlines the contribution rates of employees and employers under LEOFF.

TABLE 22
LEOFF CONTRIBUTION RATES EXPRESSED AS A PERCENTAGE OF COVERED PAYROLL
(As of September 30, 2014)

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

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

Source: Washington State Department of Retirement Systems

While the City’s current contributions represent its full current liability under the retirement systems, any unfunded pension benefit obligations could be reflected in future years as higher contribution rates. The State Actuary’s website includes information regarding the values and funding levels of LEOFF. For additional information, see Note 11 to the City’s 2013 Comprehensive Annual Financial Report, which may be obtained from the Department of Finance and Administrative Services and is available at <http://www.seattle.gov/cafrs/default.htm>.

According to the Office of the State Actuary’s June 1, 2013, valuation, LEOFF had no UAAL. LEOFF Plan 1 had a funded ratio of 125% and LEOFF Plan 2 had a funded ratio of 115%. The assumptions used by the State Actuary in calculating the accrued actuarial assets and liabilities are a 7.8% annual rate of investment return for LEOFF Plan 1 and a 7.5% annual rate of investment return for LEOFF Plan 2, 3.75% general salary increases, and 3.0% consumer price index increase. Liabilities were valued using the “Projected Unit Credit” cost method and assets were valued using the actuarial value of assets, which defers a portion of the annual investment gains or losses over a period of up to eight years.

Other Post-Employment Benefits

The City has liability for two types of other post-employment benefits (“OPEB”): (i) an implicit rate subsidy for health insurance covering employees retiring under SCERS or LEOFF Plan 2 and dependents of employees retiring under LEOFF Plan 1, and (ii) medical benefits for eligible beneficiaries of the City’s Firefighters’ Pension Fund and Police Relief and Pension Fund. The implicit rate subsidy is the difference between (i) what retirees pay for their health insurance as a result of being included with active employees for rate-setting purposes, and (ii) the estimated required premiums if their rates were set based on claims experience of the retirees as a group separate from active employees. The City has assessed its OPEB liability in order to satisfy the expanded reporting requirements specified by the Governmental Accounting Standards Board Statement No. 45 (“GASB 45”). While GASB 45 requires reporting and disclosure of the unfunded OPEB liability, it does not require that it be funded. The City funds its OPEB on a pay-as-you-go basis.

The City commissions a biennial valuation report on its OPEB liabilities associated with the implicit rate subsidy for health insurance covering employees retiring under the SCERS or LEOFF plans. The last report was as of January 1, 2014, and showed the UAAL for the implicit rate subsidy was \$42.9 million; the City’s estimated contribution in 2014 was \$1.0 million. The valuation of the OPEB liability associated with the City’s Firefighters’ Pension Fund and Police Relief and Pension Fund is updated annually. As of January 1, 2014, the UAAL for OPEB in the City’s Firefighters’ Pension Fund was \$264.7 million; the estimated annual contribution for 2014 is \$11.0 million. As of January 1, 2014, the UAAL for OPEB in the Police Relief and Pension Fund was \$291.5 million; the estimated annual contribution for 2014 is \$12.7 million.

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

Labor Relations

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

Emergency Management and Preparedness

The City's Office of Emergency Management ("OEM") is responsible for managing and coordinating the City's resources and responsibilities in dealing with emergencies. The OEM prepares for emergencies, trains City staff in emergency response, provides education to the community about emergency preparedness, plans for emergency recovery, and works to mitigate known hazards. It has identified and assessed many types of hazards that may impact the City, including geophysical hazards (*e.g.*, earthquakes, landslides, tsunamis, seismic seiches, volcanic eruptions, and lahars), infectious disease outbreaks, intentional hazards (*e.g.*, terrorism, breaches in cybersecurity, and civil disorder), transportation incidents, fires, hazardous materials, and unusual weather conditions (*e.g.*, floods, snow, water shortages, and wind storms). However, the City cannot anticipate all potential hazards and their effects, including any potential impact on the economy of the City or the region. See "Seattle City Light Department—Enterprise Risk Management and Emergency Response."

Considerations Related to Alaskan Way Viaduct and Seawall Replacement Program

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

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

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

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

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

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

INITIATIVE AND REFERENDUM

State-Wide Measures

Under the State Constitution, Washington voters may initiate legislation (either directly to the voters, or to the State Legislature and then, if not enacted, to the voters) and require that legislation passed by the State Legislature be referred to the voters. Any law approved in this manner by a majority of the voters may not be amended or repealed by the State Legislature within a period of two years following enactment, except by a vote of two-thirds of all the members elected to each house of the Legislature. After two years, the law is subject to amendment or repeal by the State Legislature in the same manner as other laws. The State Constitution may not be amended by initiative.

Initiatives and referenda are submitted to the voters upon receipt of a petition signed by at least 8% (initiative) and 4% (referenda) of the number of voters registered and voting for the office of Governor at the preceding regular gubernatorial election.

In recent years, several State-wide initiative petitions to repeal or reduce the growth of taxes and fees, including City taxes, have garnered sufficient signatures to reach the ballot. Some of those tax and fee initiative measures have been approved by the voters and, of those, some remain in effect while others have been invalidated by the courts. Tax and fee initiative measures continue to be filed, but it cannot be predicted whether any more such initiatives might gain sufficient signatures to qualify for submission to the State Legislature and/or the voters or, if submitted, whether they ultimately would become law.

Local Measures

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

LEGAL AND TAX INFORMATION

No Litigation Affecting the Bonds

There is no litigation pending with process properly served on the City questioning the validity of the Bonds or the power and authority of the City to issue the Bonds. There is no litigation pending or threatened which would materially affect the City's ability to meet debt service requirements on the Bonds.

Other Litigation

Because of the nature of its activities, the Department is subject to certain pending legal actions which arise in the ordinary course of business of running a municipal electric power utility, including various lawsuits and claims involving claims for money damages. (See Appendix D—2014 Audited Financial Statements of the Department—Notes 9, 11, and 12.) Based on its past experience and the information currently known, the Department has concluded that its ability to pay principal of and interest on the Bonds on a timely basis will not be impaired by the aggregate amount of uninsured liabilities of the Department and the timing of any anticipated payments of judgments that might result from suits and claims.

Approval of Counsel

Legal matters incident to the authorization, issuance, and sale of the Bonds by the City are subject to the approving legal opinion of Foster Pepper PLLC, Seattle, Washington, Bond Counsel. The form of the opinion of Bond Counsel with respect to the Bonds is attached hereto as Appendix C. The opinion of Bond Counsel is given based on factual representations made to Bond Counsel and under existing law as of the date of initial delivery of the Bonds. Bond Counsel assumes no obligation to revise or supplement its 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. Certain legal matters will be passed on for the Underwriter by its counsel, K&L Gates LLP, Seattle, Washington. Any opinion of K&L Gates LLP will be addressed solely to the Underwriter and may not be relied upon by owners of the Bonds. Bond Counsel and Underwriter's Counsel will be compensated only upon the issuance and sale of the Bonds.

Limitations on Remedies and Municipal Bankruptcies

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

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

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

The opinion to be delivered by Foster Pepper PLLC, as Bond Counsel, concurrently with the issuance of the Bonds, will be subject to limitations regarding bankruptcy, reorganization, insolvency, fraudulent conveyance, moratorium, and other similar laws relating to or affecting creditors' rights. A copy of the proposed form of opinion of Bond Counsel is set forth in Appendix C.

Tax Exemption

Exclusion from Gross Income. In the opinion of Bond Counsel, under existing federal law and assuming compliance with applicable requirements of the Code that must be satisfied subsequent to the issue date of the Bonds, interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the alternative minimum tax applicable to individuals.

Continuing Requirements. The City is required to comply with certain requirements of the Code after the date of issuance of the Bonds in order to maintain the exclusion of the interest on the Bonds from gross income for federal income tax purposes, including, without limitation, requirements concerning the qualified use of proceeds of the

Bonds and the facilities financed or refinanced with proceeds of the Bonds, limitations on investing gross proceeds of the Bonds in higher yielding investments in certain circumstances, and the requirement to comply with the arbitrage rebate requirement to the extent applicable to the Bonds. The City has covenanted in the Bond Legislation to comply with those requirements, but if the City fails to comply with those requirements, interest on the Bonds could become taxable retroactive to the date of issuance of the Bonds. Bond Counsel has not undertaken and does not undertake to monitor the City's compliance with such requirements.

Corporate Alternative Minimum Tax. While interest on the Bonds also is not an item of tax preference for purposes of the alternative minimum tax applicable to corporations, under Section 55 of the Code, tax-exempt interest, including interest on the Bonds, received by corporations is taken into account in the computation of adjusted current earnings for purposes of the alternative minimum tax applicable to corporations (as defined for federal income tax purposes). Under the Code, alternative minimum taxable income of a corporation will be increased by 75% of the excess of the corporation's adjusted current earnings (including any tax-exempt interest) over the corporation's alternative minimum taxable income determined without regard to such increase. A corporation's alternative minimum taxable income, so computed, that is in excess of an exemption of \$40,000, which exemption will be reduced (but not below zero) by 25% of the amount by which the corporation's alternative minimum taxable income exceeds \$150,000, is then subject to a 20% minimum tax.

A small business corporation is exempt from the corporate alternative minimum tax for any taxable year beginning after December 31, 1997, if its average annual gross receipts during the three-taxable-year period beginning after December 31, 1993, did not exceed \$5,000,000, and its average annual gross receipts during each successive three-taxable-year period thereafter ending before the relevant taxable year did not exceed \$7,500,000.

Tax on Certain Passive Investment Income of S Corporations. Under Section 1375 of the Code, certain excess net passive investment income, including interest on the Bonds, received by an S corporation (a corporation treated as a partnership for most federal tax purposes) that has Subchapter C earnings and profits at the close of the taxable year may be subject to federal income taxation at the highest rate applicable to corporations if more than 25% of the gross receipts of such S corporation is passive investment income.

Foreign Branch Profits Tax. Interest on the Bonds may be subject to the foreign branch profits tax imposed by Section 884 of the Code when the Bonds are owned by, and effectively connected with a trade or business of, a United States branch of a foreign corporation.

Possible Consequences of Tax Compliance Audit. The Internal Revenue Service (the "IRS") has established a general audit program to determine whether issuers of tax-exempt obligations, such as the Bonds, are in compliance with requirements of the Code that must be satisfied in order for interest on those obligations to be, and continue to be, excluded from gross income for federal income tax purposes. Bond Counsel cannot predict whether the IRS would commence an audit of the Bonds. Depending on all the facts and circumstances and the type of audit involved, it is possible that commencement of an audit of the Bonds could adversely affect the market value and liquidity of the Bonds until the audit is concluded, regardless of its ultimate outcome.

Certain Other Federal Tax Consequences

Bonds Not "Qualified Tax-Exempt Obligations" for Financial Institutions. Section 265 of the Code provides that 100% of any interest expense incurred by banks and other financial institutions for interest allocable to tax-exempt obligations acquired after August 7, 1986, will be disallowed as a tax deduction. However, if the tax-exempt obligations are obligations other than private activity bonds, are issued by a governmental unit that, together with all entities subordinate to it, does not reasonably anticipate issuing more than \$10,000,000 of tax-exempt obligations (other than private activity bonds and other obligations not required to be included in such calculation) in the current calendar year, and are designated by the governmental unit as "qualified tax-exempt obligations," only 20% of any interest expense deduction allocable to those obligations will be disallowed.

The City is a governmental unit that, together with all subordinate entities, reasonably anticipates issuing more than \$10,000,000 of tax-exempt obligations (other than private activity bonds and other obligations not required to be included in such calculation) during the current calendar year and has not designated the Bonds as "qualified tax-

exempt obligations” for purposes of the 80% financial institution interest expense deduction. Therefore, no interest expense of a financial institution allocable to the Bonds is deductible for federal income tax purposes.

Reduction of Loss Reserve Deductions for Property and Casualty Insurance Companies. Under Section 832 of the Code, interest on the Bonds received by property and casualty insurance companies will reduce tax deductions for loss reserves otherwise available to such companies by an amount equal to 15% of tax-exempt interest received during the taxable year.

Effect on Certain Social Security and Retirement Benefits. Section 86 of the Code requires recipients of certain Social Security and certain Railroad Retirement benefits to take receipts or accruals of interest on the Bonds into account in determining gross income.

Other Possible Federal Tax Consequences. Receipt of interest on the Bonds may have other federal tax consequences as to which prospective purchasers of the Bonds should consult their own tax advisors.

Potential Future Federal Tax Law Changes. Current and future legislative proposals, if enacted into law, may directly or indirectly cause interest on the Bonds to be subject in whole or in part to federal income taxation, prevent the Beneficial Owners of the Bonds from realizing the full benefits of the current federal tax status of interest on the Bonds, or affect, perhaps significantly, the market value or marketability of the Bonds. Prospective purchasers of the Bonds should consult with their own tax advisors regarding any proposed or pending legislation that would change the federal tax treatment of interest on the Bonds.

Continuing Disclosure Undertaking

Basic Undertaking to Provide Annual Financial Information and Notice of Listed Events. To meet the requirements of SEC Rule 15c2-12(b)(5) (“Rule 15c2-12”), as applicable to a participating underwriter for the Bonds, the City will undertake in the Bond Legislation (the “Undertaking”) for the benefit of holders of the Bonds, as follows.

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

- (i) annual financial information and operating data of the type included in this Official Statement as generally described below (“annual financial information”); and
- (ii) timely notice (not in excess of ten business days after the occurrence of the event) of the occurrence of any of the following events with respect to the Bonds:
 - (a) principal and interest payment delinquencies;
 - (b) non-payment related defaults, if material;
 - (c) unscheduled draws on debt service reserves reflecting financial difficulties;
 - (d) unscheduled draws on credit enhancements reflecting financial difficulties;
 - (e) substitution of credit or liquidity providers, or their failure to perform;
 - (f) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notice of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds;
 - (g) modifications to rights of holders of the Bonds, if material;
 - (h) Bond calls (other than scheduled mandatory redemptions of Term Bonds), if material, and tender offers;
 - (i) defeasances;
 - (j) release, substitution, or sale of property securing repayment of the Bonds, if material;

- (k) rating changes;
- (l) bankruptcy, insolvency, receivership, or similar event of the City, as such “Bankruptcy Events” are defined in Rule 15c2-12;
- (m) the consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of the assets of the City, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and
- (n) appointment of a successor or additional trustee or the change of name of a trustee, if material.

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

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

- (i) annual financial statements of the Light System, prepared in accordance with generally accepted accounting principles applicable to governmental units (except as otherwise noted therein), as such principles may be changed from time to time and as permitted by State law, which financial statements will not be audited, except that if and when audited financial statements are otherwise prepared and available to the City, they will be provided;
- (ii) a statement of outstanding bonded debt secured by Gross Revenues of the Light System;
- (iii) debt service coverage ratios for the bond debt secured by Gross Revenues of the Light System;
- (iv) sources of Light System power and the MWh produced by those sources; and
- (v) the average number of customers, revenues, and energy sales by customer class.

Annual financial information, as described above, will be provided to the MSRB not later than the last day of the ninth month after the end of each fiscal year of the City (currently, a fiscal year ending December 31), as such fiscal year may be changed as required or permitted by State law, commencing with the City’s fiscal year ended December 31, 2015. The annual financial information may be provided in a single document or in multiple documents, and may be incorporated by specific reference to documents available to the public on the Internet website of the MSRB or filed with the SEC.

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

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

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

Remedy for Failure to Comply with Undertaking. The City has agreed to proceed with due diligence to cause any failure to comply with the Undertaking to be corrected as soon as practicable after the City learns of that failure. No failure by the City (or any other obligated person) to comply with the Undertaking will constitute a default with respect to the Bonds. The sole remedy of any holder of a Bond will be to take such actions as that holder deems

necessary, including seeking an order of specific performance from an appropriate court, to compel the City or other obligated person to comply with the Undertaking.

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. With respect to its undertaking related to bonds issued for the City's Solid Waste System, the City, in 2009, failed to file notice of a rating change that was related to the downgrade of a bond insurer. The missing filing has since been submitted and notice of such failure to comply has been filed with the MSRB. The City has not otherwise failed to comply, in any material respect, with all such undertakings during the past five years.

OTHER BOND INFORMATION

Ratings on the Bonds

The Bonds have been rated "Aa2" and "AA" by Moody's Investors Service, Inc. and Standard & Poor's Ratings Services, respectively. The ratings will reflect only the views of the rating agencies, and an explanation of the significance of the ratings may be obtained from each rating agency. No application was made to any other rating agency for the purpose of obtaining an additional rating on the Bonds. There is no assurance that the ratings will be retained for any given period of time or that the ratings will not be revised downward, suspended, or withdrawn entirely by the rating agencies if, in their judgment, circumstances so warrant. Any such downward revision, suspension, or withdrawal of the ratings will be likely to have an adverse effect on the market price of the Bonds.

Underwriting

Citigroup Global Markets Inc. (the "Underwriter"), has agreed, subject to certain conditions, to purchase the Bonds from the City at an aggregate purchase price of \$_____, representing the aggregate principal amount of the Bonds less an Underwriter's discount of \$_____. The Underwriter's obligations are subject to certain conditions precedent, and it will be obligated to purchase all of the Bonds if any such Bonds are purchased.

The Underwriter has provided the information in the following two paragraphs for inclusion in this Official Statement. The City cannot and does not make any representation as to its accuracy or completeness.

The Bonds may be offered and sold to certain dealers at prices lower than such public offering prices, and such public offering may be changed, from time to time, by the Underwriter. The Underwriter may offer and sell the Bonds into unit investment trusts or money market funds, certain of which may be managed or sponsored by the Underwriter, at prices lower than the public offering prices. In connection with the offering of the Bonds, the Underwriter may over-allot or effect transactions that stabilize or maintain the market price of the Bonds at levels above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time.

The Underwriter of the Bonds has entered into a retail distribution agreement with each of TMC Bonds L.L.C. ("TMC") and UBS Financial Services Inc. ("UBSFS"). Under these distribution agreements, the Underwriter may distribute municipal securities to retail investors through the financial advisor network of UBSFS and the electronic primary offering platform of TMC. As part of this arrangement, the Underwriter may compensate TMC (and TMC may compensate its electronic platform member firms) and UBSFS for their selling efforts with respect to the Bonds.

Conflicts of Interest

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

APPENDIX A

BOND ORDINANCE

Ordinance 124633, passed by the City Council on November 24, 2014, which is set forth in this appendix, authorized the issuance of the Bonds.

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CITY OF SEATTLE
ORDINANCE 124633
COUNCIL BILL 118234

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5 AN ORDINANCE relating to the electric system of The City of Seattle; authorizing the issuance
6 and sale of municipal light and power revenue bonds for the purposes of providing funds
7 for certain additions and betterments to and extensions of the existing municipal light and
8 power plant and system of the City, paying the costs of issuance of those bonds and
9 providing for the reserve fund requirement; providing for the terms, conditions,
10 covenants and manner of sale of those bonds; describing the lien of those bonds; and
11 ratifying and confirming certain prior acts.

12 WHEREAS, The City of Seattle, Washington (the "City"), owns, operates and maintains an
13 electric system (the "Light System"); and

14 WHEREAS, the City has need to acquire and construct certain additions and betterments to and
15 extensions of the Light System described in the system or plan adopted by this ordinance
16 (the "Plan of Additions"); and

17 WHEREAS, the City has outstanding certain revenue bonds (the "Outstanding Parity Bonds")
18 having a charge and lien upon the Gross Revenue of the Light System prior and superior
19 to all other charges whatsoever, except reasonable charges for maintenance and operation
20 of the Light System; and

21 WHEREAS, pursuant to the respective ordinances and resolutions listed in Exhibit A, the City
22 issued its municipal light and power revenue bonds described in Exhibit A, and provided
23 for the issuance of additional bonds having a lien and charge on the Gross Revenue of the
24 Light System on a parity of lien with those bonds ("Parity Bonds") upon compliance with
25 certain conditions; and

26 WHEREAS, after due consideration, the City finds that it is necessary and in the best interest of
27 the City and its ratepayers to issue municipal light and power revenue bonds as Parity
28 Bonds to pay part of the cost of the Plan of Additions, pay costs of issuance of those
bonds and provide for the reserve fund requirement; NOW, THEREFORE,

BE IT ORDAINED BY THE CITY OF SEATTLE AS FOLLOWS:

Section 1. Definitions. As used in this ordinance, the following words and phrases
shall have the meanings set forth below.

"Accreted Value" means with respect to any Capital Appreciation Bonds (a) as of any
Valuation Date, the amount set forth for such date in any Parity Bond Legislation authorizing



1 such Capital Appreciation Bonds and (b) as of any date other than a Valuation Date, the sum of
2 (i) the Accreted Value on the preceding Valuation Date and (ii) the product of (A) a fraction, the
3 numerator of which is the number of days having elapsed from the preceding Valuation Date and
4 the denominator of which is the number of days from such preceding Valuation Date to the next
5 succeeding Valuation Date, calculated based on the assumption that Accreted Value accrues
6 during any semiannual period in equal daily amounts on the basis of a year of twelve 30-day
7 months, times (B) the difference between the Accreted Values for such Valuation Dates.

8 **“Adjusted Net Revenue”** has the meaning assigned to that term in Section 13(g)(iii).

9 **“Alternate Reserve Security”** means Qualified Insurance or a Qualified Letter of Credit,
10 which is used to satisfy all or a portion of the Reserve Fund Requirement for the Parity Bonds.

11 **“Annual Debt Service”** for any calendar year means the sum of the amounts required in
12 such calendar year to pay (a) the interest due in such calendar year on all Parity Bonds
13 outstanding, excluding interest to be paid from the proceeds of the sale of Parity Bonds or other
14 bonds; (b) the principal of all outstanding Serial Bonds due in such calendar year; and (c) the
15 Sinking Fund Requirement, if any, for such calendar year.

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

21 For purposes of making coverage ratio calculations in connection with a certificate
22 delivered under Section 13(g) regarding the issuance of Future Parity Bonds, Annual Debt
23 Service shall exclude debt service on Parity Bonds that are included in a refunding or defeasance
24 plan approved by the City Council, which provides for the refunding or defeasance of certain
25 Parity Bonds by irrevocably pledging money and/or Government Obligations pending their early
26 redemption.



1 For purposes of calculating and determining compliance with the Reserve Fund
2 Requirement and conditions for the issuance of Future Parity Bonds and/or entering into Parity
3 Payment Agreements:

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

9 (ii) **Interest on Variable Interest Rate Bonds.** The amount of interest deemed to be
10 payable on any Series of Variable Interest Rate Bonds shall be calculated on the
11 assumption that the interest rate on those bonds would be equal to the rate that is
12 90% of the average RBI during the four calendar quarters preceding the quarter in
which the calculation is made.

13 (iii) **Interest on Parity Bonds With Respect to Which a Payment Agreement is in**
14 **Force.** Debt service on Parity Bonds with respect to which a Payment Agreement
15 is in force shall be based on the net economic effect on the City expected to be
16 produced by the terms of the Parity Bonds and the terms of the Payment
17 Agreement, including but not limited to the effects produced by the following:
18 (A) Parity Bonds that would, but for a Payment Agreement, be treated as
19 obligations bearing interest at a Variable Interest Rate instead shall be treated as
20 obligations bearing interest at a fixed interest rate, and (B) Parity Bonds that
21 would, but for a Payment Agreement, be treated as obligations bearing interest at
22 a fixed interest rate instead shall be treated as obligations bearing interest at a
23 Variable Interest Rate. Accordingly, the amount of interest deemed to be payable
24 on any Parity Bonds with respect to which a Payment Agreement is in force shall
25 be an amount equal to the amount of interest that would be payable at the rate or
26 rates stated in those Parity Bonds plus Payment Agreement Payments minus
27 Payment Agreement Receipts. For the purposes of calculating as nearly as
28 practicable Payment Agreement Receipts and Payment Agreement Payments
under a Payment Agreement that includes a variable rate component determined
by reference to a pricing mechanism or index that is not the same as the pricing
mechanism or index used to determine the variable rate interest component on the
Parity Bonds to which the Payment Agreement is related, it shall be assumed that
the fixed rate used in calculating Payment Agreement Payments will be equal to
105% of the fixed rate specified by the Payment Agreement and that the pricing
mechanism or index specified by the Payment Agreement is the same as the
pricing mechanism or index specified by the Parity Bonds. Notwithstanding the
other provisions of this subparagraph (iii), the City shall not be required to (but



1 may in its discretion) take into account in determining Annual Debt Service the
2 effects of any Payment Agreement that has a term of ten years or less.

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

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

21 (B) **City Obligated to Make Payments Based on Variable Rate Index.** If
22 the City is obligated to make Payment Agreement Payments based on a
23 variable rate index and the Qualified Counterparty is obligated to make
24 payments based on a fixed rate, that payments by the City will be based on
25 a rate equal to the average rate determined by the variable rate index
26 specified by the Parity Payment Agreement during the four calendar
27 quarters preceding the quarter in which the calculation is made, and that
28 the Qualified Counterparty will make payments based on the fixed rate
specified by the Parity Payment Agreement.

(v) **Tax Credit Subsidy Payments.** For the purpose of calculating the Reserve Fund
Requirement, 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 other bonds with respect to which the federal government is scheduled
to provide direct payments.

“**Authorized Denomination**” means \$5,000 or any integral multiple thereof within a
maturity of a Series or such other amount to be established in the Bond Resolution.

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



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

4 **“Bond Purchase Contract”** means a written offer to purchase a Series of the Bonds,
5 which offer has been accepted by the City in the Bond Resolution, in accordance with this
6 ordinance. In the case of a competitive sale, the official notice of sale and the Purchaser’s bid,
7 together with the award by the City as set forth in the Bond Resolution, shall comprise the
8 purchase contract for purposes of this ordinance.

9 **“Bond Register”** means the books or records maintained by the Bond Registrar for the
10 purpose of registration of each Bond.

11 **“Bond Registrar”** or **“Registrar”** means the Fiscal Agent (unless the Bond Resolution
12 provides for a different Bond Registrar with respect to a particular Series of the Bonds), or any
13 successor bond registrar selected in accordance with the Registration Ordinance.

14 **“Bond Resolution”** means a resolution of the City Council adopted pursuant to this
15 ordinance approving the Bond Sale Terms and taking other actions consistent with this
16 ordinance.

17 **“Bond Sale Terms”** means the terms and conditions for the sale of a Series of the Bonds,
18 including the amount, date or dates, denominations, interest rate or rates (or mechanism for
19 determining interest rate or rates), payment dates, final maturity, redemption and tender rights,
20 price, and other terms or covenants set forth in Section 5.

21 **“Bonds”** means the revenue bonds issued pursuant to this ordinance.

22 **“Capital Appreciation Bonds”** means any Parity Bonds as to which interest is payable
23 only at the maturity or prior redemption of such Parity Bonds. For the purpose of (a) receiving
24 payment of the redemption premium, if any, of a Capital Appreciation Bond that is redeemed
25 prior to maturity, or (b) computing the principal amount of Parity Bonds held by the Owner of a
26 Capital Appreciation Bond in giving to the City or the paying agent for those bonds any notice,
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1 consent, request, or demand pursuant to this ordinance or for any purpose whatsoever, the
2 principal amount of a Capital Appreciation Bond shall be deemed to be its Accreted Value.

3 **“CIP”** means the portion or portions relating to the Light System of the “2014-2019
4 Capital Improvement Program” of the City as adopted by the City in Ordinance 124349, together
5 with any previously adopted capital improvement program of the City, as the CIP may be
6 amended, updated, supplemented or replaced from time to time by ordinance.

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

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

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

13 **“Conservation Plan”** means the 1996 Energy Management Services Plan of the City
14 with respect to the Light System endorsed by the City in Resolution 29427, adopted September
15 16, 1996, as that plan may be amended, updated, supplemented or replaced from time to time, to
16 the extent that funds are appropriated by the City therefor.

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

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

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

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



1 **“Future Parity Bonds”** means, with reference to any Series of the Bonds, any fixed or
2 variable rate revenue bonds of the City (other than that Series and any other Parity Bonds then
3 outstanding) issued or entered into after the Issue Date of such Series, having a charge or lien
4 upon the Gross Revenues for payment of the principal thereof and interest thereon equal in
5 priority to the charge or lien upon the Gross Revenues for the payment of the principal of and
6 interest on the Outstanding Parity Bonds and the Bonds. Future Parity Bonds may include Parity
7 Payment Agreements and any other obligations issued in compliance with Section 13(g) or
8 Section 13(h).

9 **“Government Obligations”** has the meaning given in RCW 39.53.010, as now in effect
10 or as may hereafter be amended.

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

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

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

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

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

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

19 **“Light System”** means the municipal light and power plant and system now belonging to
20 or which may hereafter belong to the City.

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

22 **“Net Revenue”** for any period means that amount determined by deducting from the
23 Gross Revenues the expenses of operation, maintenance and repair of the Light System and
24 further deducting any deposits into the Rate Stabilization Account, and by adding to Gross
25 Revenues any withdrawals from the Rate Stabilization Account. In calculating Net Revenue, the
26 City may include the Tax Credit Subsidy Payments the City expects to receive from the federal
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1 government in respect to the interest on a series of Parity Bonds that are Tax Credit Subsidy
2 Bonds or other bonds with respect to which the federal government will provide direct payments.

3 **“Outstanding Parity Bonds”** means, for purposes of this ordinance, the outstanding
4 series of Parity Bonds described in Exhibit A.

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

7 **“Parity Bond Fund”** means the special fund of the City known as the Seattle Municipal
8 Light Revenue Parity Bond Fund established within the Light Fund pursuant to Ordinance 92938
9 for the purpose set forth in Section 13(a).

10 **“Parity Bond Legislation”** means any ordinance or resolution passed or adopted by the
11 City Council providing for the issuance of Parity Bonds, and any other ordinance or resolution
12 amending or supplementing the provisions of any Parity Bond Legislation as originally passed or
13 adopted or as theretofore amended or supplemented.

14 **“Parity Bonds”** means the Outstanding Parity Bonds, the Bonds and any Future Parity
15 Bonds.

16 **“Parity Conditions”** means the conditions for issuing Future Parity Bonds under the
17 Parity Bond Legislation authorizing the issuance of the Outstanding Parity Bonds.

18 **“Parity Payment Agreement”** means a Payment Agreement under which the City’s
19 obligations are expressly stated to constitute a charge and lien on the Net Revenue of the Light
20 System equal in rank with the charge and lien upon such Net Revenue required to be paid into
21 the Parity Bond Fund to pay and secure the payment of the principal of and interest on Parity
22 Bonds.

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

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

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

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

11 **“Plan of Additions”** means the system or plan of additions to and betterments and
12 extensions of the Light System adopted by ordinance, including but not limited to the CIP, the
13 Conservation Plan, the High Ross Capital Payments and the Deferred Hydroelectric Project
14 Relicensing Costs. The Plan of Additions includes all amendments, updates, supplements or
15 replacements to the CIP, the Conservation Plan, the High Ross Capital Payments and the
16 Deferred Hydroelectric Project Relicensing Costs, all of which automatically shall constitute
17 amendments to the Plan of Additions upon approval by ordinance. The Plan of Additions
18 includes the purchase and installation of all materials, supplies, appliances, equipment (including
19 but not limited to data processing hardware and software and conservation equipment) and
20 facilities, the acquisition of all permits, licenses, franchises, property and property rights, other
21 capital assets and all engineering, consulting and other professional services and studies (whether
22 performed by the City or by other public or private entities) necessary or convenient to carry out
23 the Plan of Additions. The Plan of Additions also may be modified to include other
24 improvements without amending the CIP, the Conservation Plan, the High Ross Capital
25 Payments and the Deferred Hydroelectric Project Relicensing Costs, if the City determines by
26 ordinance that those amendments or other improvements constitute a system or plan of additions
27 to or betterments or extensions of the Light System.



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

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

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

11 **“Qualified Insurance”** means any municipal bond insurance policy or surety bond,
12 issued by any insurance company licensed to conduct an insurance business in any state of the
13 United States (or by a service corporation acting on behalf of one or more such insurance
14 companies), which insurance company or companies, as of the time of issuance of such policy or
15 surety bond, are rated in one of the two highest rating categories by Moody’s Investors Service,
16 Inc. and Standard & Poor’s Ratings Services, or their comparably recognized business
17 successors.

18 **“Qualified Letter of Credit”** means any letter of credit issued by a financial institution
19 for the account of the City in connection with the issuance of Parity Bonds, which institution
20 maintains an office, agency or branch in the United States and as of the time of issuance of such
21 letter of credit, the financial institution is rated in one of the two highest rating categories by
22 Moody’s Investors Service, Inc. and Standard & Poor’s Ratings Services, or their comparably
23 recognized business successors.

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



1 **“Rate Stabilization Account”** means the fund of that name originally established in the
2 Light Fund pursuant to Ordinance 121637.

3 **“Rating Agency”** means any nationally recognized rating agency then maintaining a
4 rating on any then outstanding Parity Bonds at the request of the City.

5 **“Record Date”** means, unless otherwise defined in the Bond Resolution, in the case of
6 each interest or principal payment date, the Bond Registrar’s close of business on the 15th day of
7 the month preceding the interest or principal payment date. With regard to redemption of a Bond
8 prior to its maturity, the Record Date shall mean the Bond Registrar’s close of business on the
9 day prior to the date on which the Bond Registrar sends the notice of redemption.

10 **“Refundable Bonds”** means any Parity Bonds that are eligible for refunding under
11 Ordinance 121941, as amended by Ordinance 122838, and amended and restated by Ordinance
12 124335, (as it may be amended from time to time).

13 **“Refunding Parity Bonds”** means Future Parity Bonds issued pursuant to Section 13(h)
14 and Ordinance 121941, as amended by Ordinance 122838, and amended and restated by
15 Ordinance 124335, (as it may be amended from time to time), or other Future Parity Bond
16 Legislation, for the purpose of refunding any Refundable Bonds.

17 **“Registered Owner”** means, with respect to a Bond, the person in whose name that
18 Bond is registered on the Bond Register. For so long as the City utilizes the book–entry only
19 system for the Bonds under the Letter of Representations, Registered Owner shall mean the
20 Securities Depository.

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

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



1 **“Reserve Fund Requirement”** means, for any issue of the Bonds, the Reserve Fund
2 Requirement established in the Bond Resolution approving that issue, consistent with Section
3 13(b). For any issue of Future Parity Bonds, the Reserve Fund Requirement means the
4 requirement specified for that issue. The aggregate Reserve Fund Requirement for all Parity
5 Bonds shall be the sum of the Reserve Fund Requirements for each issue of the Parity Bonds.
6 For purposes of this definition, “issue” means all series of Parity Bonds issued pursuant to a
7 single Bond Resolution.

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

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

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

15 **“Serial Bonds”** means Parity Bonds maturing in specified years, for which no Sinking
16 Fund Requirements are mandated.

17 **“Series of the Bonds”** or **“Series”** means a series of the Bonds issued pursuant to this
18 ordinance.

19 **“Sinking Fund Account”** means any account created in the Parity Bond Fund to
20 amortize the principal or make mandatory redemptions of Term Bonds.

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

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

26 **“Tax Credit Subsidy Bond”** means any Parity Bond that is designated by the City as a
27 tax credit bond pursuant to the Code, and which is further designated as a “qualified bond” under
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1 Section 6431 or similar provision of the Code, and with respect to which the City is eligible to
2 receive a tax credit subsidy payment.

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

5 **“Tax-Exempt Bond”** means any Parity Bond, the interest on which is intended on the
6 Issue Date to be excluded from gross income for federal income tax purposes.

7 **“Term Bond”** means any Parity Bond that is issued subject to mandatory redemption
8 prior to its maturity in Sinking Fund Requirements.

9 **“Undertaking”** means the undertaking to provide continuing disclosure entered into
10 pursuant to Section 18, in substantially the form attached as Exhibit B.

11 **“Valuation Date”** means, with respect to any Capital Appreciation Bonds, the date or
12 dates set forth in any Parity Bond Legislation authorizing such Parity Bonds on which specific
13 Accreted Values are assigned to the Capital Appreciation Bonds.

14 **“Variable Interest Rate”** means any variable interest rate or rates to be borne by the
15 Bonds or any other Parity Bonds. The method of computing such a variable interest rate shall be
16 as specified in the Parity Bond Legislation authorizing or specifying the terms of such Parity
17 Bonds, which Parity Bond Legislation also shall specify either (i) the particular period or periods
18 of time or manner of determining such period or periods of time for which each value of such
19 variable interest rate shall remain in effect or (ii) the time or times upon which any change in
20 such variable interest rate shall become effective.

21 **“Variable Interest Rate Bonds”** means, for any period of time, any Bonds or other
22 Parity Bonds that bear a Variable Interest Rate during that period, except that Bonds or Parity
23 Bonds shall not be treated as Variable Interest Rate Bonds if the net economic effect of interest
24 rates on particular Parity Bonds of an issue and interest rates on other Parity Bonds of the same
25 issue, as set forth in the applicable Parity Bond Legislation, or the net economic effect of a
26 Payment Agreement with respect to particular Parity Bonds, in either case is to produce
27 obligations that bear interest at a fixed interest rate; and Parity Bonds with respect to which a
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1 Payment Agreement is in force shall be treated as Variable Interest Rate Bonds if the net
2 economic effect of the Payment Agreement is to produce obligations that bear interest at a
3 Variable Interest Rate.

4 **Section 2. Adoption of System or Plan.** The City specifies, adopts and orders the
5 Plan of Additions to be carried out as generally provided for in the documents comprising the
6 Plan of Additions. The estimated cost of the Plan of Additions, as nearly as may be determined,
7 is declared to be \$1.736 billion, of which \$278 million is expected to be financed from proceeds
8 of the Bonds and investment earnings thereon.

9 **Section 3. Authorization of Bonds.** The City is authorized to issue revenue bonds
10 payable from the sources described in Section 12, in the maximum principal amount stated in
11 Section 5, to provide funds to (a) pay part of the cost of carrying out the Plan of Additions;
12 (b) provide for the Reserve Fund Requirement; (c) capitalize interest on, if necessary, and pay
13 the costs of issuance of the Bonds; and (d) for other Light System purposes approved by
14 ordinance. The Bonds may be issued in one or more Series and may be combined with other
15 Parity Bonds (including Refunding Parity Bonds) authorized separately. The Bonds shall be
16 designated municipal light and power revenue bonds, shall be numbered separately and shall
17 have any name, year and series or other label as deemed necessary or appropriate by the Director
18 of Finance.

19 **Section 4. Manner of Sale of the Bonds.** The Director of Finance may provide for
20 the sale of each Series by public sale, negotiated sale, limited offering or private placement with
21 one or more Purchasers, or remarketing agent (if the Bonds are issued with Variable Interest
22 Rates), chosen through a selection process acceptable to the Director of Finance. The Director of
23 Finance is authorized to specify a date and time of sale of and a date and time for delivery of
24 each Series of the Bonds; to give notice of that sale; to determine any bid parameters or other bid
25 requirements and criteria for determining the award of the bid; to provide for the use of an
26 electronic bidding mechanism; determine matters relating to a forward or delayed delivery of the
27 Bonds; and to specify other matters and take other actions as in his or her determination are
28



1 necessary, appropriate, or desirable to carry out the sale of each Series of the Bonds. Each Series
2 of the Bonds must be sold on Bond Sale Terms in accordance with Section 5.

3 **Section 5. Bond Sale Terms; Bond Resolution.** The Director of Finance is
4 appointed to serve as the City's designated representative in connection with the issuance and
5 sale of the Bonds in accordance with RCW 39.46.040(2) and this ordinance. The Director of
6 Finance is authorized to accept, on behalf of the City, the Bond Purchase Contract, remarketing
7 agreement, if applicable, and other applicable agreements on Bond Sale Terms consistent with
8 the parameters set forth in this section. No such acceptance shall be effective until adoption of a
9 Bond Resolution approving the Bond Sale Terms. Once adopted, the Bond Resolution shall be
10 deemed a part of this ordinance as if set forth herein.

11 **(a) Maximum Principal Amount.** The Bonds may be issued in one or more Series
12 and shall not exceed the aggregate principal amount of \$278 million (which in the case of
13 Variable Rate Bonds means the principal amount outstanding at any one time).

14 **(b) Date or Dates.** Each Bond shall be dated its Issue Date, as determined by the
15 Director of Finance. For fixed rate bonds, the Issue Date may not be any later than
16 December 31, 2017.

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

18 **(d) Interest Rate(s); Payment Dates.** Each Bond shall bear interest from the Issue
19 Date or from the most recent date for which interest has been paid or duly provided for,
20 whichever is later, and shall be payable on dates determined by the Director of Finance. One or
21 more rates of interest shall be established for each maturity of each Series of the Bonds, which
22 rate or rates may be fixed or variable. Fixed interest rates shall be computed on the basis of a
23 360-day year of twelve 30-day months and the net interest cost shall not exceed a weighted
24 average rate of 10% per annum. Principal payments shall commence on a date and shall be
25 payable at maturity or in accordance with Sinking Fund Requirements on dates determined by
26 the Director of Finance.



1 (e) **Final Maturity.** Each Series of the Bonds shall mature no later than 40 years
2 after its Issue Date.

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

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

10 (ii) **Mandatory Redemption.** Any Bond may be designated as a Term Bond, subject
11 to mandatory redemption prior to its maturity consistent with Section 8(b).

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

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

15 (i) On the Issue Date of each Series, the average expected life of the capital facilities
16 to be financed with the proceeds of that Series must exceed the weighted average
maturity of the Bonds of that Series allocated to financing those capital facilities.

17 (ii) As of the Issue Date of each Series, the City Council must find that (A) the Parity
18 Conditions will have been met or satisfied, so that such Series may be issued as
19 Parity Bonds, and (B) the issuance and sale of the Series is in the best interest of
20 the City and in the public interest. In making its findings, the City Council shall
21 give due regard to the cost of operation and maintenance of the Light System and
22 to any portion of the Gross Revenues pledged for the payment of any bonds,
warrants or other indebtedness, and shall find and determine that the Gross
23 Revenues, at the rates established from time to time consistent with Section 13(d),
will be sufficient, in the judgment of the City Council, to meet all expenses of
24 operation and maintenance of the Light System and to provide the amounts
previously pledged for the payment of all outstanding obligations payable out of
the Gross Revenue and pledged for the payment of the Bonds.

25 (iii) Any Series may provide for Qualified Insurance, a Qualified Letter of Credit or
26 other credit enhancement, or for Payment Agreements. To that end, the Director
of Finance may include such additional terms, conditions and covenants as may
27 be necessary or desirable, including but not limited to: restrictions on investment
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1 of Bond proceeds and pledged funds, and requirements to give notice to or obtain
2 the consent of a credit enhancement provider or Qualified Counterparty.

3 (iv) The Bond Resolution must establish the Reserve Fund Requirement, if any, and
4 must set forth the method for satisfying any such requirement, consistent with
5 Section 13(b).

6 (v) Any Series of the Bonds may be designated or qualified as Tax-Exempt Bonds,
7 Tax Credit Subsidy Bonds, or other taxable bonds, and may include such
8 additional terms and covenants relating to federal tax matters as the Director of
9 Finance deems necessary or appropriate, consistent with Section 14.

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

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

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

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

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

28 Bonds surrendered to the Bond Registrar may be exchanged for Bonds in any Authorized
Denomination of an equal aggregate principal amount and of the same Series, interest rate and



1 maturity. Bonds may be transferred only if endorsed in the manner provided thereon and
2 surrendered to the Bond Registrar. Any exchange or transfer shall be without cost to an Owner or
3 transferee. The Bond Registrar shall not be obligated to exchange or transfer any Bond during
4 the period between the Record Date and the corresponding interest or principal payment date or
5 redemption date.

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

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

26 **Section 7. Payment of Bonds.** The Bonds shall be payable solely out of the Parity
27 Bond Fund, in lawful money of the United States, and shall not be general obligations of the
28



1 City. Principal of and interest on each Bond registered in the name of the Securities Depository
2 is payable in the manner set forth in the Letter of Representations. Interest on each Bond not
3 registered in the name of the Securities Depository is payable by electronic transfer on the
4 interest payment date, or by check or draft of the Bond Registrar mailed on the interest payment
5 date to the Registered Owner at the address appearing on the Bond Register on the Record Date.
6 The City, however, is not required to make electronic transfers except pursuant to a request by a
7 Registered Owner in writing received at least ten days prior to the Record Date and at the sole
8 expense of the Registered Owner. Principal of each Bond not registered in the name of the
9 Securities Depository is payable upon presentation and surrender of the Bond by the Registered
10 Owner to the Bond Registrar. The Bonds are not subject to acceleration under any circumstances.

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

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

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

24 (c) **Selection of Bonds for Redemption; Partial Redemption.** If fewer than all of
25 the outstanding Bonds of a Series are to be redeemed at the option of the City, the Director of
26 Finance shall select the Series and maturity or maturities to be redeemed. If fewer than all of the
27 outstanding Bonds of a maturity of a Series are to be redeemed, the Securities Depository shall
28



1 select Bonds registered in the name of the Securities Depository to be redeemed in accordance
2 with the Letter of Representations and the Bond Registrar shall select all other Bonds of the
3 Series to be redeemed randomly in such manner as the Bond Registrar shall determine. All or a
4 portion of the principal amount of any Bond that is to be redeemed may be redeemed in any
5 Authorized Denomination. If less than all of the outstanding principal amount of any Bond is
6 redeemed, upon surrender of that Bond to the Bond Registrar, there shall be issued to the
7 Registered Owner, without charge, a new Bond (or Bonds, at the option of the Registered
8 Owner) of the same Series, maturity and interest rate in any Authorized Denomination in the
9 aggregate principal amount to remain outstanding.

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

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

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



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

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

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

21 If any officer whose manual or facsimile signature appears on a Bond ceases to be an
22 officer of the City authorized to sign bonds before the Bond bearing his or her manual or
23 facsimile signature is authenticated or delivered by the Bond Registrar or issued by the City, that
24 Bond nevertheless may be authenticated, delivered and issued and, when authenticated, issued
25 and delivered, shall be as binding on the City as though that person had continued to be an
26 officer of the City authorized to sign bonds. Any Bond also may be signed on behalf of the City
27 by any person who, on the actual date of signing of the Bond, is an officer of the City authorized
28



1 to sign bonds, although he or she did not hold the required office on the date of issuance of the
2 Bonds.

3 **Section 12. Security for the Bonds; Parity with other Bonds.** The Bonds shall be
4 special limited obligations of the City payable from and secured solely by the Gross Revenues
5 and by money in the Parity Bond Fund and the Reserve Fund. The Gross Revenues are pledged
6 to make the payments into the Parity Bond Fund and the Reserve Fund required by Section 13(a)
7 and Section 13(b), which pledge shall constitute a charge upon such Gross Revenues prior and
8 superior to all other charges whatsoever, save and except reasonable charges for maintenance
9 and operation of the Light System.

10 The Bonds shall be on a parity with the Outstanding Parity Bonds and all Future Parity
11 Bonds, without regard to date of issuance or authorization and without preference or priority of
12 right or lien with respect to participation of special funds in amounts from Gross Revenues for
13 payment thereof. Nothing contained herein shall prevent the City from issuing revenue bonds or
14 other obligations which are a charge or lien upon the Gross Revenues subordinate to the
15 payments required to be made from Gross Revenues into the Parity Bond Fund and the accounts
16 therein.

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

21 **Section 13. Bond Covenants.**

22 (a) **Parity Bond Fund.** The Parity Bond Fund has been previously created for the
23 sole purpose of paying the principal of and interest on the Parity Bonds as the same shall become
24 due. The Bonds shall be payable (including principal, Sinking Fund Requirements, redemption
25 premium (if any), and interest) out of the Parity Bond Fund. So long as any Parity Bonds or
26 Parity Payment Agreements are outstanding, the Director of Finance shall set aside and pay into
27 the Parity Bond Fund on or prior to the respective dates on which such payments shall become
28



1 due and payable certain fixed amounts out of the Gross Revenues sufficient to make such
2 payments as the same shall become due. Money in the Parity Bond Fund shall, to the fullest
3 extent practicable and reasonable, be invested and reinvested at the direction of the Director of
4 Finance solely in, and obligations deposited in such accounts shall consist of, Permitted
5 Investments. Earnings on money and investments in the Parity Bond Fund shall be deposited in
6 and used for the purposes of that fund.

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

15 **(i) Reserve Fund Requirement.** Each Bond Resolution shall establish the Reserve
16 Fund Requirement, if any, for all Bonds issued thereunder and the method for
17 providing for such Reserve Requirement.

18 **(A)** In the Parity Bond Legislation authorizing the issuance of any Future
19 Parity Bonds, the City shall provide for deposit into the Reserve Fund out
20 of the Gross Revenues (or out of any other legally available funds,
21 including proceeds of Parity Bonds) at one time on the Issue Date or in
22 periodic payments so that by five years from the date of such Future Parity
23 Bonds there will have been paid into the Reserve Fund an amount which,
24 together with the money already on deposit therein, will be at least equal
25 to the Reserve Fund Requirement for all Parity Bonds outstanding at the
26 end of that five-year period.

27 **(B)** Notwithstanding the foregoing, any Parity Bond Legislation may provide
28 for the City to 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 required to be maintained in the Reserve
Fund by paragraph (A) of this subsection.



1 (C) An Alternate Reserve Security may not be cancelable on less than five
2 years' notice. In the event of receipt of any notice of cancellation, the City
3 shall substitute an Alternate Reserve Security in the amount required
4 pursuant to paragraph (A) of this subsection, or in the alternative shall
5 create a special account in the Light Fund and deposit therein, on or before
6 the 25th day of each of the 60 succeeding calendar months, 1/60th of the
7 amount sufficient, together with other money and investments on deposit
8 in the Reserve Fund, to equal the Reserve Fund Requirement on the date
9 any such cancellation shall become effective. Such amounts shall be
10 transferred from money in the Light Fund (after making provision for
11 payment of operating and maintenance expenses and for the required
12 payments into the Parity Bond Fund). Amounts on deposit in such special
13 account shall not be available to pay debt service on Parity Bonds or for
14 any other purpose of the City, and shall be transferred to the Reserve Fund
15 on the effective date of any cancellation of the Alternate Reserve Security
16 to make up the deficiency caused thereby. Amounts in that special account
17 or in the Reserve Fund may be transferred back to the Light Fund and used
18 for any purpose if and when a substitute Alternate Reserve Security is
19 obtained.

20 (D) If the amount in the Reserve Fund is less than the Reserve Fund
21 Requirement (taking into account the five year period referred to in
22 paragraph (A) of this subsection), the City shall transfer to the Reserve
23 Fund money in an amount sufficient to restore the Reserve Fund to the
24 Reserve Fund Requirement within 12 months after the date of such
25 deficiency. The City shall transfer such amounts first from money in the
26 Light Fund (after making provision for payment of operating and
27 maintenance expenses and for the required payments into the Parity Bond
28 Fund) 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.

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

(iii) **Use of Reserve Fund for Payment of Debt Service.** If the money in the Parity
Bond Fund is insufficient to meet maturing installments of either interest on or

1 principal of and interest on the Parity Bonds (including amounts payable under
2 any Parity Payment Agreements), such deficiency shall be made up from the
3 Reserve Fund by the withdrawal of money or proceeds of Alternate Reserve
4 Securities, as the case may be. Any deficiency created in the Reserve Fund by
5 reason of any such withdrawal or claim against an Alternate Reserve Security
6 shall then be made up out of the Net Revenues or out of any other legally
7 available funds of the City.

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

22 **(c) Sale or Disposition of the Light System.**

23 **(i)** The City may dispose of all or substantially all of the Light System if the City
24 simultaneously causes all of the Parity Bonds to be, or deemed to be, no longer
25 outstanding.

26 **(ii)** Except as provided below, the City will not dispose of any part of the Light
27 System in excess of 5% of the value of the net utility plant of the Light System in
28 service unless prior to such disposition:

(A) there has been filed with the Director of Finance a certificate of the
Professional Utility Consultant stating that such disposition will not impair
the ability of the City to comply with the rate covenant set forth in Section
13(d); or

(B) 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: (1) 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 the Gross Revenues for the
12 preceding months attributable to the part of the Light System sold or



1 disposed of bears to the total Gross Revenues for such period; or (2) an
2 amount which will be in the same proportion to the net principal amount
3 of Parity Bonds then outstanding that the book value of the part of the
Light System sold or disposed of bears to the book value of the entire
Light System immediately prior to such sale or disposition.

4 (iii) The City may dispose of any portion of the Light System that has become
5 unserviceable, inadequate, obsolete, worn out or unfit to be used or no longer
6 necessary, material to or useful in the operation of the Light System.

7 (iv) If the ownership of all or part of the Light System is transferred from the City
8 through the operation of law, the City shall reconstruct or replace the transferred
9 portion using any proceeds of the transfer unless the City Council determines that
10 such reconstruction or replacement is not in the best interests of the City and the
11 Owners of the Parity Bonds, in which case any proceeds shall be used to retire
12 Parity Bonds prior to maturity.

13 (d) **Rates and Charges.** The City will establish from time to time and maintain such
14 rates for electric energy as will maintain the Light System in sound financial condition and
15 provide sufficient revenues to permit the payment of sums into the Parity Bond Fund, as herein
16 provided, to be applied to the payment of the principal of and interest on the Parity Bonds until
17 the Parity Bonds shall have been paid in full, and in addition, will pay all costs of operation and
18 maintenance, and all bonds, warrants and indebtedness for which any revenues of the Light
19 System shall have been pledged.

20 (e) **Maintenance and Operation of the Light System.** The City will operate the
21 properties of the Light System in an efficient manner and at a reasonable cost; and will maintain,
22 preserve and keep, or cause to be maintained, preserved and kept, the properties of the Light
23 System and every part and parcel thereof in good repair, working order and condition; and from
24 time to time will make or cause to be made all necessary and proper repairs, renewals and
25 replacements thereto so that at all times the business carried on in connection therewith will be
26 properly and advantageously conducted.

27 (f) **Books and Financial Statements.** The City will keep and maintain proper books
28 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



1 prescribed by the State Auditor's Office and the Federal Energy Regulatory Commission (if
2 any); and will prepare, on or before 120 days after each calendar year, annual financial
3 statements showing reasonable detail, including a balance sheet, an income statement and a
4 statement of cash flows or other such statement. Copies of such financial statements shall be
5 placed on file in the office of the Director of Finance and shall be open to inspection at any
6 reasonable time by any owner of any Parity Bonds. A copy of such financial statements shall be
7 sent to any owner of Parity Bonds, upon request in writing setting forth the name and address to
8 which such financial statements may be sent.

9 **(g) Issuance of Future Parity Bonds.** Except as provided in Section 13(h) for the
10 issuance of Refunding Parity Bonds, Future Parity Bonds may be issued (and Parity Payment
11 Agreements may be entered into), from time to time in one or more series for any lawful purpose
12 of the City's Light Department, only if at the time of delivery of each series of Future Parity
13 Bonds to the initial purchasers thereof (or on the effective date of the Parity Payment
14 Agreement):

15 (i) There is no deficiency in the Parity Bond Fund or in any of the accounts therein
16 and provision has been made to meet the Reserve Fund Requirement for all Parity
17 Bonds then outstanding plus such proposed series of Parity Bonds; and

18 (ii) There shall have been filed with the City either:

19 (A) a certificate of the Director of Finance stating that Net Revenue in any 12
20 consecutive months out of the most recent 24 months preceding the
21 delivery of the proposed series of Parity Bonds (the "Base Period") was
22 not less than 125% of maximum Annual Debt Service in any future
23 calendar year on all Parity Bonds then outstanding and the proposed series
24 of Parity Bonds (except that if any adjustment in the rates, fees and
25 charges for the services of the Light System will be effective at any time
26 prior to or within six months after the delivery of the proposed Parity
27 Bonds, the Director of Finance shall reflect in his or her certificate the Net
28 Revenue he or she calculates would have been collected in the Base Period
if such new rates, fees and charges had been in effect for the entire Base
Period), or

(B) a certificate of the Professional Utility Consultant setting forth: (1) the
amount of the Adjusted Net Revenue computed as provided in paragraph



1 (iii) below; (2) the amount of maximum Annual Debt Service in any
2 calendar year thereafter on account of all Parity Bonds to be outstanding in
3 such calendar year, including the Parity Bonds proposed to be issued, and
4 stating that the amount shown in paragraph (B)(1) above is not less than
5 125% of the amount shown in this paragraph (B)(2).

6 (iii) For the purposes of the certificate required by paragraph (ii) above, Adjusted Net
7 Revenue shall be computed by the Professional Utility Consultant by adjusting
8 the Net Revenue for the Base Period by any or all of the following conditions and
9 requirements as may be appropriate to the circumstances:

10 (A) If the Parity Bonds are being issued for the purpose of acquiring operating
11 electric utility properties having an earnings record, the Professional
12 Utility Consultant shall estimate the effect on the Net Revenue for the
13 Base Period of the acquisition of such electric utility properties and the
14 integration thereof into the Light System, and shall adjust the Net Revenue
15 for the Base Period to give effect to such estimate. Any such estimate shall
16 be based upon the operating experience and records of the City and upon
17 any available financial statements and records relating to the earnings of
18 such electric utility properties to be acquired.

19 (B) If any changes have been adopted by the City Council and are in effect on
20 the date of sale of the Parity Bonds or are to go into effect not later than 12
21 months after such date, in any rates and charges imposed by the City on
22 sales of power and energy and other services furnished by the Light
23 System, which were not in effect during the entire Base Period, the
24 Professional Utility Consultant may, if such changes resulted in increases
25 in such rates and charges, and shall, if such changes resulted in reductions
26 in such rates and charges, adjust the Net Revenue for the Base Period to
27 reflect any change in such Net Revenue which would have occurred if the
28 changed rates and charges had been in effect during the entire Base
Period.

(C) If the purpose for which the 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 adjust the Net
Revenue for the Base Period by (1) deducting the amount of the estimated
increase in operating and maintenance expenses resulting from the
acquisition or construction of such facilities in their first year of full
operation, (2) 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 (3) adding an amount equal to the estimated
cost of the power and energy which would have been replaced or
displaced by such facilities had such additional power and energy in



1 excess of the power and energy to be sold pursuant to clause (2) above
2 been used in the Light System during the Base Period.

3 (D) If there were any customers added to the Light System during the Base
4 Period or thereafter and prior to the date of the Professional Utility
5 Consultant's certificate, the Net Revenue may be adjusted on the basis that
6 such added customers were customers of the Light System during the
7 entire Base Period.

8 (E) If extensions of or additions to the Light System (not described in
9 subparagraph (C) above) are in the process of construction on the date of
10 the Professional Utility Consultant's certificate, or if the proceeds of the
11 Parity Bonds being issued are to be used to acquire or construct extensions
12 of or additions to the Light System (not described in subparagraph (C)
13 above), the Net Revenue for the Base Period may be adjusted by adding
14 any additional revenues not included in the preceding paragraphs that will
15 be derived from such additions and extensions and deducting the estimated
16 increase in operating and maintenance expenses resulting from such
17 additions and extensions.

18 (F) The Net Revenue for the Base Period may be adjusted by excluding from
19 the determination of expenses of operation, maintenance and repair of the
20 Light System any extraordinary, nonrecurring expenses of the Light
21 System or any judgments or amounts to be paid in settlement of claims
22 against the Light System.

23 (iv) In rendering any certificate under this Section 13(g), the Professional Utility
24 Consultant may rely upon, and such certificate shall have attached thereto, (A)
25 financial statements of the Light System, certified by the Director of Finance,
26 showing income and expenses for the period upon which the same are based and a
27 balance sheet as of the end of such period, (B) similar certified statements by the
28 Division of Municipal Corporations of the Office of the State Auditor of the State
(or any successor thereto), or (C) similar certified statements by a Certified Public
Accountant for as much of such period as any examination by them 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 statement described
under clause (A) in this Section 13(g)(iv).

(h) Issuance of Refunding Parity Bonds.

(i) Without complying with the provisions of Section 13(g), the City may at any time
and from time to time issue one or more series of Refunding Parity Bonds, but
only if there shall have been filed with the City a certificate of the Director of
Finance stating that Annual Debt Service immediately after the issuance of such
Refunding Parity Bonds (calculated by including debt service on the Refunding
Parity Bonds but excluding debt service on the bonds to be refunded with the
proceeds thereof) does not exceed the Annual Debt Service immediately prior to



1 the issuance of the Refunding Parity Bonds (calculated by including debt service
2 on the bonds to be refunded but excluding debt service on the Refunding Parity
3 Bonds) by more than \$5,000 in any calendar year that any then-outstanding Parity
4 Bonds are anticipated to be outstanding.

5 (ii) Parity Bonds of any one or more series or one or more maturities within a series
6 may be refunded by a single series of Refunding Parity Bonds, which Refundable
7 Bonds shall be specified in the Parity Bond Legislation providing for the issuance
8 of the Refunding Parity Bonds, and the principal amount of such Refunding Parity
9 Bonds may include amounts necessary to pay the principal of the Parity Bonds to
10 be refunded, interest thereon to the date of payment or redemption thereof, any
11 premium payable thereon upon such payment or redemption and the costs of
12 issuance of such Refunding Parity Bonds. The proceeds of the Refunding Parity
13 Bonds shall be held and applied in such manner as is provided in the Parity Bond
14 Legislation providing for the issuance of such Refunding Parity Bonds, so that
15 upon the delivery of such Refunding Parity Bonds the Parity Bonds to be
16 refunded thereby shall be deemed to be no longer outstanding in accordance with
17 the provisions of the Parity Bond Legislation providing for the issuance of those
18 bonds.

19 (iii) Refunding Parity Bonds may also be issued upon compliance with the provisions
20 of Section 13(g).

21 (iv) Nothing contained in this ordinance shall prohibit or prevent, or be deemed or
22 construed to prohibit or prevent, the City from issuing Refunding Parity Bonds to
23 fund or refund maturing Parity Bonds of the City for the payment of which money
24 is not otherwise available.

25 **Section 14. Provisions Relating to Certain Federal Tax Consequences of the**
26 **Bonds.**

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



1 having complied) with that requirement in connection with that Series, including the calculation
2 and payment of any penalties that the City has elected to pay as an alternative to calculating
3 rebatable arbitrage, and the payment of any other penalties if required under Section 148 of the
4 Code to prevent interest on such Series from being included in gross income for federal income
5 tax purposes.

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

12 **Section 15. Refunding or Defeasance of Bonds.** The Bonds are hereby designated
13 “Refundable Bonds” for purposes of Ordinance 121941, as amended by Ordinance 122838, and
14 amended and restated by Ordinance 124335, (as it may be amended from time to time). The City
15 may issue refunding bonds pursuant to the laws of the State or use money available from any
16 other lawful source to pay when due the principal of and premium, if any, and interest on any
17 Bond, or any portion thereof, included in a refunding or defeasance plan, and to redeem and
18 retire, release, refund or defease those Bonds (the “Defeased Bonds”) and to pay the costs of
19 such refunding or defeasance. If money and/or Government Obligations maturing at a time or
20 times and in an amount sufficient, together with known earned income from the investments
21 thereof, to redeem and retire, release, refund or defease the Defeased Bonds in accordance with
22 their terms, are set aside in a special trust fund or escrow account irrevocably pledged to such
23 redemption, retirement or defeasance (the “Trust Account”), then all right and interest of the
24 Owners of the Defeased Bonds in the covenants of this ordinance and in the Gross Revenue and
25 the funds and accounts pledged to the payment of such Defeased Bonds, other than the right to
26 receive the funds so set aside and pledged, thereafter shall cease and become void. Such Owners
27 thereafter shall have the right to receive payment of the principal of and interest or redemption
28



1 price on the Defeased Bonds from the Trust Account. Unless otherwise specified in the Bond
2 Resolution, notice of refunding or defeasance shall be given, and selection of Bonds for any
3 partial refunding or defeasance shall be conducted, in the manner set forth in this ordinance for
4 the redemption of Bonds. After establishing and fully funding of such a Trust Account, the
5 Defeased Bonds shall be deemed no longer outstanding and the City may apply any money in
6 any other fund or account established for the payment or redemption of the Defeased Bonds to
7 any lawful purposes, subject only to the rights of the Owners of any other Parity Bonds.

8 **Section 16. Amendments.**

9 (a) **Amendments Without Bond Owners' Consent.** The City Council from time to
10 time and at any time may pass supplemental resolutions or ordinances, which shall become a part
11 of this ordinance, for any one or more of the following purposes:

- 12 (i) To add other covenants and agreements that do not adversely affect the interests
13 of the owners of any Parity Bonds then outstanding, or to surrender any right or
14 power reserved to or conferred upon the City.
- 15 (ii) To cure any ambiguities or to cure, correct or supplement any defective provision
16 contained in this ordinance in regard to matters or questions arising under this
17 ordinance as the City Council may deem necessary or desirable and not
18 inconsistent with this ordinance and which do not materially adversely affect the
19 interests of owners of any Parity Bonds then outstanding.
- 20 (iii) To make such changes as are necessary to permit the Bonds to be held in
21 registered certificate form or in fully immobilized form by a Securities
22 Depository.

23 Any such supplemental resolution or ordinance may be passed without the consent of the
24 registered owners of the Parity Bonds at the time outstanding, notwithstanding any of the
25 provisions of subsection (b) of this section, but only upon receipt by the City of an opinion of
26 Bond Counsel to the effect that the amendment is permitted by the terms of this ordinance. The
27 City shall deliver a copy of any such supplemental resolution or ordinance to each Rating
28 Agency prior to its passage by the City.

(b) **Amendments With Bond Owners' Consent.** The City Council may, with the
consent of the registered owners representing not less than 60% in aggregate principal amount of



1 the Parity Bonds then outstanding, pass supplemental resolutions or ordinances to add to, change,
2 or eliminate any provision of this ordinance or of any supplemental resolution or ordinance,
3 except no such supplemental resolution or ordinance may:

- 4 (i) Extend the fixed maturity of any Parity Bond, reduce the rate of interest on any
5 Parity Bond, extend the times of payment of interest from their respective due
6 dates, reduce the principal amount of any Parity Bond, or reduce any redemption
7 premium, without consent from the registered owners of or on behalf of all Parity
8 Bonds so affected; or
9 (ii) Reduce the percentage of ownership required to approve any such supplemental
10 resolution or ordinance without the consent from the registered owners of or on
11 behalf of all of the Parity Bonds then outstanding.

12 For purposes of determining whether consents representing requisite percentage of
13 principal amount of Parity Bonds have been obtained, the Accreted Value of Capital
14 Appreciation Bonds shall be deemed to be the principal amount. It shall not be necessary to
15 obtain approval of the particular form of any proposed supplemental resolution or ordinance, but
16 it shall be sufficient if the consent shall approve the substance thereof.

17 (c) **Effect of Amendment.** Upon the passage of any supplemental resolution or
18 ordinance pursuant to the provisions of this section, this ordinance shall be deemed to be
19 modified and amended in accordance therewith, and the respective rights, duties and obligations
20 of the City under this ordinance shall thereafter be determined, exercised and enforced, subject in
21 all respects to such modification and amendments, and all the terms and conditions of any such
22 supplemental resolution or ordinance shall be deemed to be a part of the terms and conditions of
23 this ordinance for any and all purposes.

24 (d) **Notation on Bonds.** Parity Bonds executed and delivered after the execution of
25 any supplemental resolution or ordinance passed pursuant to the provisions of this section may
26 have a notation as to any matter provided for in such supplemental resolution or ordinance, and if
27 such supplemental resolution or ordinance shall so provide, new bonds modified to conform, in
28 the opinion of the City Council, to any modification of this ordinance contained in any such
supplemental resolution or ordinance may be prepared by the City and delivered without cost to



1 the owners of any affected Parity Bonds then outstanding, upon surrender for cancellation of
2 such bonds in equal aggregate principal amounts.

3 **Section 17. Rate Stabilization Account.** The City may at any time deposit in the
4 Rate Stabilization Account, Gross Revenue and any other money received by the Light System
5 and available to be used therefor. Thereafter, the City may withdraw any or all of the money
6 from the Rate Stabilization Account for inclusion in the Net Revenue for any applicable year of
7 the City. Such deposits or withdrawals may be made up to and including the date 90 days after
8 the end of the applicable year for which the deposit or withdrawal will be included as Net
9 Revenue.

10 **Section 18. Official Statement; Continuing Disclosure.**

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

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

26 **(c) Undertaking to Provide Continuing Disclosure.** To meet the requirements of
27 paragraph (b)(5) of Rule 15c2-12, as applicable to a participating underwriter for a Series of the
28



1 Bonds, the Director of Finance is authorized to execute a written Undertaking in substantially the
2 form attached as Exhibit B.

3 **Section 19. General Authorization.**

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

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

18 (b) each of the Mayor and the Director of Finance is separately authorized to execute and
19 deliver (i) any and all contracts or other documents as are consistent with this ordinance and for
20 which the City's approval is necessary or to which the City is a party (including but not limited
21 to agreements with escrow agents, refunding trustees, liquidity or credit support providers, bond
22 insurers, remarketing agents, underwriters, lenders, fiscal agents, counterparties to Payment
23 Agreements, custodians, and the Bond Registrar); and (ii) such other contracts or documents
24 incidental to the issuance and sale of a Series of the Bonds; the establishment of the initial
25 interest rate or rates on a Bond; or the tender, purchase, remarketing, or redemption of a Bond, as
26 may in his or her judgment be necessary or appropriate.



1 **Section 20. Severability.** The provisions of this ordinance are declared to be separate
2 and severable. If a court of competent jurisdiction, all appeals having been exhausted or all
3 appeal periods having run, finds any provision of this ordinance to be invalid or unenforceable as
4 to any person or circumstance, such offending provision shall, if feasible, be deemed to be
5 modified to be within the limits of enforceability or validity. However, if the offending provision
6 cannot be so modified, it shall be null and void with respect to the particular person or
7 circumstance, and all other provisions of this ordinance in all other respects, and the offending
8 provision with respect to all other persons and all other circumstances, shall remain valid and
9 enforceable.

10 **Section 21. Ratification of Prior Acts.** Any action taken after passage of this
11 ordinance but prior to its effective date that is consistent with the authority of this ordinance, is
12 ratified, approved and confirmed.

13 **Section 22. Headings.** Section headings in this ordinance are used for convenience
14 only and shall not constitute a substantive portion of this ordinance.

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EXHIBIT A

OUTSTANDING CITY LIGHT PARITY BONDS

| Issue Name | Dated Date | Original Par Amount | Amount Currently Outstanding | Bond Legislation |
|--|------------|---------------------|------------------------------|---|
| Municipal Light and Power Improvement and Refunding Revenue Bonds, 2004 | 12/23/2004 | \$284,855,000 | \$125,020,000 | Ord 121637, Res 30732 |
| Municipal Light and Power Improvement and Refunding Revenue Bonds, 2008 | 12/30/2008 | \$257,375,000 | \$185,800,000 | Ord 121941, Ord 122807, Ord 122838, Res 31105 |
| Municipal Light and Power Revenue Bonds, 2010A (Taxable Build America Bonds – Direct Payment) | 5/26/2010 | \$181,625,000 | \$181,625,000 | Ord 123169, Ord 123261, Res 31213 |
| Municipal Light and Power Improvement and Refunding Revenue Bonds, 2010B | 5/26/2010 | \$596,870,000 | \$466,410,000 | Ord 121941, Ord 123169, Ord 123261, Res 31213 |
| Municipal Light and Power Revenue Bonds, 2010C (Taxable Recovery Zone Economic Development Bonds – Direct Payment) | 5/26/2010 | \$13,275,000 | \$13,275,000 | Ord 123169, Ord 123261, Res 31213 |
| Municipal Light and Power Improvement and Refunding Revenue Bonds, 2011A | 2/8/2011 | \$296,315,000 | \$266,040,000 | Ord 121941, Ord 122838, Ord 123483, Res 31263 |



Michael Van Dyck/Nancy Neraas
FAS 2015 SCL Bonds ORD EXH A
September 3, 2014
Version #1

| | | | | | |
|----|--|-----------|---------------|---------------|---|
| 1 | Municipal Light and Power Improvement Revenue Bonds, 2011B (Taxable New Clean Renewable Energy Bonds – Direct Payment) | 2/8/2011 | \$10,000,000 | \$10,000,000 | Ord 123483, Res 31263 |
| 2 | | | | | |
| 3 | | | | | |
| 4 | | | | | |
| 5 | Municipal Light and Power Improvement and Refunding Revenue Bonds, 2012A | 7/17/2012 | \$293,280,000 | \$284,755,000 | Ord 121941 Ord 122838 123752 Res 31390 |
| 6 | | | | | |
| 7 | | | | | |
| 8 | Municipal Light and Power Refunding Revenue Bonds, 2012B (Taxable) | 7/17/2012 | \$9,355,000 | \$4,780,000 | Ord 121941 Ord 122838 Res 31390 |
| 9 | | | | | |
| 10 | Municipal Light and Power Improvement Revenue Bonds, 2012C (Taxable New Clean Renewable Energy Bonds – Direct Payment) | 7/17/2012 | \$43,000,000 | \$43,000,000 | Ord 123752 Res 31390 |
| 11 | | | | | |
| 12 | | | | | |
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| 14 | | | | | |
| 15 | Municipal Light and Power Improvement and Refunding Revenue Bonds, 2013 | 7/9/2013 | \$190,755,000 | \$187,730,000 | Ord 121941 Ord 122838 Ord 124045 Res 31456 |
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EXHIBIT B

FORM OF UNDERTAKING TO PROVIDE CONTINUING DISCLOSURE

The City of Seattle, Washington (the "City") makes the following written Undertaking for the benefit of the owners of the City's [Municipal Light and Power Revenue Bonds, 2015] (the "Bonds"), for the sole purpose of assisting the Purchaser in meeting the requirements of paragraph (b)(5) of Rule 15c2-12, as applicable to a participating underwriter for the Bonds. Capitalized terms used but not defined below shall have the meanings given in Ordinance _____ and Resolution _____ (together, the "Bond Legislation").

(a) Undertaking to Provide Annual Financial Information and Notice of Listed Events. The City undertakes to provide or cause to be provided, either directly or through a designated agent, to the MSRB, in an electronic format as prescribed by the MSRB, accompanied by identifying information as prescribed by the MSRB:

(i) Annual financial information and operating data regarding the Light System of the type included in the final official statement for the Bonds and described in subsection (b) of this section ("annual financial information");

(ii) Timely notice (not in excess of 10 business days after the occurrence of the event) of the occurrence of any of the following events with respect to the Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notice of Proposed Issue (IRS Form 5701 – TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds; (7) modifications to rights of holders of the Bonds, if material; (8) bond calls (other than scheduled mandatory redemptions of Term Bonds), if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the City, as such "Bankruptcy Events" are defined in Rule 15c2-12; (13) the consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of the assets of the City other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (14) appointment of a successor or additional trustee or the change of name of a trustee, if material.

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



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

2 (i) Shall consist of annual financial information and operating data
3 regarding the Light System of the type included in the final official statement for the Bonds as
4 follows: (1) annual financial statements of the Light System prepared in accordance with
5 applicable generally accepted accounting principles applicable to governmental units (except as
6 otherwise noted therein), as such principles may be changed from time to time and as permitted
7 by State law, which financial statements will not be audited, except, that if and when audited
8 financial statements are otherwise prepared and available to the City they will be provided;
(2) a statement of outstanding bonded debt secured by Gross Revenues of the Light System;
(3) debt service coverage ratios for the bond debt secured by Gross Revenues of the Light
System; (4) sources of Light System power and the MWh produced by those sources; and
(5) the average number of customers, revenues, and energy sales by customer class;

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

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

14 (c) Amendment of Undertaking. The Undertaking is subject to amendment after the
15 primary offering of the Bonds without the consent of any owner or holder of any Bond, or of
16 any broker, dealer, municipal securities dealer, participating underwriter, rating agency or the
17 MSRB, under the circumstances and in the manner permitted by Rule 15c2-12. The City will
18 give notice to the MSRB of the substance (or provide a copy) of any amendment to the
19 Undertaking and a brief statement of the reasons for the amendment. If the amendment
changes the type of annual financial information to be provided, the annual financial
information containing the amended financial information will include a narrative explanation
of the effect of that change on the type of information to be provided.

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

23 (e) Termination of Undertaking. The City's obligations under this Undertaking
24 shall terminate upon the legal defeasance, prior redemption, or payment in full of all of the
25 outstanding Bonds. In addition, the City's obligations under this Undertaking shall terminate if
26 those provisions of Rule 15c2-12 which require the City to comply with this Undertaking
become legally inapplicable in respect of the Bonds for any reason, as confirmed by an opinion



1 of nationally recognized bond counsel or other counsel familiar with federal securities laws
2 delivered to the City, and the City provides timely notice of such termination to the MSRB.

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

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

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

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

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

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

(v) Effecting any necessary amendment of the Undertaking.



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APPENDIX B
BOND RESOLUTION

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RESOLUTION 31593

A RESOLUTION relating to contracting indebtedness; confirming, ratifying and approving certain terms of the issuance and sale of The City of Seattle, Washington, Municipal Light and Power Revenue Bonds, 2015B (SIFMA Index) (the “Bonds”), for the purposes set forth in Ordinance 124633 (the “Bond Ordinance”); and confirming, ratifying and approving action taken and to be taken by the Director of Finance of the City of Seattle (the “Director of Finance”) and other City officials relating to the issuance and sale of the bonds to the underwriter thereof.

WHEREAS, by the Bond Ordinance, The City of Seattle, Washington (the “City”) authorized the issuance and sale of not to exceed \$278,000,000 of its municipal light and power revenue bonds in one or more series to (1) pay part of the cost of carrying out the Plan of Additions; (2) provide for the Reserve Fund Requirement; (3) capitalize interest on, if necessary, and pay the costs of issuance of the Bonds; and (4) for other Light System purposes approved by ordinance; and

WHEREAS, the Bond Ordinance authorizes the Director of Finance to conduct a negotiated sale of the Bonds and to accept an offer to purchase the Bonds and to set certain Bond Sale Terms (as defined in the Bond Ordinance) within certain parameters set forth in the Bond Ordinance, which acceptance is effective upon approval by the City Council by resolution; and

WHEREAS, pursuant to the Bond Ordinance, a preliminary official statement expected to be dated June 26, 2015, for the sale of the Bonds was prepared and distributed, and the proposed sale of the Bonds to Citigroup Global Markets Inc. has been presented to the City Council for its approval with the Bond Sale Terms; NOW, THEREFORE,

BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF SEATTLE,

THAT:

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

“Adjusted SIFMA Rate” means the SIFMA Index plus the Index Floating Rate Spread.

1 **“Delayed Remarketing Period”** means the period during which some or all of the
2 Bonds in an Index Floating Rate are not remarketed as set forth in Section 5(j).

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

4 **“Favorable Opinion of Bond Counsel”** means a written legal opinion of Bond Counsel
5 addressed to the City, the Bond Registrar, the Credit Provider (if any) and the Remarketing
6 Agent (if any), to the effect that a specified action is permitted under this Resolution and will
7 not impair the exclusion of interest on the affected Bonds from gross income for purposes of
8 federal income taxation (subject to customary exceptions).

9 **“Index”** means any of (a) One Month LIBOR, (b) Three Month LIBOR, (c) the SIFMA
10 Index, or (d) any other index selected by the Designated Representative.

11 **“Index Floating Rate”** means a variable interest rate established in accordance with
12 Section 5(g).

13 **“Index Floating Rate Percentage”** means the percentage of One Month LIBOR, Three
14 Month LIBOR or other index selected by the Designated Representative pursuant to
15 Section 5(g).

16 **“Index Floating Rate Period”** means each period during which an Index Floating Rate
17 is in effect.

18 **“Index Floating Rate Spread”** means initially, the spread specified in the Bond
19 Purchase Contract, and with respect to any Conversion to an Index Floating Rate Period, the
20 spread determined by the Remarketing Agent on or prior to the Conversion Date pursuant to
21 Section 5(g).

22 **“Initial Index Floating Rate Period”** means the period commencing on the Issue Date
23 and ending on the first Purchase Date for a series of the Bonds, as specified in the Bond
24 Purchase Contract.

25 **“Interest Accrual Date”** with respect to a series of the Bonds means:
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1 (b) any Daily Interest Rate Period, the fifth Business Day of the next
2 succeeding calendar month;

3 (c) any Long-Term Interest Rate Period, each May 1 and November 1, or if
4 any May 1 or November 1 is not a Business Day, the next succeeding Business Day;

5 (d) any Index Floating Rate Period, the first Business Day of each month;
6 and

7 (e) each Interest Rate Period, without duplication, the first Business Day
8 succeeding the last day thereof.

9 **“Interest Rate Period”** means each Daily Interest Rate Period, Weekly Interest Rate
10 Period, Long-Term Interest Rate Period or Index Floating Rate Period.

11 **“Interest Reset Date”** means:

12 (a) for each Index Floating Rate Period during which the Index is One Month
13 LIBOR or Three Month LIBOR, the first Business Day of each month during such Index
14 Floating Rate Period;

15 (b) for each Index Floating Rate Period during which the Index is the SIFMA
16 Index, each Thursday during such Index Floating Rate Period; and

17 (c) for each Index Floating Rate Period during which a different Index is
18 selected, the date selected by the Designated Representative during such Index Floating Rate
19 Period.

20 **“London Business Day”** means a day on which commercial banks and foreign
21 exchange markets settle payments and are open for general business (including dealings in
22 foreign exchange and foreign currency deposits) in London.

23 **“Long-Term Interest Rate”** means a term, non-variable interest rate established in
24 accordance with Section 5(f).

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

3 **“Maturity Date”** means the date on which the principal of a Bond becomes due and
4 payable as provided in this Resolution.

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

7 **“One Month LIBOR”** means, on each Interest Determination Date, the rate determined
8 by the Bond Registrar for deposits in U.S. dollars for a one-month maturity which appears on
9 Bloomberg Page BBAM1 as of 11:00 a.m., London time, on such Interest Determination Date,
10 except that, if such rate is not available on such Interest Determination Date, One Month
11 LIBOR means a rate determined on the basis of the rates at which deposits in U.S. dollars for a
12 one-month maturity and in a principal amount of at least U.S. \$1,000,000 are offered at
13 approximately 11:00 a.m., London time, on such Interest Determination Date, to prime banks in
14 the London interbank market by three Reference Banks. The Bond Registrar shall request the
15 principal London office of each such Reference Bank to provide a quotation of its rate. If at
16 least two such quotations are provided, One Month LIBOR will be the arithmetic mean of such
17 quotations. If fewer than two quotations are provided, One Month LIBOR will be the arithmetic
18 mean of the rates quoted by three (if three quotations are not provided, two or one, as
19 applicable) major banks in New York City, selected by the Designated Representative, at
20 approximately 11:00 a.m. on the Interest Determination Date for loans in U.S. dollars to leading
21 European banks in a principal amount of at least U.S. \$1,000,000 having a one-month maturity.
22 If none of the banks in New York City selected by the Designated Representative is then
23 quoting rates for such loans, then One Month LIBOR will mean One Month LIBOR as
24 determined for the preceding Interest Determination Date.

1 index is no longer published or otherwise not available, the SIFMA Rate for any day will mean
2 the level of the “S&P Weekly High Grade Index” (formerly the J.J. Kenny Index) maintained
3 by Standard & Poor’s Securities Evaluations Inc. for a 7-day maturity as published on the
4 Interest Reset Date or most recently published prior to the Interest Reset Date. If at any time
5 neither such index is available, the Bond Registrar shall use instead an index that the Bond
6 Registrar, after consultation with the Remarketing Agent (if any) and the Designated
7 Representative, determines most closely approximates the SIFMA Index.

8 “**SIFMA Rate**” means for any day the level of the most recently effective index rate
9 which is compiled from the weekly interest rate resets of tax-exempt variable rate issues
10 included in a database maintained by Municipal Market Data which meet specific criteria
11 established from time to time by SIFMA and is issued on Wednesday of each week, or if any
12 Wednesday is not a Business Day, the next succeeding Business Day.

13 “**Stepped Interest Rate**” means (a) for Initial Index Floating Rate Period, either (1) a
14 per annum interest rate or rates equal to the SIFMA Index plus the percentage or percentages
15 specified in the Bond Purchase Contract or (2) the per annum interest rate or rates specified in
16 the Bond Purchase Contract, and (b) for any subsequent Index Floating Rate Period, either (1) a
17 per annum interest rate or rates equal to the SIFMA Index plus the percentage or percentages
18 determined by the Remarketing Agent on or prior to the Conversion Date pursuant to
19 Section 5(g) or (2) the per annum interest rate or rates determined by the Remarketing Agent on
20 or prior to the Conversion Date pursuant to Section 5(g).

21 “**Three Month LIBOR**” means, on each Interest Determination Date, the rate
22 determined by the Bond Registrar for deposits in U.S. dollars with a three-month maturity as
23 published by Reuters (or such other service as may be nominated by the British Bankers
24 Association, for the purpose of displaying London interbank offered rates for U.S. dollar
25 deposits) as of 11:00 a.m., London time, on the Interest Determination Date, except that, if such
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1 rate is not available on the Interest Determination Date, Three Month LIBOR means a rate
2 determined on the basis of the rates at which deposits in U.S. dollars for a three-month maturity
3 and in a principal amount of at least U.S. \$1,000,000 are offered at approximately 11:00 a.m.,
4 London time, on the Interest Determination Date, to prime banks in the London interbank
5 market by three Reference Banks. The Bond Registrar shall request the principal London office
6 of each such Reference Bank to provide a quotation of its rate. If at least two such quotations
7 are provided, Three Month LIBOR will be the arithmetic mean of such quotations. If fewer than
8 two quotations are provided, Three Month LIBOR will be the arithmetic mean of the rates
9 quoted by three (if three quotations are not provided, two or one, as applicable) major banks in
10 New York City, selected by the Designated Representative, at approximately 11:00 a.m. New
11 York time, on the Interest Determination Date for loans in U.S. dollars to leading European
12 banks in a principal amount of at least U.S. \$1,000,000 having a three month maturity. If none
13 of the banks in New York City selected by the Designated Representative is then quoting rates
14 for such loans, then Three Month LIBOR will mean Three Month LIBOR as determined for the
15 immediately preceding Interest Determination Date.

16 **“Undelivered Bond”** means any Bond which constitutes an Undelivered Bond under
17 the provisions of Section 8(f).

18 **“Underwriter”** means Citigroup Global Markets Inc.

19 **“Weekly Interest Rate”** means a variable interest rate for a Bond established in
20 accordance with Section 5(d).

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

23 **Section 2. Sale and Delivery of Bonds.** The City Council finds that the sale of the
24 Bonds to the Underwriter, in one or more series (with such additional naming convention as
25 may be convenient to indicate a series designation), on Bond Sale Terms consistent with the
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1 parameters set forth in the Bond Legislation is in the best interest of the City and in the public
2 interest and, therefore, accepts the Bond Purchase Contract and authorizes the Designated
3 Representative to execute and deliver the Bond Purchase Contract to the Underwriter on behalf
4 of the City in the form attached as Exhibit A, with such changes thereto, consistent with the
5 Bond Legislation, as shall be approved by the Designated Representative, which approval shall
6 be evidenced by such execution and delivery.

7 **Section 3. Approval of Bond Sale Terms.** In accordance with Section 5 of the
8 Bond Ordinance, the following Bond Sale Terms are approved:

9 (a) **Principal Amount.** The Bonds shall be issued in one or more series, in
10 the aggregate principal amount of \$100,000,000.

11 (b) **Date.** Each Bond shall be dated its Issue Date, which is expected to be
12 July 23, 2015, and which date shall be not later than December 31, 2017.

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

15 (d) **Mechanism for Determining Interest Rates.** Each series of the Bonds
16 shall bear interest as provided in Section 5.

17 (e) **Payment Dates.** Interest on each Bond shall be payable on each Interest
18 Payment Date. Principal of each Bond shall be payable as provided in Section 7.

19 (f) **Final Maturity.** The final maturity of each series of the Bonds may be
20 no later than May 1, 2045.

21 (g) **Redemption and Tender Rights.** Each series of the Bonds shall be
22 subject to redemption as provided in Section 7 and shall be subject to tender as provided in
23 Section 8.

24 (h) **Price.** The purchase price for each series of the Bonds is par.
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1 **(i) Other Terms and Conditions.** The following terms and conditions,
2 along with any additional Bond Sale Terms set forth in the Bond Purchase Contract, are ratified,
3 confirmed and approved in all respects:

4 (1) The average expected life of the capital facilities to be financed
5 with the proceeds of the Bonds exceeds the weighted average maturity of the Bonds allocated to
6 financing those capital facilities.

7 (2) The Parity Conditions have been met or satisfied so that the
8 Bonds may be issued as Parity Bonds.

9 (3) The City Council has given due regard to the cost of operation
10 and maintenance of the Light System and to any portion of the Gross Revenues pledged for the
11 payment of any bonds, warrants or other indebtedness, and finds and determines that the Gross
12 Revenues, at the rates established consistent with Section 13(d) of the Bond Ordinance, will be
13 sufficient to meet all expenses of operation and maintenance of the Light System and to provide
14 the amounts previously pledged for the payment of all outstanding obligations payable out of
15 the Gross Revenue and pledged for the payment of the Bonds.

16 (4) The Reserve Requirement for the Bonds shall be zero.

17 (5) The Bonds shall be issued as Tax-Exempt Bonds, in accordance
18 with Section 14(a) of the Bond Ordinance.

19 (6) The initial Index Floating Rate Spread, which is to be specified in
20 the Bond Purchase Contract, shall be no more than 100 basis points.

21 (7) The first Purchase Date for each series of the Bonds shall be
22 specified in the Bond Purchase Contract and shall be no sooner than one year after the Issue
23 Date and no later than six years after the Issue Date.

1 (8) The Par Call Date during an Initial Index Floating Rate Period,
2 which is to be specified in the Bond Purchase Contract, shall be the first Business Day that is on
3 or after the date that is six months prior to the first Purchase Date.

4 (9) If the Stepped Interest Rate for an Initial Index Floating Rate
5 Period is to be a rate or rates, the rate or rates shall be specified in the Bond Purchase Contract,
6 which shall be no more than 12% at any time during the Delayed Remarketing Period. If the
7 Stepped Interest Rate for a series of the Bonds during an Initial Index Floating Rate Period is to
8 be a rate or rates equal to the SIFMA Index plus a percentage or percentages, the percentage or
9 percentages shall be specified in the Bond Purchase Contract, which shall be no more than 12%
10 at any time during the Delayed Remarketing Period.

11 **Section 4. Use of Bond Proceeds.** The proceeds of the Bonds received by the City
12 shall be deposited immediately upon receipt in the funds, accounts or subaccounts within the
13 Light Fund as designated by the Director of Finance and shall be used to pay part of the costs of
14 the Plan of Additions and the costs of issuing the Bonds and for such other purposes as may be
15 approved by ordinance.

16 **Section 5. Interest on Bonds.**

17 (a) **General.** The interest rate and Interest Rate Period for any series of the
18 Bonds may be adjusted as set forth in this Section 5. Each series of the Bonds may bear interest
19 at a Daily Interest Rate, a Weekly Interest Rate, a Long-Term Interest Rate or at an Index
20 Floating Rate. All Bonds of a single series shall be in the same interest rate mode. The Interest
21 Rate Period for a series of the Bonds may not be adjusted prior to the Purchase Date.

22 (b) **Payment of Interest.** Interest on each series of the Bonds shall be paid
23 on each Interest Payment Date, on any redemption date, on any Purchase Date and on the
24 Maturity Date.

1 (c) **Interest Accrual and Payment.** Interest on any series of the Bonds
2 during a Daily Interest Rate Period, a Weekly Interest Rate Period or an Index Floating Rate
3 Period during which the applicable Index is the SIFMA Index shall accrue on the basis of the
4 actual number of days elapsed in a 365-day year (or a 366-day year in a leap year). Interest on
5 any series of the Bonds during a Long-Term Interest Rate Period shall accrue on the basis of a
6 360-day year composed of twelve 30-day months. Interest on any series of the Bonds during an
7 Index Floating Rate Period during which the Index is One Month LIBOR or Three Month
8 LIBOR shall accrue on the basis of the actual number of days elapsed in a 360-day year.

9 Each Bond shall bear interest from and including the Interest Accrual Date preceding the
10 date of authentication thereof or, if such date of authentication is an Interest Accrual Date to
11 which interest on such Bond has been paid in full or duly provided for, from such date of
12 authentication. However, if, as shown by the records of the Bond Registrar, interest on a Bond
13 is in default, a Bond issued in exchange for a Bond that is surrendered for registration or
14 transfer or exchange shall bear interest from the date to which interest on such surrendered
15 Bond had been paid or duly provided for or, if no interest has been paid on such surrendered
16 Bond, from the date of authentication of such surrendered Bond.

17 During each Daily Interest Rate Period, interest on any Bonds in a Daily Interest Rate
18 mode shall be payable on each Interest Payment Date for the period commencing on the Interest
19 Accrual Date preceding the prior Interest Payment Date and ending on the last day of the month
20 in which such Interest Accrual Date occurs.

21 During each Weekly Interest Rate Period, interest on any Bonds in a Weekly Interest
22 Rate mode shall be payable on each Interest Payment Date for the period commencing on the
23 preceding Interest Accrual Date (or, if any such Interest Payment Date is not a Wednesday,
24 commencing on the second preceding Interest Accrual Date) and ending on and including the
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1 Tuesday preceding such Interest Payment Date (or, if sooner, the last day of such Weekly
2 Interest Rate Period).

3 During each Index Floating Rate Period or Long-Term Interest Rate Period, interest on
4 any Bonds in an Index Floating Rate or Long-Term Interest Rate mode shall be payable on each
5 Interest Payment Date for the period commencing on the Interest Accrual Date of the preceding
6 month and ending on the day preceding the next Interest Accrual Date.

7 In any event, interest on each series of the Bonds shall be payable for the final Interest
8 Rate Period to the date on which that series of the Bonds is paid in full.

9 **(d) Weekly Interest Rate and Weekly Interest Rate Period.**

10 (1) *Determination of Weekly Interest Rate.* During each Weekly
11 Interest Rate Period, any series of the Bonds in a Weekly Interest Rate mode shall bear interest
12 at the Weekly Interest Rate, which shall be determined by the Remarketing Agent by 5:00 p.m.,
13 New York time, on Tuesday of each week, or if such day is not a Business Day, then on the
14 succeeding Business Day. The first Weekly Interest Rate for each Weekly Interest Rate Period
15 shall be determined on or prior to the first day of such Weekly Interest Rate Period and shall be
16 in effect for the period commencing on and including the first day of such Weekly Interest Rate
17 Period and ending on and including the succeeding Tuesday. Thereafter, each Weekly Interest
18 Rate shall be in effect for the period commencing on and including Wednesday and ending on
19 and including the succeeding Tuesday, unless such Weekly Interest Rate Period ends on a day
20 other than Tuesday, in which event the last Weekly Interest Rate for such Weekly Interest Rate
21 Period shall be in effect for the period commencing on and including the Wednesday preceding
22 the last day of such Weekly Interest Rate Period and ending on and including the last day of
23 such Weekly Interest Rate Period.

24 Each Weekly Interest Rate shall be the rate of interest per annum determined by the
25 Remarketing Agent (based on an examination of tax-exempt obligations comparable, in the
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1 judgment of the Remarketing Agent, to the Bonds and known by the Remarketing Agent to
2 have been priced or traded under then-prevailing market conditions) to be the minimum interest
3 rate which, if borne by the applicable series of the Bonds, would enable the Remarketing Agent
4 to sell all of that series of the Bonds on the effective date of that rate at a price (without regard
5 to accrued interest) equal to the principal amount thereof.

6 If the Remarketing Agent fails to establish any Weekly Interest Rate, then the Weekly
7 Interest Rate shall be the same as the preceding Weekly Interest Rate if such Weekly Interest
8 Rate was determined by the Remarketing Agent. If the preceding Weekly Interest Rate was not
9 determined by the Remarketing Agent, or if the Weekly Interest Rate determined by the
10 Remarketing Agent is held to be invalid or unenforceable by a court of law, then the Weekly
11 Interest Rate, as determined by the Remarketing Agent, shall be equal to 110% of the SIFMA
12 Index, or if such index is no longer available, 85% of the interest rate on 30-day high grade
13 unsecured commercial paper notes sold through dealers by major corporations as reported in
14 *The Wall Street Journal* on the day such Weekly Interest Rate would otherwise have been
15 determined, until the Weekly Interest Rate is again validly determined by the Remarketing
16 Agent.

17 (2) *Conversion to Weekly Interest Rate.* Subject to Section 6, the
18 Designated Representative, on behalf of the City, may, from time to time, by written notice to
19 the Credit Provider (if any), the Bond Registrar and the Remarketing Agent (if any), elect that
20 any series of the Bonds shall bear interest at a Weekly Interest Rate. The notice of the
21 Designated Representative shall (A) specify the proposed Conversion Date, which shall be (i) in
22 each case, a Business Day not earlier than the 30th day following the second Business Day after
23 receipt by the Bond Registrar of such notice; (ii) in the case of a Conversion from a Long-Term
24 Interest Rate Period, the day following the last day of such Long-Term Interest Rate Period or a
25 day on which that series of the Bonds would otherwise be subject to optional redemption
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1 pursuant to Section 7(a)(2) if such Conversion did not occur; and (iii) in the case of a
2 Conversion from an Index Floating Rate Period, the day following the last day of such Index
3 Floating Rate Period or on or after a Par Call Date; and (B) state whether a Credit Facility is to
4 be in effect on the Conversion Date.

5 (3) *Notice of Conversion to Weekly Interest Rate.* The Bond
6 Registrar shall give notice of a Conversion to a Weekly Interest Rate Period to the Registered
7 Owners of the series of the Bonds to be converted not less than 30 days prior to the proposed
8 Conversion Date. Such notice shall state (A) that the interest rate will be converted to a Weekly
9 Interest Rate unless the City rescinds its election to convert the interest rate to a Weekly Interest
10 Rate as provided in Section 6(a); (B) the proposed Conversion Date; (C) that such series of the
11 Bonds is subject to mandatory tender for purchase on the proposed Conversion Date; (D) the
12 Purchase Price; (E) the place of delivery for purchase of such series of the Bonds; and (F) the
13 information set forth in Section 8(e).

14 (e) **Daily Interest Rate and Daily Interest Rate Period.**

15 (1) *Determination of Daily Interest Rate.* During each Daily Interest
16 Rate Period, any series of the Bonds in a Daily Interest Rate mode shall bear interest at the
17 Daily Interest Rate, which shall be determined by the Remarketing Agent by 9:30 a.m., New
18 York time, on each Business Day. The Daily Interest Rate for any day which is not a Business
19 Day shall be the same as the Daily Interest Rate for the preceding Business Day.

20 Each Daily Interest Rate shall be the rate of interest per annum determined by the
21 Remarketing Agent (based on an examination of tax-exempt obligations comparable, in the
22 judgment of the Remarketing Agent, to such series of the Bonds and known by the Remarketing
23 Agent to have been priced or traded under then-prevailing market conditions) to be the
24 minimum interest rate which, if borne by such series of the Bonds, would enable the
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1 Remarketing Agent to sell all of that series of the Bonds on such Business Day at a price
2 (without regard to accrued interest) equal to the principal amount thereof.

3 If the Remarketing Agent fails to establish any Daily Interest Rate, then the Daily
4 Interest Rate for such Business Day shall be the same as the preceding Daily Interest Rate and
5 such Daily Interest Rate shall continue to be in effect until the earlier of (A) the date on which
6 the Remarketing Agent determines a new Daily Interest Rate or (B) the seventh day succeeding
7 the first day on which the Daily Interest Rate was not determined by the Remarketing Agent. If
8 the Daily Interest Rate is held to be invalid or unenforceable by a court of law, or the
9 Remarketing Agent fails to determine the Daily Interest Rate for a period of seven days as
10 described in clause (B) of the preceding sentence, then the Daily Interest Rate, as determined by
11 the Remarketing Agent, shall be equal to 110% of the SIFMA Index, or if such index is no
12 longer available, 85% of the interest rate on 30-day high grade unsecured commercial paper
13 notes sold through dealers by major corporations as reported in *The Wall Street Journal* on the
14 Business Day such Daily Interest Rate would otherwise have been determined, until the Daily
15 Interest Rate is again validly determined by the Remarketing Agent.

16 (2) *Conversion to Daily Interest Rate.* Subject to Section 6, the
17 Designated Representative, on behalf of the City may, from time to time, by written notice to
18 the Credit Provider (if any), the Bond Registrar and the Remarketing Agent (if any), elect that
19 any series of the Bonds shall bear interest at a Daily Interest Rate. The notice of the Designated
20 Representative shall (A) specify the proposed Conversion Date, which shall be (i) in each case,
21 a Business Day not earlier than the 30th day following the second Business Day after receipt by
22 the Bond Registrar of such notice; (ii) in the case of a Conversion from a Long-Term Interest
23 Rate Period, the day following the last day of such Long-Term Interest Rate Period or a day on
24 which such series of the Bonds would otherwise be subject to optional redemption pursuant to
25 Section 7(a)(2) if such Conversion did not occur; and (iii) in the case of a Conversion from an
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1 Index Floating Rate Period, the day following the last day of such Index Floating Rate Period or
2 on or after a Par Call Date; and (B) state whether a Credit Facility is to be in effect on the
3 Conversion Date.

4 (3) *Notice of Conversion to Daily Interest Rate.* The Bond Registrar
5 shall give notice of a Conversion to a Daily Interest Rate Period to the Registered Owners of the
6 series of the Bonds to be converted not less than 30 days prior to the proposed Conversion Date.
7 Such notice shall state (A) that the interest rate will be converted to a Daily Interest Rate unless
8 the City rescinds its election to convert the interest rate to a Daily Interest Rate as provided in
9 Section 6(a); (B) the proposed Conversion Date; (C) that such series of the Bonds are subject to
10 mandatory tender for purchase on the proposed Conversion Date; (D) the Purchase Price;
11 (E) the place of delivery for purchase of such series of the Bonds; and (F) the information set
12 forth in Section 8(e).

13 (f) **Long-Term Interest Rate and Long-Term Interest Rate Period.**

14 (1) *Determination of Long-Term Interest Rate.* During each Long-
15 Term Interest Rate Period, any series of the Bonds in a Long-Term Interest Rate mode shall
16 bear interest at the Long-Term Interest Rate. The Long-Term Interest Rate for each Long-Term
17 Interest Period shall be determined by the Remarketing Agent on a Business Day no later than
18 the first day of such Long-Term Interest Rate Period.

19 The Long-Term Interest Rate shall be the rate of interest per annum determined by the
20 Remarketing Agent (based on an examination of tax-exempt obligations comparable, in the
21 judgment of the Remarketing Agent, to such series of the Bonds and known by the Remarketing
22 Agent to have been priced or traded under then-prevailing market conditions) to be the
23 minimum interest rate at which the Remarketing Agent will agree to purchase such series of the
24 Bonds on the effective date of that rate for resale at a price (without regard to accrued interest)
25 equal to the principal amount thereof.

1 (3) *Notice of Conversion to Long-Term Interest Rate.* The Bond
2 Registrar shall give notice of a Conversion to a Long-Term Interest Rate Period to the
3 Registered Owners of the series of the Bonds to be converted not less than 30 days prior to the
4 proposed Conversion Date. Such notice shall state (A) that the interest rate will be converted to,
5 or continue to be, the Long-Term Interest Rate unless (i) the City rescinds its election to convert
6 the interest rate to the Long-Term Interest Rate as provided in Section 6(a) or (ii) all of such
7 series of the Bonds is not remarketed on the proposed Conversion Date; (B) the proposed
8 Conversion Date; (C) the last day of the Long-Term Interest Rate Period; (D) that such series of
9 the Bonds is subject to mandatory tender for purchase on the proposed Conversion Date; (E) the
10 Purchase Price; (F) the place of delivery for purchase of such series of the Bonds; and (G) the
11 information set forth in Section 8(e).

12 **(g) Index Floating Rate Period.**

13 (1) *Initial Index Floating Rate Period.* The Index during the Initial
14 Index Floating Rate Period shall be the SIFMA Index. The Index Floating Rate Spread for the
15 Initial Index Floating Rate Period, which is to be specified in the Bond Purchase Contract, shall
16 be the spread determined by the Underwriter (based on an examination of tax-exempt
17 obligations comparable, in the judgment of the Underwriter, to such series of the Bonds and
18 known by the Underwriter to have been priced or traded under then-prevailing market
19 conditions) to be the minimum spread which, when added to the SIFMA Index, equals the
20 interest rate which, if borne by such series of the Bonds, would enable the Underwriter to sell all
21 of such series of the Bonds on the Issue Date at a price equal to the principal amount thereof.
22 Such Index Floating Rate shall be in effect for the period commencing on the Issue Date to but
23 excluding the first Interest Reset Date of the Initial Index Floating Rate Period. Thereafter, the
24 Index Floating Rate shall be determined by the Bond Registrar on each Interest Determination
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1 Date, and such Index Floating Rate shall be in effect for the period commencing on each
2 Interest Reset Date to but excluding the following Interest Reset Date.

3 (2) *Determination of Index Floating Rate.* During each Index
4 Floating Rate Period after the Initial Index Floating Rate Period, any series of the Bonds in an
5 Index Floating Rate mode shall bear interest at the Index Floating Rate, which shall be (A) if the
6 Index is One Month LIBOR, Three Month LIBOR or other index selected by the Designated
7 Representative that is to be multiplied by a percentage, the sum of (i) the product of the Index
8 multiplied by the Index Floating Rate Percentage plus (ii) the Index Floating Rate Spread, and
9 (B) if the Index is the SIFMA Index, the Adjusted SIFMA Rate. The Index Floating Rate
10 Spread to be in effect during each such Index Floating Rate Period shall be determined by the
11 Remarketing Agent after consultation with and approval by the Designated Representative on
12 the initial Interest Determination Date for such Index Floating Rate Period, and such Index
13 Floating Rate shall be in effect for the period commencing on the first day of such Index
14 Floating Rate Period to but excluding the first Interest Reset Date of such Index Floating Rate
15 Period. Thereafter, the Index Floating Rate shall be determined by the Bond Registrar on each
16 Interest Determination Date, and such Index Floating Rate shall be in effect for the period
17 commencing on each Interest Reset Date to but excluding the following Interest Reset Date.

18 Each Index Floating Rate Spread after the Initial Index Floating Rate Period shall be the
19 spread determined by the Remarketing Agent (based on an examination of tax-exempt
20 obligations comparable, in the judgment of the Remarketing Agent, to such series of the Bonds
21 and known by the Remarketing Agent to have been priced or traded under then-prevailing
22 market conditions) to be the minimum spread which, when added to the Index (multiplied, if
23 applicable, by the Index Floating Rate Percentage), equals the interest rate which, if borne by
24 such series of the Bonds, would enable the Remarketing Agent to sell all of such series of the

1 Bonds on the effective date of that rate at a price (without regard to accrued interest) equal to
2 the principal amount thereof.

3 If the Designated Representative selects an alternate index other than the One Month
4 LIBOR, Three Month LIBOR or SIFMA Index, a Favorable Opinion of Bond Counsel shall be
5 obtained and a certificate shall be prepared and sent to the Bond Registrar setting forth the
6 Index, the Index Floating Rate Spread, if any, and other appropriate terms.

7 (3) *Conversion to Index Floating Rate.*

8 (A) Subject to Section 6, the Designated Representative, on
9 behalf of the City may, from time to time, by written notice to the Credit Provider (if any), the
10 Bond Registrar and the Remarketing Agent (if any), elect that any series of the Bonds shall
11 bear, or continue to bear, interest at an Index Floating Rate. The notice of the Designated
12 Representative shall specify (i) the proposed Conversion Date, which shall be (a) in each case, a
13 Business Day not earlier than the 30th day following the second Business Day after receipt by
14 the Bond Registrar of such notice; (b) in the case of a Conversion from a Long-Term Interest
15 Rate Period, the day following the last day of such Long-Term Interest Rate Period or a day on
16 which such series of the Bonds would otherwise be subject to optional redemption pursuant to
17 Section 7(a)(2) if such Conversion did not occur; and (c) in the case of a Conversion from an
18 Index Floating Rate Period, the day following the last day of such Index Floating Rate Period or
19 on or after a Par Call Date; (ii) the Conversion Date on which the Index Floating Rate Period is
20 to end or, if applicable, that the Index Floating Rate Period is to end on the day prior to the
21 Maturity Date; (iii) the Index to be in effect and, if applicable, the Index Floating Rate
22 Percentage; and (iv) the Par Call Date for such Index Floating Rate Period. The Stepped Interest
23 Rate to be in effect shall be determined by the Remarketing Agent after consultation with and
24 approval by the Designated Representative on the initial Interest Determination Date for such
25 Index Floating Rate Period.

1 (B) If, by the second Business Day preceding the 29th day
2 prior to the last day of any Index Floating Rate Period, the Bond Registrar has not received
3 notice of the City's election that, during the succeeding Interest Rate Period, any series of the
4 Bonds then in an Index Floating Rate mode shall bear interest at the Weekly Interest Rate, the
5 Daily Interest Rate, the Long-Term Interest Rate or another Index Floating Rate, (i) the next
6 Interest Rate Period shall be an Index Floating Rate Period, (ii) the Index (and, if applicable, the
7 Index Floating Rate Percentage) for such Index Floating Rate Period shall remain the same and
8 (3) the term of such Index Floating Rate Period shall be the same as the preceding Index
9 Floating Rate Period (but which shall not extend beyond the day prior to the Maturity Date).

10 (4) *Notice of Conversion to Index Floating Rate Period.* The Bond
11 Registrar shall give notice of a Conversion to an Index Floating Rate Period to the Registered
12 Owners of the series of the Bonds to be converted not less than 30 days prior to the proposed
13 Conversion Date. Such notice shall state (A) that the interest rate will be converted to, or
14 continue to be, an Index Floating Rate, unless the City rescinds its election to convert the
15 interest rate to an Index Floating Rate as provided in Section 6(a); (B) the proposed Conversion
16 Date; (C) the Conversion Date on which the Index Floating Rate Period is to end or, if
17 applicable, that the Index Floating Rate Period is to end on the day prior to the Maturity Date;
18 (D) that such series of the Bonds are subject to mandatory tender for purchase on the proposed
19 Conversion Date; (E) the Purchase Price; (F) the place of delivery for purchase of such series of
20 the Bonds; and (G) the information set forth in Section 8(e).

21 **(h) Determinations of Remarketing Agent and Bond Registrar Binding.**

22 All percentages resulting from any calculation of any interest rate for any series of the Bonds
23 shall be truncated to the nearest one-thousandth of a percentage point, with five ten-thousandths
24 being rounded upward, and all dollar amounts rounded to the nearest cent, with one-half cent
25 being rounded upward. The Remarketing Agent and the Bond Registrar shall provide prompt
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1 notice of each determination of the interest rate for each series of the Bonds to the City, the
2 Credit Provider (if any), the Bond Registrar and the Remarketing Agent (if any). The Bond
3 Registrar shall provide notice of any such determination to each Registered Owner or Beneficial
4 Owner of any Bond upon request. Absent manifest error, each such determination shall be
5 conclusive and binding upon the City, the Credit Provider (if any), the Bond Registrar, the
6 Remarketing Agent (if any) and the Registered Owner of each Bond.

7 (i) **Maximum Interest Rate.** Notwithstanding any provision in this
8 resolution to the contrary, at no time shall any series of the Bonds bear interest at a rate higher
9 than the Maximum Interest Rate.

10 (j) **Delayed Remarketing Period.** If the Purchase Price of all of any series
11 of the Bonds bearing interest at an Index Floating Rate required to be purchased on a Purchase
12 Date cannot be paid, only a portion of such series of the Bonds in an amount equal to the funds
13 available to pay the full Purchase Price thereof will be purchased on such Purchase Date, and
14 the remainder of such series of the Bonds for which there are not sufficient available funds to
15 pay the full Purchase Price thereof will not be purchased, and a Delayed Remarketing Period
16 will commence on such date with respect only to such unsold portion of such series of the
17 Bonds. Those Bonds to be purchased shall be selected as provided in Section 8(c) of the Bond
18 Ordinance for partial redemption. During a Delayed Remarketing Period, the following will
19 apply to those Bonds that are subject to such Delayed Remarketing Period:

20 (1) All of the applicable Bonds will bear interest at the Stepped
21 Interest Rate;

22 (2) The Remarketing Agent will continue to be obligated to remarket
23 the applicable Bonds;

24 (3) The applicable Bonds will continue to be subject to optional
25 redemption by the City as described in Section 7(a);

1 (4) The Designated Representative on behalf of the City, by notice to
2 the Bond Registrar and the Remarketing Agent, may direct a Conversion of the applicable
3 Bonds as described in Section 6;

4 (5) Interest on the applicable Bonds shall continue to be due and
5 payable on each Interest Payment Date and also shall be payable on the last day of the Delayed
6 Remarketing Period; and

7 (6) If the applicable Bonds are successfully remarketed as described
8 in Section 11, the Registered Owners of the applicable Bonds will be obligated to tender their
9 Bonds to the Bond Registrar for purchase.

10 **Section 6. Conversion of Interest Rate Periods.**

11 (a) **Rescission of Election.** The Designated Representative may rescind any
12 election to effect a Conversion by delivering to the Credit Provider (if any), the Bond Registrar
13 and the Remarketing Agent (if any), on or prior to 10:00 a.m., New York time, on the second
14 Business Day preceding a proposed Conversion Date, a notice to the effect that the City elects
15 to rescind its election to effect such Conversion. If the City rescinds its election to effect a
16 Conversion of a series of the Bonds, then such series of the Bonds shall bear interest at a
17 Weekly Interest Rate commencing on the proposed Conversion Date or, (1) if a Daily Interest
18 Rate Period is in effect immediately prior to the proposed Conversion, such series of the Bonds
19 shall continue to bear interest at the Daily Interest Rate or (2) if an Index Floating Rate Period is
20 in effect immediately prior to the proposed Conversion, such series of the Bonds shall continue
21 to bear interest at the applicable Index Floating Rate. If notice of a Conversion has been mailed
22 to the Registered Owners of such series of the Bonds as provided in Section 5 and the City
23 rescinds its election to effect such Conversion, such series of the Bonds shall nevertheless be
24 subject to mandatory tender for purchase on the proposed Conversion Date.

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

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| Length of Long-Term Interest Rate Period (expressed in 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% |

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18 The above table may be amended prior to a Conversion to a Long-Term Interest Rate
19 Period upon delivery of a Favorable Opinion of Bond Counsel.

20 In the event that the Conversion Date for a series of the Bonds converted to a Long-
21 Term Interest Rate Period is other than a day which would be an Interest Payment Date during
22 such Long-Term Interest Rate Period, then the date on which such series of the Bonds are first
23 subject to redemption pursuant to the foregoing table (after the first day of such Long-Term
24 Interest Rate Period) shall be the first Interest Payment Date succeeding the date on which such
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1 series of the Bonds otherwise would be subject to redemption, and the redemption price shall be
2 adjusted on each anniversary of that Interest Payment Date as provided in such table.

3 **(b) Mandatory Sinking Fund Redemption.** Certain Bonds may be
4 designated as Term Bonds in the Bond Purchase Contract and, if not redeemed or purchased at
5 the City's option prior to maturity, such Bonds shall be redeemed, at a price equal to the
6 principal amount thereof to be redeemed plus accrued interest, on May 1 in the years and
7 Sinking Fund Requirements to be set forth in the Bond Purchase Contract.

8 **Section 8. Purchase of Bonds.**

9 **(a) Optional Tender for Purchase During Weekly Interest Rate Period.**
10 During any Weekly Interest Rate Period that any series of the Bonds is not registered in the
11 name of the Securities Depository, such Bonds shall be purchased in an Authorized
12 Denomination (provided that the amount of any such Bonds not to be purchased shall also be in
13 an Authorized Denomination) from their respective Registered Owner at the option of the
14 Registered Owner on any Business Day at the Purchase Price, from the sources specified in
15 Section 8(g), payable in immediately available funds, upon delivery to the Bond Registrar at its
16 designated office for delivery of Bonds and to the Remarketing Agent of an irrevocable written
17 notice which states the principal amount of such Bonds to be purchased and the Purchase Date,
18 which shall be a Business Day not prior to the seventh day after the date of the delivery of such
19 notice to the Bond Registrar and the Remarketing Agent. Any notice delivered to the Bond
20 Registrar or the Remarketing Agent after 4:00 p.m., New York time, shall be deemed to have
21 been received on the succeeding Business Day. Bonds to be so purchased must be delivered at
22 or prior to 10:00 a.m., New York time, on the Purchase Date to the Bond Registrar at its
23 designated office for delivery of Bonds accompanied by an instrument of transfer, in form
24 satisfactory to the Bond Registrar.

1 delivery of Bonds and to the Remarketing Agent by no later than 11:00 a.m., New York time,
2 on such Business Day, of an irrevocable written notice or an irrevocable telephonic notice,
3 promptly confirmed by telecopy or other writing, which states the principal amount of such
4 Bonds to be purchased and the Purchase Date. Any notice delivered to the Bond Registrar or the
5 Remarketing Agent after 11:00 a.m., New York time, shall be deemed to have been received on
6 the succeeding Business Day. Bonds to be so purchased must be delivered at or prior to 12:00
7 noon, New York time, on the Purchase Date to the Bond Registrar at its designated office for
8 delivery of Bonds accompanied by an instrument of transfer, in form satisfactory to the Bond
9 Registrar.

10 During any Daily Interest Rate Period that any series of the Bonds are registered in the
11 name of the Securities Depository, such Bonds shall be purchased in an Authorized
12 Denomination (provided that the amount of any such Bonds not to be purchased shall also be in
13 an Authorized Denomination) from the respective Registered Owner or Participant (subject to
14 confirmation by the Securities Depository to the Bond Registrar that the Participant has the
15 required ownership interest in the Bonds) at the option of the Registered Owner or Participant
16 on any Business Day at the Purchase Price, from the sources specified in Section 8(g), payable
17 in immediately available funds to the Registered Owner (and not to the Participant), upon
18 delivery to the Bond Registrar at its designated office for delivery of Bonds and to the
19 Remarketing Agent by no later than 11:00 a.m., New York time, on such Business Day, of an
20 irrevocable written notice or an irrevocable telephonic notice, promptly confirmed by telecopy
21 or other writing, which states the principal amount of such Bonds to be purchased and the
22 Purchase Date. Any notice delivered to the Bond Registrar or the Remarketing Agent after
23 11:00 a.m., New York time, shall be deemed to have been received on the succeeding Business
24 Day.

1 Payment of the Purchase Price of such Bonds shall be made by the Bond Registrar by
2 3:00 p.m., New York time, on the Purchase Date specified in such notice, or as soon as
3 practicable thereafter, upon the receipt by the Bond Registrar of the Purchase Price in the Bond
4 Purchase Fund as set forth in Section 12 on the Purchase Date.

5 (c) **Mandatory Tender for Purchase.** Each series of the Bonds shall be
6 subject to mandatory tender for purchase at the Purchase Price on the first day of each Interest
7 Rate Period, on each proposed Conversion Date for which notice has been given to the
8 Registered Owners and on or after each Par Call Date for which notice has been given to the
9 Registered Owners.

10 Payment of the Purchase Price of a series of the Bonds for which such notice has been
11 given shall be made by the Bond Registrar by 3:00 p.m., New York time, on the Purchase Date
12 specified in the notice of Conversion or call, or as soon as practicable thereafter, upon the
13 receipt by the Bond Registrar of the Purchase Price in the Bond Purchase Fund as set forth in
14 Section 12 on the Purchase Date. Bonds to be so purchased that are not registered in the name
15 of the Securities Depository must be delivered at or prior to 10:00 a.m., New York time, on the
16 Purchase Date to the Bond Registrar at its designated office for delivery of Bonds accompanied
17 by an instrument of transfer, in form satisfactory to the Bond Registrar.

18 (d) **Mandatory Tender for Purchase upon Termination, Replacement or**
19 **Expiration of the Credit Facility.** Each series of the Bonds shall be subject to mandatory
20 tender for purchase at the Purchase Price if at any time the Bond Registrar receives notice that
21 such series of the Bonds ceases to be subject to purchase pursuant to the Credit Facility then in
22 effect as a result of (1) the termination, replacement or expiration of such Credit Facility,
23 including termination at the option of the City in accordance with the terms of any
24 Reimbursement Agreement or upon an event of default under the Reimbursement Agreement or
25 (2) a Conversion. The Purchase Date shall be (1) the fifth Business Day preceding any such
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1 expiration or termination of such Credit Facility if no Alternate Credit Facility is to be delivered
2 to the Bond Registrar, (2) the date such Alternate Credit Facility is delivered to the Bond
3 Registrar or (3) the Conversion Date.

4 Payment of the Purchase Price of such Bonds shall be made by the Bond Registrar by
5 3:00 p.m., New York time, on the Purchase Date specified in the notice given pursuant to
6 Section 8(e), or as soon as practicable thereafter, upon the receipt by the Bond Registrar of the
7 Purchase Price in the Bond Purchase Fund as set forth in Section 12 on the Purchase Date.
8 Bonds to be so purchased that are not registered in the name of the Securities Depository must
9 be delivered at or prior to 10:00 a.m., New York time, on the Purchase Date to the Bond
10 Registrar at its designated office for delivery of Bonds accompanied by an instrument of
11 transfer, in form satisfactory to the Bond Registrar.

12 (e) **Notice of Mandatory Tender for Purchase.** In connection with any
13 mandatory tender for purchase of a series of the Bonds in accordance with Section 8(c) or 8(d),
14 the Bond Registrar shall give the notice required by this Section 8(e) (if applicable, as a part of
15 the notice given pursuant to Sections 5(d)(3), 5(e)(3), 5(f)(3) or 5(g)(4)). Such notice shall state
16 (1) in the case of a mandatory tender for purchase pursuant to Section 8(c), the type of Interest
17 Rate Period to which such series of the Bonds will be converted on the Purchase Date; (2) in the
18 case of a mandatory tender for purchase pursuant to Section 8(d), that the Credit Facility will
19 expire, terminate or be replaced and that after the Purchase Date, such series of the Bonds will
20 no longer be purchased pursuant to the Credit Facility then in effect and that the short-term
21 ratings applicable to such series of the Bonds may be reduced or withdrawn; (3) that if the
22 Purchase Price is provided to the Bond Registrar from remarketing or refunding proceeds,
23 proceeds of a draw on the Credit Facility or other funds made available by the City, such series
24 of the Bonds will be purchased on the Purchase Date; and (4) that in the case of Bonds that are
25 not registered in the name of the Securities Depository, the Purchase Price will be payable only
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1 upon surrender of such Bonds to the Bond Registrar at its designated office for delivery of
2 Bonds, accompanied by an instrument of transfer, in form satisfactory to the Bond Registrar,
3 executed in blank by the Registered Owner or its duly-authorized attorney, with such signature
4 guaranteed by a commercial bank, trust company or member firm of the New York Stock
5 Exchange, and that if the Registered Owner of any such Undelivered Bond does not surrender
6 that Bond to the Bond Registrar for purchase on the Purchase Date, then that Bond shall be
7 deemed to be an Undelivered Bond, no interest shall accrue on such Bond on and after the
8 Purchase Date and that the Registered Owner shall have no rights under the Bond Legislation
9 other than to receive payment of the Purchase Price.

10 **(f) Irrevocable Notice Deemed to be Tender of Bonds; Undelivered**
11 **Bonds.**

12 (1) The giving of notice by a Registered Owner of a Bond or
13 Participant as provided in Section 8(a) or 8(b) shall constitute the irrevocable tender for
14 purchase of each Bond with respect to which such notice is given regardless of whether that
15 Bond is delivered to the Bond Registrar for purchase on the applicable Purchase Date.

16 (2) If the Registered Owner of a Bond subject to mandatory tender for
17 purchase that is not registered in the name of the Securities Depository fails to deliver its Bond
18 to the Bond Registrar at the place and on the Purchase Date and by the time specified, or fails to
19 deliver its Bond properly endorsed, such Bond shall constitute an Undelivered Bond. If funds in
20 the amount of the Purchase Price of the Undelivered Bond are available for payment to the
21 Registered Owner thereof on the Purchase Date and at the time specified, then from and after
22 the Purchase Date and time of that required delivery (A) the Undelivered Bond shall be deemed
23 to be purchased and shall no longer be deemed to be outstanding under the Bond Legislation;
24 (B) interest shall no longer accrue on the Undelivered Bond; and (C) funds in the amount of the
25 Purchase Price of the Undelivered Bond shall be held uninvested and without liability for
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1 interest by the Bond Registrar for the benefit of the Registered Owner thereof, to be paid on
2 delivery (and proper endorsement) of the Undelivered Bond to the Bond Registrar at its
3 designated office for delivery of Bonds.

4 **(g) Source of Funds for Payment of Purchase Price.** The Purchase Price
5 of any Bonds to be purchased on any Purchase Date shall be made from the following sources
6 and in the following order of priority:

- 7 (1) proceeds of the remarketing of such Bonds;
- 8 (2) proceeds of refunding bonds issued by the City;
- 9 (3) proceeds of a draw on the Credit Facility; and
- 10 (4) other funds made available by the City.

11 **Section 9. Credit Facility; Bank Bonds.**

12 **(a) Draws on Credit Facility.** When a Credit Facility is in effect with
13 respect to any series of the Bonds, the Bond Registrar shall draw on the Credit Facility in
14 accordance with Section 12 and in accordance with the terms of the Credit Facility and the
15 provisions of the Reimbursement Agreement to the extent necessary to pay when due the
16 principal and Purchase Price of and interest on such series of the Bonds.

17 **(b) Acceptance by Bond Registrar.** If at any time there are delivered to the
18 Bond Registrar (1) a Credit Facility, (2) any required opinions and information, and (3) all
19 information required to give the notice of mandatory tender for purchase of a series of the
20 Bonds, then the Bond Registrar shall accept such Credit Facility and, after the date of the
21 mandatory tender for purchase established pursuant to Section 8(c) or 8(d), promptly surrender
22 any Credit Facility then in effect to the issuer thereof for cancellation in accordance with its
23 terms.

1 Each Remarketing Agent shall be a member of the Financial Industry Regulatory
2 Authority, Inc. (FINRA), having a combined capital stock, surplus and undivided profits of at
3 least \$50,000,000, and be authorized by law to perform all the duties imposed upon it by the
4 Bond Legislation and the Remarketing Agreement. Each Remarketing Agent shall be acceptable
5 to the Credit Provider (if any). A Remarketing Agent may at any time resign and be discharged
6 of the duties and obligations created by this Resolution by giving notice to the City, the Bond
7 Registrar and the Credit Provider (if any). Such resignation shall take effect on the 30th day
8 after the receipt by the City of the notice of resignation. A Remarketing Agent may be removed
9 at any time on 15 days prior written notice, by an instrument signed by the Designated
10 Representative, approved by the Credit Provider (if any), and delivered to the Remarketing
11 Agent, the Bond Registrar and the Credit Provider.

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

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

18 (b) **Notice of Purchase and Remarketing.** The Remarketing Agent shall
19 give notice, in no event later than 9:30 a.m., New York time, on the Purchase Date, by facsimile
20 transmission, telephone, telecopy, e-mail or similar electronic means promptly confirmed by a
21 written notice, to the Bond Registrar and the City on each date on which Bonds have been
22 purchased pursuant to Section 8, specifying the principal amount of such Bonds, if any,
23 remarketed, and if such Bonds are not registered in the name of the Securities Depository, a list
24 of the purchasers showing the names and denominations in which such Bonds are to be
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1 registered, and the addresses and social security or taxpayer identification numbers of such
2 purchasers.

3 **Section 12. Bond Purchase Fund.** There shall be created and established with and
4 maintained by the Bond Registrar a separate trust fund to be designated the “Bond Purchase
5 Fund.” The Bond Registrar shall further establish within the Bond Purchase Fund a separate
6 trust account to be designated the “Remarketing Account” and, if a Credit Facility is delivered
7 in connection with such Conversion, a separate trust account to be designated the “Credit
8 Facility Purchase Account.” Amounts contributed by the City to the Purchase Price as provided
9 in Section 8(g) shall be transferred from the Parity Bond Fund to the Bond Registrar and
10 deposited into the Bond Purchase Fund.

11 **(a) Remarketing Account.** Upon receipt of the proceeds of a remarketing
12 of Bonds on a Purchase Date, the Bond Registrar shall deposit such proceeds in the
13 Remarketing Account of the Bond Purchase Fund for application to the Purchase Price of such
14 Bonds.

15 **(b) Credit Facility Purchase Account.** Upon receipt from the Credit
16 Provider of the immediately available funds, the Bond Registrar shall deposit such money in the
17 Credit Facility Purchase Account of the Bond Purchase Fund for application to the Purchase
18 Price of such Bonds required to be purchased on a Purchase Date to the extent that the money
19 on deposit in the Remarketing Account of the Bond Purchase Fund is not sufficient. Any
20 amounts deposited in the Credit Facility Purchase Account and not needed on any Purchase
21 Date for the payment of the Purchase Price for any Bonds shall be immediately returned to the
22 Credit Provider. Any amounts in the Credit Facility Purchase Account shall be used only to
23 purchase such Bonds.

24 **Section 13. General Authorization.** The Mayor and the Director of Finance and
25 each of the other appropriate officers of the City are each authorized and directed to do
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1 everything as in their judgment may be necessary, appropriate or desirable in order to carry out
2 the terms and provisions of, and complete the transactions contemplated by, the Bond
3 Ordinance and this resolution.

4 **Section 14. Severability.** The provisions of this resolution are declared to be
5 separate and severable. If a court of competent jurisdiction, all appeals having been exhausted
6 or all appeal periods having run, finds any provision of this resolution to be invalid or
7 unenforceable as to any person or circumstance, such offending provision shall, if feasible, be
8 deemed to be modified to be within the limits of enforceability or validity. If the offending
9 provision cannot be so modified, it shall be null and void with respect to the particular person or
10 circumstance, and all other provisions of this resolution in all other respects, and the offending
11 provision with respect to all other persons and all other circumstances, shall remain valid and
12 enforceable.

13 **Section 15. Ratification of Prior Acts.** All acts taken pursuant to the authority of
14 this resolution but prior to its effective date are ratified, approved and confirmed.

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Section 16. Section Headings. Section headings in this resolution are used for convenience only and shall not constitute a substantive portion of this resolution.

ADOPTED by the City Council the 23rd day of June, 2015, and signed by me in open session in authentication of its adoption this 23rd day of June, 2015.

President of the City Council

Filed by me this ____ day of _____, 2015.

City Clerk

LIST OF EXHIBITS

Exhibit A – Form of Bond Purchase Contract

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APPENDIX C
FORM OF BOND COUNSEL OPINION

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[FORM OF BOND COUNSEL OPINION]
[Closing Date]

The City of Seattle, Washington

Re: The City of Seattle, Washington
Municipal Light and Power Revenue Bonds, 2015B (SIFMA Index)

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 124633 and Resolution 31593 (collectively, the “Bond Legislation”) to provide the funds to (i) finance certain capital improvements to the Light System, (ii) fund a portion of the reserve requirement, and (iii) pay the costs of issuance of the Bonds, all as set forth in the Bond Legislation.

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

The Bonds are special limited obligations of the City payable from and secured solely by the Gross Revenues 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 Gross Revenues have been pledged to make the required payments into the Parity Bond Fund and the Reserve Fund, which pledge constitutes a charge on the Gross Revenues 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 Gross Revenues 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 Legislation to comply with those requirements, but if the City fails to comply with those requirements, interest on the Bonds could become taxable retroactive to the date of issuance of the Bonds. We have not undertaken and do not undertake to monitor the City’s compliance with such requirements.

As of the date of initial delivery of the Bonds to the purchaser thereof and full payment therefor, it is our opinion that under existing law:

1. The City is a duly organized and legally existing first class city under the laws of the State of Washington;

2. The City has duly authorized and approved the Bond Legislation and the Bonds 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 Legislation and other ordinances and resolutions of the City relating thereto;

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

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

5. Assuming compliance by the City after the date of issuance of the Bonds with applicable requirements of the Code, the interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the alternative minimum tax applicable to individuals; however, while interest on the Bonds also is not an item of tax preference for purposes of the alternative minimum tax applicable to corporations, interest on the Bonds received by corporations is to be taken into account in the computation of adjusted current earnings for purposes of the alternative minimum tax applicable to corporations, interest on the Bonds received by certain S corporations may be subject to tax, and interest on the Bonds received by foreign corporations with United States branches may be subject to a foreign branch profits tax. We express no opinion regarding any other federal tax consequences of receipt of interest on the Bonds.

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

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

Respectfully submitted

APPENDIX D

2014 AUDITED FINANCIAL STATEMENTS OF THE DEPARTMENT

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

Enterprise Fund of The City of Seattle

*Financial Statements as of and for the
Years Ended December 31, 2014 and 2013,
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

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INDEPENDENT AUDITORS' REPORT

To the Energy Committee
The City of Seattle – City Light Department
Seattle, Washington

Report on the Financial Statements

We have audited the accompanying financial statements of The City of Seattle – City Light Department (the “Department”), an enterprise fund of The City of Seattle, Washington, as of and for the years ended December 31, 2014 and 2013, and the related notes to the financial statements, as listed in the table of contents.

Management’s Responsibility for the Financial Statements

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

Auditors’ Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors’ judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Department’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Department’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Department as of December 31, 2014 and 2013, and the changes in its financial position and its cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

To the Energy Committee
The City of Seattle – City Light Department

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Department and do not purport to, and do not present fairly the financial position of The City of Seattle, Washington, as of December 31, 2014 and 2013 and the changes in its financial position and its cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Debt Service Coverage, Interest Requirements and Principal Redemption on Long-term Debt, Statement of Long-term Debt, Power Costs and Statistics, Historical Energy Resources, and Customer Statistics, which are the responsibility of management, are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion or provide any assurance on it.

Baker Tilly Virchow Krause, LLP

Madison, Wisconsin
April 30, 2015

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2014 and 2013

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, 2014, and 2013. 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 415,000 customers in Seattle and certain surrounding communities. The Department also provides electrical energy to other City agencies at rates prescribed by City ordinances.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

Notes to the Financial Statements—The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2014 and 2013**

CONDENSED BALANCE SHEETS

| (\$ in millions) | December 31 | | |
|---|-------------------|-------------------|---------------------|
| | 2014 | 2013 | 2012 ^(a) |
| Assets: | | | |
| Utility plant—net | \$ 2,728.3 | \$ 2,541.1 | \$ 2,352.2 |
| Restricted assets | 298.4 | 227.0 | 275.7 |
| Current assets | 298.8 | 369.1 | 323.5 |
| Other assets | <u>319.7</u> | <u>301.0</u> | <u>278.9</u> |
| Total assets | 3,645.2 | 3,438.2 | 3,230.3 |
| Total deferred outflows of resources | <u>19.3</u> | <u>26.0</u> | <u>30.0</u> |
| Total assets and deferred outflows of resources | <u>3,664.5</u> | <u>3,464.2</u> | <u>3,260.3</u> |
| Liabilities: | | | |
| Long-term debt | 1,925.2 | 1,870.3 | 1,791.5 |
| Noncurrent liabilities | 67.3 | 78.1 | 74.8 |
| Current liabilities | 258.3 | 241.7 | 224.6 |
| Other liabilities | <u>26.7</u> | <u>19.2</u> | <u>15.4</u> |
| Total liabilities | <u>2,277.5</u> | <u>2,209.3</u> | <u>2,106.3</u> |
| Total deferred inflows of resources | <u>111.5</u> | <u>100.7</u> | <u>112.5</u> |
| Net position: | | | |
| Net investment in capital assets | 1,100.8 | 906.1 | 832.8 |
| Restricted: | | | |
| Rate stabilization account | 25.0 | 25.0 | 25.0 |
| Special deposits and other purposes | <u>-</u> | <u>(0.4)</u> | <u>0.7</u> |
| Total restricted | <u>25.0</u> | <u>24.6</u> | <u>25.7</u> |
| Unrestricted—net | <u>149.7</u> | <u>223.5</u> | <u>183.0</u> |
| Total net position | <u>1,275.5</u> | <u>1,154.2</u> | <u>1,041.5</u> |
| Total liabilities, deferred inflows, and net position | <u>\$ 3,664.5</u> | <u>\$ 3,464.2</u> | <u>\$ 3,260.3</u> |

(a) GASB No. 65, *Items Previously Reported as Assets and Liabilities*, was implemented effective January 2013. Accordingly, the 2012 balance sheet was restated to conform to the 2013 presentation. See Note 1 Operations and Summary of Significant Accounting Policies.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2014 and 2013

ASSETS

Utility Plant—Net

2014 Compared to 2013

Utility plant assets net of accumulated depreciation and amortization increased \$187.2 million to \$2,728.3 million in 2014. Utility plant assets were comprised of hydroelectric production plant \$763.6 million which increased \$2.4 million, transmission plant \$207.8 million which increased \$5.9 million, distribution plant \$2,194.2 million which increased \$107.8 million, general plant \$313.9 million which increased \$8.7 million, and intangible assets \$456.5 million which increased \$15.9 million. The net increase in utility plant assets were partially offset by a \$47.6 million increase in Accumulated depreciation and amortization to \$1,611.5 million.

The \$107.8 million increase in distribution plant is primarily due to \$58.4 million for underground system, \$14.2 million for overhead system, \$13.3 million for transformers, \$8.5 million for poles, \$8.0 million for streetlights and \$3.4 million for meters. In hydroelectric production, an increase of \$22.8 million was due to continued improvements for generation units at the Boundary project which are expected to be completed in 2015. The additions to hydroelectric production were offset by retirements, primarily related to generation unit improvements.

Other components of utility plant include Construction work-in-progress \$251.0 million which increased \$86.9 million, Nonoperating property \$10.5 million which increased \$1.8 million, Assets held for future use \$71.8 million which increased \$3.1 million, and Land and land rights \$70.5 million, which increased \$2.3 million. The \$86.9 million increase in Construction work-in-progress is primarily due to \$13.1 million for the new customer billing system, \$12.7 million for Boundary generation, \$11.8 million for Denny Substation, and \$49.3 million increases in various other projects, predominantly in distribution.

More information on the Department's capital assets can be found in Note 2 Utility Plant of the accompanying financial statements.

2013 Compared to 2012

Utility plant assets net of accumulated depreciation and amortization increased \$188.9 million to \$2,541.1 million in 2013. Utility plant assets were comprised of hydroelectric production plant \$761.2 million which increased \$46.5 million, transmission plant \$201.8 million which increased \$12.0 million, distribution plant \$2,086.5 million which increased \$119.5 million, general plant \$305.2 million which decreased \$5.2 million, and intangible assets \$440.6 million which increased \$29.0 million. The net increase in utility plant assets were partially offset by a \$52.7 million increase in Accumulated depreciation and amortization.

The \$119.5 million increase in distribution plant is primarily due to \$62.1 million for underground system, \$14.1 million for overhead system, \$13.2 million for transformers, \$11.5 million for poles, \$8.6 million for streetlights and \$6.3 million for substations. In hydroelectric production, an increase of \$36.6 million was due to improvements to one of the generation units at the Boundary project; further improvements to additional units are ongoing and expected to continue through 2015.

Other components of utility plant include Construction work-in-progress \$164.1 million which increased \$31.7 million, Assets held for future use \$68.7 million which increased \$3.1 million, Nonoperating property

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2014 and 2013

\$8.7 million which increased \$1.8 million, and Land and land rights \$68.2 million, which increased \$3.1 million. The \$31.7 million increase in Construction work-in-progress is primarily due to \$12.7 million for Boundary generation, \$9.1 million for Denny Substation, and \$7.1 million for Alaskan Way Viaduct. The \$3.1 million increase in Assets held for future use included the addition of \$11.3 million for preparation of the future Denny Substation site. This increase was partially offset by the write-off of previous costs for the Gorge second tunnel project and other assets which totaled \$9.0 million.

Restricted Assets

2014 Compared to 2013

Restricted assets consisting primarily of restricted cash increased by \$71.4 million to \$298.4 million.

Construction funds increased by \$65.3 million to \$123.8 million, due to unspent proceeds from the 2014 bonds issued in early November designated to fund a portion of the ongoing capital improvement program.

The Rate Stabilization Account (RSA) increased by a net \$4.4 million to a balance of \$114.4 million as a result of operating cash transferred to the RSA during the year because net wholesale revenues were greater than budgeted. See Note 3 Rate Stabilization Account in the accompanying financial statements.

Bond reserve account deposits increased \$1.1 million to \$47.9 million from bond proceeds and interest earnings, and other restricted assets increased by \$0.6 million to \$12.3 million.

2013 Compared to 2012

Restricted assets consisting primarily of restricted cash decreased by \$48.7 million to \$227.0 million.

Construction funds decreased by \$47.5 million to \$58.5 million, as bond proceeds from the 2012 and 2013 bond issues were used to fund the ongoing capital improvement program. The ending balance of construction funds were from the 2013 bond issue.

In 2013, the Rate Stabilization Account (RSA) decreased by a net \$18.3 million to a balance of \$110.0 million. \$40.0 million was transferred to operating cash from the RSA during the year to supplement lower than actual net wholesale revenues. In December 2013, operating cash in the amount of \$21.0 million was transferred to the RSA in accordance with Ordinance No. 124426. The balance of \$0.7 million transferred to the RSA was for interest earnings.

Bond reserve account deposits increased during the year by \$12.6 million to \$46.8 million; \$10.0 million from operating cash and the balance of \$2.6 million from 2013 bond proceeds and interest earnings. Other restricted accounts increase of \$4.5 million to \$11.7 million was due to an increase in the debt service account of \$4.2 million and \$0.3 million other.

Current Assets

2014 Compared to 2013

Current assets decreased by \$70.3 million to \$298.8 million at the end of 2014.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2014 and 2013

Operating cash decreased by \$65.5 million to \$128.3 million at the end of the year. Increased inflows to cash resulted from a 5.6% system average rate increase effective at the beginning of the year, Bonneville Power Administration (Bonneville) 1.2% pass-through rate adjustment, higher net wholesale energy sales, and reimbursement from the Construction account for certain capital expenditures. The higher cash inflows were offset by greater debt service payments, capital construction projects, ongoing operations, and transfers to the RSA.

Accounts receivable, net, increased by \$10.6 million to \$74.6 million. Wholesale power receivables increased by \$5.9 million as a result of higher surplus sales during December. Other net receivables increased by \$4.7 million including the recovery of costs expended on distribution system assets subject to co-ownership. The ongoing trend of improved collection efforts and revised allowance methodology for large service connection billings led to a lower allowance for bad debt for both retail and sundry sales receivables.

Unbilled revenues decreased by \$14.2 million to \$64.6 million due to lower retail customer loads compared to 2013.

Materials and supplies inventory increased \$1.2 million to \$30.8 million for ongoing operations.

2013 Compared to 2012

Current assets increased by \$45.6 million to \$369.1 million at the end of 2013.

Operating cash increased by \$37.5 million to \$193.8 million at the end of the year. Operating cash was higher in large part due to the 4.4% system average rate increase effective at the beginning of the year and the Bonneville Power Administration (Bonneville) 1.2% pass-through rate adjustment effective in October, and transfers from the RSA, offset by lower net wholesale energy sales, debt service payments, and transfer to the bond reserve account.

Accounts receivable, net, decreased by \$2.4 million to \$64.0 million. Wholesale power receivables decreased by \$6.6 million as a result of lower surplus sales. Decreases totaling \$2.3 million were also experienced in the reserve for uncollectible accounts, as improved collection efforts continued, along with decreases in other sundry receivables. These were offset by higher retail electric billings of \$2.9 million, due in part to the aforementioned rate increases, and construction billings of \$3.6 million.

Unbilled revenues increased by \$7.8 million to \$78.8 million, generally the result of 2013 rate increases. Inventory for materials and supplies increased by \$2.9 million to \$32.0 million and other current assets decreased by \$0.2 million to \$0.5 million.

Other Assets

2014 Compared to 2013

Other assets increased by \$18.7 million to \$319.7 million. Conservation costs, net, increased by \$13.8 million. The regulatory asset for environmental cleanup costs increased by \$2.8 million, mostly associated with cleanup of the Lower Duwamish Waterway Superfund Site. These environmental costs are being recovered through rates over a 25 year period. Other assets increased net \$2.1 million. Additional detail for Other assets is provided in Note 6 Other Assets 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, 2014 and 2013

2013 Compared to 2012

Other assets increased by \$22.1 million to \$301.0 million. Conservation costs, net, increased by \$13.2 million for ongoing focus on consumer conservation measures. The regulatory asset for environmental cleanup costs increased by \$8.2 million and was largely associated with cleanup of the Lower Duwamish Waterway Superfund Site. Other charges within Other assets increased net \$0.7 million.

Deferred Outflows of Resources

Deferred outflows of resources are specifically for Charges on advance refunding of prior lien bonds in recent years. In 2014, Charges on advance refunding decreased by \$6.7 million for a total of \$19.3 million. Charges on advance refunding decreased a net \$4.0 million to \$26.0 million in 2013 from 2012. Net activity is the result of additions due to new refunding bond issues and decreases due to amortization of costs.

LIABILITIES

Long-Term Debt

2014 Compared to 2013

Long-term debt increased a net \$54.9 million to \$1,925.2 million in 2014. In November, the Department issued \$265.2 million of revenue and refunding revenue tax-exempt bonds to fund the ongoing capital improvement program and to advance refund \$125.4 million of higher interest rate 2004 series bonds.

Debt to capitalization ratio was 59.9% at the end of 2014, a decrease from the 61.7% ratio of 2013 and continuing the favorable trend in recent years.

Net revenues available to pay debt service were equal to 1.85 times principal and interest on all bonds for 2014.

Note 7 Long-Term Debt of the accompanying financial statements provides additional information on the Department's long-term debt.

2013 Compared to 2012

Long-term debt increased a net \$78.8 million to \$1,870.3 million in 2013. In July 2013, the Department issued a total of \$190.8 million of revenue and refunding revenue tax-exempt bonds to fund the ongoing capital improvement program and to advance refund certain higher interest bearing prior lien revenue bonds.

Debt to capitalization ratio was 61.7% at the end of 2013, a decrease from the 62.8% ratio of 2012.

Net revenues available to pay debt service were equal to 1.85 times principal and interest on all bonds for 2013.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2014 and 2013

Noncurrent Liabilities

2014 Compared to 2013

Total non-current liabilities decreased by \$10.8 million to \$67.3 million at the end of 2014.

Non-current environmental liabilities decreased by \$12.2 million to \$34.0 million. Environmental liabilities are primarily attributable to the estimated cost of remediating contaminated sediments in the lower Duwamish Waterway, a designated federal Superfund site. The Department is considered a potentially responsible party for contamination in the Duwamish River due to land ownership or use of property located along the river. During 2015, work will focus on clean-up on two sites; Terminal 117 and Cedar Falls Bridge remediation. Accordingly, a large amount of the non-current liability was reclassified to current.

The balance net decrease of \$1.2 million to \$24.4 million was negligible representing risk management liabilities, compensated absences, and other.

More information on environmental liabilities is found in Note 11 Environmental Liabilities and for other Noncurrent liabilities, primarily for risk management liabilities, in Note 8 Provision for Injuries and Damages of the accompanying financial statements.

2013 Compared to 2012

Total non-current liabilities increased by \$3.3 million to \$78.1 million at the end of 2013.

Non-current environmental liabilities increased by \$1.0 million to \$46.2 million for estimated updates to the Duwamish Waterway superfund site. Other non-current liabilities increased incrementally by \$2.1 million for a total of \$23.4 million at the end of 2013.

Current Liabilities

2014 Compared to 2013

Current liabilities increased by \$16.6 million for a total of \$258.3 million at the end of the year.

Of the net increase, \$9.6 million was the result of higher environmental liabilities for ongoing clean-up of the Duwamish Waterway superfund site, with the net balance increase primarily for higher debt service from recent bond issues, and vouchers payable for ongoing operations.

2013 Compared to 2012

Current liabilities increased by \$17.1 million for a total of \$241.7 million at the end of 2013.

Of the net increase, \$10.5 million was the result of higher debt service and the net balance increase was for vouchers payable for ongoing operations.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2014 and 2013

Other Liabilities

2014 Compared to 2013

Other liabilities increased by \$7.5 million to \$26.7 million in 2014. The major increase was for customer prepayments in the amount of \$6.6 million for large service connections.

2013 Compared to 2012

Other liabilities increased by \$3.8 million to \$19.2 million in 2013. The major increase was for customer prepayments in the amount of \$3.4 million for large service connections.

Deferred Inflows of Resources

2014 Compared to 2013

Deferred inflows of resources increased by \$10.8 million for a total of \$111.5 million at the end of 2014.

The significant activity occurring since 2010 has been principally the result of implementing, funding, and related activity of the RSA. Funding of the RSA from operating cash has the corresponding effect of deferring operating revenues in the rate stabilization unearned revenue account and vice versa. During 2014, \$4.4 million net was transferred to the rate stabilization unearned revenue account from operating revenues as a result of higher actual net wholesale revenues than budget. The ending balance of the rate stabilization unearned revenue account was \$89.4 million. See Note 3 Rate Stabilization Account in the accompanying financial statements for more information on the RSA.

Other deferred inflows of resources increased by \$6.4 million to \$22.1 million. The increase was mostly due to payments received from Bonneville in accordance with the Department's Energy Conservation Agreement, net of earned revenue totaling \$6.0 million. The net balance was due to a higher Bonneville Slice true-up credit and exchange energy regulatory gains.

2013 Compared to 2012

Deferred inflows of resources decreased by \$11.8 million for a totaled of \$100.7 million at the end of the year.

Net transfer of \$18.3 million was made from the rate stabilization unearned revenue account to operating revenues to supplement lower than budgeted net wholesale revenues. Ending balance of the rate stabilization unearned revenue account was \$85.0 million.

Other deferred inflows of resources increased by \$6.5 million to \$15.7 million. Energy Conservation Agreement payments received were higher by \$3.1 million and Bonneville's Slice true-up credit increased by \$2.7 million compared to 2012. The balance was the result of exchange energy regulatory gains.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2014 and 2013

RESULTS OF OPERATIONS

Condensed Statements of Revenues, Expenses, and Changes in Net Position

| (\$ in millions) | Year Ended December 31 | | |
|--|------------------------|-----------------|---------------------|
| | 2014 | 2013 | 2012 ^(a) |
| Operating revenues | \$ 886.4 | \$ 842.2 | \$ 800.3 |
| Nonoperating revenues | 18.5 | 11.1 | 12.7 |
| Total revenues | <u>904.9</u> | <u>853.3</u> | <u>813.0</u> |
| Operating expenses | 734.1 | 711.0 | 662.0 |
| Nonoperating expenses | 77.9 | 79.3 | 78.8 |
| Total expenses | <u>812.0</u> | <u>790.3</u> | <u>740.8</u> |
| Income before capital contributions and grants | <u>92.9</u> | <u>63.0</u> | <u>72.2</u> |
| Capital contributions | 27.7 | 47.9 | 31.0 |
| Capital grants | 0.7 | 1.8 | 0.8 |
| Total capital contributions and grants | <u>28.4</u> | <u>49.7</u> | <u>31.8</u> |
| Change in net position | <u>\$ 121.3</u> | <u>\$ 112.7</u> | <u>\$ 104.0</u> |

(a) GASB No. 65, *Items Previously Reported as Assets and Liabilities*, was implemented effective January 2013. Accordingly, the 2012 Statement of Revenues, Expenses, and Changes in Net Position was restated to conform to the 2013 presentation. See Note 1 Operations and Summary of Significant Accounting Policies.

SUMMARY

2014 Compared to 2013

Change in net position for 2014 was \$121.3 million, an increase of \$8.6 million or 7.6% from 2013 change in net position of \$112.7 million. Higher retail electric sales, net wholesale energy sales, and investment earnings were offset in part by higher power related expenses, conservation, administrative and general, taxes, and depreciation. Lower transfers from/(to) RSA and capital contributions also decreased revenues.

2013 Compared to 2012

Change in net position for 2013 was \$112.7 million, an increase of \$8.7 million or 8.4% from 2012 restated change in net position of \$104.0 million. Higher retail power sales, RSA unearned revenue transferred-in, power related revenues, and capital contributions added to the positive change in net position. These were partially offset by higher expenses for generation, customer service, administrative and general, taxes, depreciation, interest, and lower investment earnings. The net impact of adopting GASB No. 65 was \$1.6 million reduction in Change in net position for 2012.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2014 and 2013

REVENUES

2014 Compared to 2013

Total operating revenues were \$886.4 million, an increase of \$44.2 million or 5.3% from 2013. Retail power revenues at \$720.8 million increased \$23.1 million, Wholesale power revenues at \$96.8 million increased \$33.8 million, Other power revenues at \$50.8 million increased \$10.4 million, Transfers from/(to) RSA at (\$4.4) million decreased \$22.7 million, and Other operating revenues at \$22.4 million decreased \$0.4 million. Retail power revenues were higher as a result of the 5.6% across-the-board rate increase effective January 1, 2014 and the 1.2% Bonneville pass-through rate adjustment effective in October 2013. Actual net wholesale power revenues were higher than budgeted and therefore, \$4.4 million net was transferred to the RSA unearned revenue account. In 2013, \$18.3 million net was transferred-in from the RSA unearned revenue account to supplement lower net wholesale energy revenues than budget. The net effect of transactions in the Transfers from/(to) RSA between years was a reduction of \$22.7 million in operating revenues.

Net wholesale energy revenues were \$81.9 million, an increase of \$38.7 million or 89.6% from net wholesale energy revenues of \$43.2 million in 2013. On an annual basis, the Department expects to be a net seller in the wholesale energy market. During 2014, higher surplus energy that was available for sale due to a strong water year along with higher wholesale power prices contributed to the improved net wholesale energy revenues. Other power revenues were higher by a net \$6.8 million from 2013 generally on the basis of higher valuation of net power exchange revenues and the higher wholesale power prices.

2013 Compared to 2012

Total operating revenues were \$842.2 million, an increase of \$41.9 million or 5.2% from 2012. Retail power revenues at \$697.7 million increased \$33.4 million, Wholesale power revenues at \$63.0 million decreased \$7.4 million, Other power revenues at \$40.4 million increased \$11.1 million, Transfers from/(to) RSA at \$18.3 million increased \$5.1 million, and Other operating revenues at \$22.8 million decreased \$0.3 million. Retail power revenues were higher as a result of the 4.4% across-the-board rate increase effective January 1, 2013 and the 1.2% Bonneville pass-through rate adjustment effective in October 2013. Operating revenues were supplemented by Transfers from/(to) Rate Stabilization Account in accordance with Ordinance No. 123260. A net \$18.3 million of RSA unearned revenue was transferred-in to supplement lower than budget net wholesale revenues. This was inclusive of \$21.0 million transferred to unearned revenue in December 2013 corresponding to the operating cash transferred to the RSA in excess of the estimated amount needed to achieve in excess of 1.80x debt service coverage in accordance with Ordinance No. 124426. The Department is required to set rates designed to achieve debt service coverage of 1.80x.

Net wholesale energy revenues were \$43.2 million, a decrease of \$15.4 million or 26.3% from net wholesale energy revenues of \$58.6 million in 2012. During 2013, lower surplus energy available for sale, despite an increase in wholesale power prices, was a factor in the continued declining trend in recent years of lower net wholesale energy revenues. Other power revenues were higher by a net \$4.8 million from 2012 predominantly the result of higher valuation of net power exchange revenues because of the higher wholesale power prices.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2014 and 2013

EXPENSES

2014 Compared to 2013

Operating expenses totaled \$734.1 million, an increase of \$23.1 million or 3.3% from \$711.0 million in 2013.

Power-related operating expenses at \$347.9 million were higher by \$10.5 million or 3.1%. These expenses were comprised of Bonneville purchased power of \$155.6 million, which increased \$5.5 million, Short-term wholesale power purchases of \$14.9 million, which decreased \$4.9 million, power-related wholesale purchases of \$17.7 million, which increased \$3.6 million, and other power-related expenses, including Transmission and Generation of \$159.7 million, which increased \$6.3 million.

Bonneville purchased power costs increased \$5.5 million generally due to increased power rates effective October 2013 plus a higher block load shaping rate. The net increase of \$6.3 million power-related expenses was the result of higher Bonneville transmission costs of \$4.6 million and higher power exchange transactions netting to \$5.7 million on higher volumes and power prices.

Non-power operating expenses increased by \$8.4 million to \$200.4 million or 4.4% from \$192.0 million in 2013. These expenses included Distribution expenses of \$59.7 million, unchanged, Customer service of \$37.6 million, which decreased \$1.6 million, Conservation of \$27.3 million, which increased \$5.8 million, and Administrative and general, net, of \$75.8 million which increased \$4.1 million.

Customer service expenses were higher due to increased temporary labor for low income outreach and meter reading, and customer contract expenses due to increased service connections, offset by lower bad debt expense. Conservation expenses increased because of higher amortization for commercial and residential programs, and higher customer renewable solar energy credits. Administrative and general, net, were higher because of general office salaries due to a lower vacancy rate along with higher professional service fees.

Taxes at \$80.0 million increased \$0.7 million due to higher revenues and included the effect of \$2.8 million of conservation incentive tax credits. Depreciation and amortization at \$105.8 million increased by \$3.5 million as a result of additional plant assets placed in service.

2013 Compared to 2012

Operating expenses totaled \$711.0 million, an increase of \$49.0 million or 7.4% from \$662.0 million in 2012.

Power-related expenses at \$337.4 million were higher by \$24.1 million or 7.7%. These expenses entailed Bonneville purchased power of \$150.1 million, which increased \$0.8 million, Short-term wholesale power purchases of \$19.8 million, which increased \$8.0 million, power-related wholesale purchases of \$14.1 million, which increased \$6.3 million, and other power-related expenses, including Transmission and Generation of \$153.4 million, which increased \$9.0 million.

Although MWhs purchased for Short-term wholesale power purchases were lower compared to 2012, the higher wholesale power prices during 2013 added to the higher expenses. Increased transactions for power exchanges along with the higher wholesale power prices accounted for the increased power-related wholesale purchases. The write-off for Gorge second tunnel costs of \$6.6 million plus higher FERC fees of \$3.0 million, offset by operation costs, encompassed the \$9.0 million variance for other power-related expenses. Bonneville purchased power and transmission expenses were not significantly different from 2012.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2014 and 2013

Non-power operating expenses increased by \$13.0 million to \$192.0 million or 7.3% from \$179.0 million in 2012. These expenses included Distribution expenses of \$59.5 million, which decreased \$1.3 million, Customer service of \$39.2 million, which increased \$7.9 million, Conservation of \$21.5 million, which increased \$0.8 million, and Administrative and general, net, of \$71.7 million which increased \$5.6 million.

Customer service expense was higher primarily due to higher billing and collection expenses, billing system operating expenses, and bad debt expense. The comparative bad debt expense for 2012 was lower as a result of lower receivables in part due to improved collections. Administrative and general, net, are higher because of higher salaries for COLA adjustments, new positions, and higher pension and benefits expenses.

Taxes at \$79.3 million increased \$4.4 million due to higher revenues. Depreciation and amortization at \$102.3 million increased by \$7.5 million as a result of additional plant assets placed in service.

NONOPERATING REVENUES AND (EXPENSES), CAPITAL CONTRIBUTIONS AND GRANTS

2014 Compared to 2013

Nonoperating revenues increased by \$7.4 million to \$18.5 million in 2014. The major contributor was a substantial gain in investment income of \$7.1 million due to the favorable swing between years in unrealized fair value gains for the Department's share of investments in the city cash pool.

Nonoperating expense was slightly lower by \$1.4 million to \$77.9 million. Higher interest charged to construction projects of \$1.9 million was the main component as there was increased focus on capital work during the year.

Capital contributions and grants decreased by \$21.3 million to \$28.4 million in 2014. Capital contributions were lower by \$20.2 primarily due to lower in-kind contributions totaling \$21.8 million. The decrease of in-kind amounts from 2013 was primarily for the Mercer East corridor project and other private construction.

2013 Compared to 2012

Nonoperating revenues decreased by \$1.6 million to \$11.1 million in 2013. Investment income was lower by \$4.4 million largely due to unrealized losses for the Department's share of fair value adjustments from investments in the city cash pool. This was offset by higher sales for several surplus real estate properties of \$2.2 million, and \$0.8 million of higher noncapital grants and other revenues.

Nonoperating expense was slightly higher by \$0.5 million to \$79.3 million. Higher interest expense on prior lien bonds was offset by lower costs of issuance, amortization of refunding loss, and higher bond premium amortization.

Capital contributions and grants increased by \$17.9 million to \$49.7 million in 2013. Capital contributions were higher by \$16.9 primarily due to higher in-kind contributions totaling \$21.8 million, including \$13.3 million of underground assets contributed by the Seattle Department of Transportation for the Mercer East corridor project and other construction projects. These were offset by \$8.9 million of lower underground electrical infrastructure improvements for the cities of Shoreline and Burien compared to 2012. Capital grants increased by \$1.0 million to \$1.8 million in 2013 mainly for work related to the Sound Transit Northlink project in progress.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2014 and 2013

RISK MANAGEMENT

The Department began implementing an Enterprise-wide Risk Management (ERM) process in 2008 to establish a full spectrum approach to risk management that links important decision making functions through a standardized process of identifying, assessing, monitoring, and mitigating risks across all Business Units and Divisions of the Department.

Risk Oversight Council (ROC) oversees wholesale power marketing activities. It is comprised of the Chief Financial Officer (Chair), Power Supply & Environmental Affairs Officer, Director of Risk Oversight, Director of Power Operations and Marketing (non-voting), Director of Power Contracts & Resource Acquisition (non-voting), and Manager of Financial Planning (non-voting). The ROC guides the continuous improvement of energy risk management activities and capabilities, approves hedging strategies, hedging plans, and approves changes to relevant operating procedures.

The Risk Oversight Division, in addition to the ERM, manages the market and credit risk related to all wholesale marketing activities, and carries out the middle office functions of the Department. This includes confirmations, risk controls, independent reporting of market positions, counterparty credit risk, settlements, and ensuring adherence to Wholesale Energy Risk Management (WERM) policy and procedures.

Hydro Risk

Due to the Department's primary reliance on hydroelectric generation, weather can significantly affect its operations. Hydroelectric generation depends on the amount of snow-pack in the mountains upstream of the Department's hydroelectric facilities, springtime snow-melt, run-off and rainfall. Hydroelectric operations are also influenced by flood control and environmental matters, including protection of fish. In low-water years, the Department's generation is reduced and the use of wholesale purchased power may increase in order to meet load. Normally, the Department experiences electricity usage peaks in winter; however, extreme weather conditions affecting either heating or cooling needs could cause the Department's seasonal fluctuations to be more pronounced and increase costs. In addition, economic trends (increase or decrease in business activity, housing sales and development of properties) can affect demand and change or increase costs.

Energy Market Risk

For the Department, energy market risk is the risk of adverse fluctuations in the price of wholesale electricity, which is compounded by volumetric changes affecting the availability of, or demand for electricity. Factors that contribute to energy market risk include: regional planned and unplanned generation plant outages, transmission constraints or disruptions, the number of active creditworthy market participants willing to transact, and environmental regulations that influence the availability of generation resources.

The Department's exposure to hydro volumetric and energy market risk is managed by the ROC and the approved strategies are executed by the Power Operations and Marketing Division. The Department engages in market transactions to meet its load obligations and to realize earnings from surplus energy resources.

With a significant portion of the Department's revenue expected from wholesale energy market sales, great emphasis is placed on the management of risks associated with this activity. Policies, procedures, and processes designed to manage, control and monitor these risks are in place. A formal front, middle, and back office structure is in place to ensure proper segregation of duties.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2014 and 2013

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 counterparties 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 is actively reducing 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 on a daily basis. Despite such efforts, there is potential for default, however the Department has not had a counterparty default in the last 10 years. The Department transacts with counterparties on an uncollateralized and collateralized basis. Posted collateral may be in the form of cash, letters of credit, or parental guarantees.

REQUESTS FOR INFORMATION

For more information about Seattle City Light, contact Marketing and Communications at 206-684-3090 or at P.O. Box 34023, Seattle, WA 98124-4023.

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THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

BALANCE SHEETS - ASSETS AND DEFERRED OUTFLOWS OF RESOURCES AS OF DECEMBER 31, 2014 AND 2013

| <i>(\$ in millions)</i> | 2014 | 2013 |
|--|-------------------|-------------------|
| ASSETS | | |
| UTILITY PLANT—At original cost: | | |
| Plant-in-service—excluding land | \$ 3,936.0 | \$ 3,795.3 |
| Less accumulated depreciation and amortization | <u>(1,611.5)</u> | <u>(1,563.9)</u> |
| Total plant-in-service—net | 2,324.5 | 2,231.4 |
| Construction work-in-progress | 251.0 | 164.1 |
| Nonoperating property—net of accumulated depreciation | 10.5 | 8.7 |
| Assets held for future use | 71.8 | 68.7 |
| Land and land rights | <u>70.5</u> | <u>68.2</u> |
| Total utility plant—net | <u>2,728.3</u> | <u>2,541.1</u> |
| RESTRICTED ASSETS: | | |
| Rate Stabilization Account | 114.4 | 110.0 |
| Municipal light and power bond reserve account | 47.9 | 46.8 |
| Construction—Cash and equity in pooled investments | 123.8 | 58.5 |
| Special deposits and other restricted assets | <u>12.3</u> | <u>11.7</u> |
| Total restricted assets | <u>298.4</u> | <u>227.0</u> |
| CURRENT ASSETS: | | |
| Cash and equity in pooled investments | 128.3 | 193.8 |
| Accounts receivable (includes \$1.6 and \$2.8 at fair value), net of allowance of \$7.7 and \$9.4 | 73.1 | 63.2 |
| Interfund receivable | 1.5 | 0.8 |
| Unbilled revenues | 64.6 | 78.8 |
| Materials and supplies at average cost | 30.8 | 32.0 |
| Prepayments, interest receivable, and other current assets | <u>0.5</u> | <u>0.5</u> |
| Total current assets | <u>298.8</u> | <u>369.1</u> |
| OTHER ASSETS: | | |
| Conservation costs—net | 228.1 | 214.3 |
| Environmental costs—net | 34.5 | 31.7 |
| Other charges and assets—net | <u>57.1</u> | <u>55.0</u> |
| Total other assets | <u>319.7</u> | <u>301.0</u> |
| TOTAL ASSETS | <u>3,645.2</u> | <u>3,438.2</u> |
| DEFERRED OUTFLOWS OF RESOURCES—Charges on advance refunding | <u>19.3</u> | <u>26.0</u> |
| TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES | <u>\$ 3,664.5</u> | <u>\$ 3,464.2</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, 2014 AND 2013

| <i>(\$ in millions)</i> | 2014 | 2013 |
|--|-------------------|-------------------|
| LIABILITIES | | |
| LONG-TERM DEBT: | | |
| Revenue bonds | \$ 1,903.8 | \$ 1,863.3 |
| Plus bond premium—net | 126.3 | 106.7 |
| Less revenue bonds—current portion | <u>(104.9)</u> | <u>(99.7)</u> |
| Total long-term debt | <u>1,925.2</u> | <u>1,870.3</u> |
| NONCURRENT LIABILITIES: | | |
| Accumulated provision for injuries and damages | 42.9 | 54.9 |
| Compensated absences | 16.7 | 15.5 |
| Other noncurrent liabilities | <u>7.7</u> | <u>7.7</u> |
| Total noncurrent liabilities | <u>67.3</u> | <u>78.1</u> |
| CURRENT LIABILITIES: | | |
| Accounts payable and other current liabilities | 101.3 | 90.7 |
| Interfund payable | 10.9 | 9.7 |
| Accrued payroll and related taxes | 9.2 | 7.5 |
| Compensated absences | 2.0 | 2.0 |
| Accrued interest | 30.0 | 32.1 |
| Long-term debt—current portion | <u>104.9</u> | <u>99.7</u> |
| Total current liabilities | <u>258.3</u> | <u>241.7</u> |
| OTHER LIABILITIES | <u>26.7</u> | <u>19.2</u> |
| TOTAL LIABILITIES | <u>2,277.5</u> | <u>2,209.3</u> |
| DEFERRED INFLOWS OF RESOURCES | | |
| Rate stabilization unearned revenue | 89.4 | 85.0 |
| Other deferred inflows of resources (includes \$0.1 and \$1.0 at fair value) | <u>22.1</u> | <u>15.7</u> |
| TOTAL DEFERRED INFLOWS OF RESOURCES | <u>111.5</u> | <u>100.7</u> |
| NET POSITION | | |
| Net investment in capital assets | 1,100.8 | 906.1 |
| Restricted: | | |
| Rate stabilization account | 25.0 | 25.0 |
| Special deposits and other purposes | <u>-</u> | <u>(0.4)</u> |
| Total restricted | <u>25.0</u> | <u>24.6</u> |
| Unrestricted—net | <u>149.7</u> | <u>223.5</u> |
| Total net position | <u>1,275.5</u> | <u>1,154.2</u> |
| TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION | <u>\$ 3,664.5</u> | <u>\$ 3,464.2</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, 2014 AND 2013

| <i>(\$ in millions)</i> | 2014 | 2013 |
|---|-------------------|-------------------|
| OPERATING REVENUES: | | |
| Retail power revenues | \$ 720.8 | \$ 697.7 |
| Short-term wholesale power revenues | 96.8 | 63.0 |
| Other power-related revenues | 50.8 | 40.4 |
| Transfers from/(to) rate stabilization account | (4.4) | 18.3 |
| Other operating revenues | <u>22.4</u> | <u>22.8</u> |
| Total operating revenues | <u>886.4</u> | <u>842.2</u> |
| OPERATING EXPENSES: | | |
| Long-term purchased power—Bonneville and other | 214.3 | 203.1 |
| Short-term wholesale power purchases | 14.9 | 19.8 |
| Other power expenses | 65.9 | 66.4 |
| Transmission | 52.8 | 48.2 |
| Distribution | 59.7 | 59.5 |
| Customer service | 37.6 | 39.2 |
| Conservation | 27.3 | 21.5 |
| Administrative and general | 75.8 | 71.7 |
| Taxes | 80.0 | 79.3 |
| Depreciation and amortization | <u>105.8</u> | <u>102.3</u> |
| Total operating expenses | <u>734.1</u> | <u>711.0</u> |
| OPERATING INCOME | <u>152.3</u> | <u>131.2</u> |
| NONOPERATING REVENUES AND (EXPENSES): | | |
| Other revenues and (expenses)—net | 18.5 | 11.1 |
| Interest expense | | |
| Interest expense—net | (85.3) | (86.4) |
| Amortization of bond costs—net | <u>7.4</u> | <u>7.1</u> |
| Total interest expense | <u>(77.9)</u> | <u>(79.3)</u> |
| Total nonoperating expenses | <u>(59.4)</u> | <u>(68.2)</u> |
| INCOME BEFORE CAPITAL CONTRIBUTIONS AND GRANTS | <u>92.9</u> | <u>63.0</u> |
| CAPITAL CONTRIBUTIONS AND GRANTS: | | |
| Capital contributions | 27.7 | 47.9 |
| Capital grants | <u>0.7</u> | <u>1.8</u> |
| Total capital contributions and grants | <u>28.4</u> | <u>49.7</u> |
| CHANGE IN NET POSITION | 121.3 | 112.7 |
| NET POSITION: | | |
| Beginning of year | <u>1,154.2</u> | <u>1,041.5</u> |
| End of year | <u>\$ 1,275.5</u> | <u>\$ 1,154.2</u> |

See notes to financial statements.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

| <i>(\$ in millions)</i> | 2014 | 2013 |
|--|-----------------|-----------------|
| OPERATING ACTIVITIES: | | |
| Cash received from customers and counterparties | \$ 867.4 | \$ 811.6 |
| Interfund operating cash received | 1.7 | 2.6 |
| Cash paid to suppliers and counterparties | (287.1) | (325.6) |
| Cash paid to employees | (173.6) | (153.3) |
| Interfund operating cash paid | (28.5) | (26.4) |
| Taxes paid | <u>(82.3)</u> | <u>(79.2)</u> |
| Net cash provided by operating activities | <u>297.6</u> | <u>229.7</u> |
| NONCAPITAL FINANCING ACTIVITIES: | | |
| Principal paid on long-term debt | (37.3) | (17.9) |
| Interest paid on long-term debt | (33.7) | (16.8) |
| Noncapital grants received | 5.2 | 1.8 |
| Bonneville receipts for conservation | 6.7 | 3.6 |
| Payment to vendors on behalf of customers for conservation | <u>(33.1)</u> | <u>(31.0)</u> |
| Net cash used in noncapital financing activities | <u>(92.2)</u> | <u>(60.3)</u> |
| CAPITAL AND RELATED FINANCING ACTIVITIES: | | |
| Proceeds from long-term debt | 265.2 | 190.7 |
| Proceeds from long-term debt premiums | 34.2 | 13.7 |
| Payment to trustee for defeased bonds | (127.1) | (15.2) |
| Bond issue costs paid | (1.7) | (1.2) |
| Principal paid on long-term debt | (62.4) | (73.9) |
| Interest paid on long-term debt | (56.5) | (69.3) |
| Acquisition and construction of capital assets | (276.1) | (257.2) |
| Interfund payments for acquisition and construction of capital assets | (10.9) | (4.5) |
| Capital contributions | 26.5 | 30.6 |
| Interfund receipts for capital contributions | 0.8 | 0.3 |
| Capital grants received/(paid) | (3.0) | 2.3 |
| Interest received for suburban infrastructure improvements | 2.1 | 1.8 |
| Proceeds on sale of property | 2.0 | 2.1 |
| (Increase) Decrease in other assets | <u>1.6</u> | <u>0.3</u> |
| Net cash used in capital and related financing activities | <u>(205.3)</u> | <u>(179.5)</u> |
| INVESTING ACTIVITIES: | | |
| Interest received (paid) on investments and on cash and equity in pooled investments | <u>5.8</u> | <u>(1.1)</u> |
| Net cash provided by (used in) investing activities | <u>5.8</u> | <u>(1.1)</u> |
| NET INCREASE (DECREASE) IN CASH AND EQUITY IN POOLED INVESTMENTS | 5.9 | (11.2) |
| CASH AND EQUITY IN POOLED INVESTMENTS: | | |
| Beginning of year | <u>420.8</u> | <u>432.0</u> |
| End of year | <u>\$ 426.7</u> | <u>\$ 420.8</u> |

See notes to financial statements.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

STATEMENTS OF CASH FLOWS - RECONCILIATION FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

| <i>(\$ in millions)</i> | 2014 | 2013 |
|--|-----------------|-----------------|
| RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES: | | |
| Operating income | \$ 152.3 | \$ 131.2 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | |
| Non-cash items included in operating income: | | |
| Depreciation | 108.1 | 104.3 |
| Amortization of other liabilities | (0.6) | (0.4) |
| Amortization of other assets | 22.7 | 19.9 |
| Bad debt expense | 2.1 | 5.1 |
| Power revenues | (48.4) | (27.0) |
| Power expenses | 49.1 | 26.7 |
| Provision for injuries and damages | (0.3) | 1.0 |
| Other non-cash items | 5.8 | 8.2 |
| Change in: | | |
| Accounts receivable | (10.7) | (2.9) |
| Unbilled revenues | 14.2 | (7.8) |
| Materials and supplies | 6.6 | (7.5) |
| Prepayments, interest receivable, and other receivables | 0.6 | 3.4 |
| Other assets | (2.9) | (9.2) |
| Provision for injuries and damages and claims payable | (13.8) | 0.4 |
| Accounts payable and other payables | 8.4 | 2.6 |
| Rate stabilization unearned revenue | 4.4 | (18.3) |
| Total adjustments | <u>145.3</u> | <u>98.5</u> |
| Net cash provided by operating activities | <u>\$ 297.6</u> | <u>\$ 229.7</u> |
| SUPPLEMENTAL DISCLOSURES OF NONCASH ACTIVITIES: | | |
| In-kind capital contributions | \$ 3.6 | \$ 22.3 |
| Amortization of debt related costs—net (restated) | 7.4 | 7.1 |
| Change in valuation of power exchange assets or liabilities | - | (0.7) |
| Allowance for funds used during construction | 5.8 | 3.8 |
| Power exchange revenues | 25.3 | 5.2 |
| Power exchange expenses | (25.6) | (5.0) |
| Power revenue netted against power expenses | 6.1 | 6.5 |
| Power expense netted against power revenues | (17.1) | (14.9) |

See notes to financial statements.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

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 415,000 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 \$18.8 million and \$18.3 million in 2014 and 2013, respectively, and \$3.0 and \$2.9 million for non-energy services, respectively.

The Department receives certain services from other City departments and paid \$50.8 million in 2014 and \$44.9 million in 2013, 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, and building rentals, including for the Department's administrative offices.

The Department's receivables from other City departments totaled \$1.5 million and \$0.8 million at December 31, 2014, and 2013, respectively. The Department's payables to other City departments totaled \$10.9 million and \$9.7 million at December 31, 2014, and 2013, 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 2014 with all applicable GASB pronouncements.

The GASB issued GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*, and Statement No. 72, *Fair Value Measurement and Application*. These statements will be effective for the Department in future years and application of these standards may restate portions of these financial statements.

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Fair Value Measurements—Descriptions of the Department’s accounting policies on fair value measurements for items reported on the balance sheets at December 31, 2014 and 2013, are as noted in the following paragraph, Note 5 Accounts Receivable, and Note 15 Long-Term Purchased Power, Exchanges, and Transmission.

Fair Value of Financial Instruments—The Department’s financial instruments reported on the balance sheets at December 31, 2014 and 2013, 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 4 Cash and Equity in Pooled Investments and Investments). Gains and losses on these financial instruments are reflected in Investment income in the statements of revenues, expenses, and changes in net position. Long-term debt at December 31, 2014 and 2013, is disclosed at fair value (see Note 7 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. As of December 31, 2014 and 2013, Assets held for future use included the following electrical plant assets: land for future substations, ducts and vaults, transmission lines, and plans for additional hydraulic generating capacity totaling \$71.8 million and \$68.7 million, respectively.

Materials and Supplies—Materials and supplies are generally used for construction, operation and maintenance work, not for resale. They are valued utilizing the average cost method and charged to construction or expense when used.

Revenue Recognition—Service rates are authorized by City ordinances. Billings are made to customers on a monthly or bimonthly basis. Revenues for energy delivered to customers between the last billing date and the end of the year are estimated and reflected in the accompanying financial statements as unbilled revenue within Retail power revenues.

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The Department's customer base accounted for electric energy sales at December 31, 2014 and 2013, as follows:

| | 2014 | 2013 |
|----------------|---------------|---------------|
| Residential | 36.1 % | 37.3 % |
| Nonresidential | <u>63.9 %</u> | <u>62.7 %</u> |
| Total | 100.0 % | 100.0 % |

Revenues earned in the process of delivering energy to customers, wholesale energy transactions, and related activities are considered operating revenues in the determination of change in net position. Investment income, nonexchange transactions, and other revenues are considered Nonoperating revenues.

Expense Recognition—Expenses incurred in the process of delivering energy to customers, wholesale energy transactions, and related activities are considered operating expenses in the determination of net income. Debt interest expense, debt related amortization, and certain other expenses are considered Nonoperating expenses.

Administrative and General Overhead Costs Applied—Certain administrative and general overhead costs are allocated to construction work-in-progress, major data processing systems development, programmatic conservation, relicensing mitigation projects, and billable operations and maintenance activities based on rates established by cost studies. Pension and benefit costs are allocated to capital and operations and maintenance activities based on a percentage of labor dollars. The administrative and general overhead costs applied totaled \$48.1 million and \$42.2 million in 2014 and 2013, respectively. Pension and benefit costs were \$52.6 million and \$50.1 million in 2014 and 2013, respectively. Administrative and general expenses, net of total applied overhead, were \$75.8 million and \$71.7 million in 2014 and 2013, respectively.

Interest Charged to Construction—Interest is charged for funds used during construction of plant assets and to non-billable construction work-in-progress. Interest charged represents the estimated costs of financing construction projects and is computed using the Department's weighted-average interest rate for all bonds outstanding, the majority of which are tax exempt, and is revised when new bonds are issued and at the end of the year. Interest charged to construction totaled \$5.8 million and \$3.8 million in 2014 and 2013, respectively, and is reflected as a reduction of Interest expense in the statements of revenues, expenses, and changes in net position.

Nonexchange Transactions—Capital contributions and grants in the amount of \$32.2 million and \$52.9 million are reported for 2014 and 2013, respectively, 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 fair 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.

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Compensated Absences—Regular employees of the Department earn vacation time in accordance with length of service. A maximum of 480 hours may be accumulated for the most tenured employees and, upon termination, employees are entitled to compensation for unused vacation. Upon retirement, employees receive compensation equivalent to 25% of their accumulated sick leave. Effective 2006, only employees represented by unions who voted in favor of a Healthcare Reimbursement Arrangement (HRA) receive 35% of their sick leave balance tax-free through an HRA account for healthcare expenses post retirement. Because of the special tax arrangement, the sick leave balance may only go into the HRA account; it may not be taken as a cashout. The HRA program is administered by an independent third party administrator, Meritain Health. HRA investments are managed by HRA Voluntary Employee Beneficiary Association (VEBA) Trust. The Department accrues all costs associated with compensated absences, including payroll taxes.

Use of Estimates—The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect amounts reported in the financial statements. The Department used significant estimates in determining reported allowance for doubtful accounts, unbilled revenues, power exchanges, accumulated provision for injuries and damages and workers' compensation, environmental liabilities, accrued sick leave, 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.

2. UTILITY PLANT

Utility Plant—Utility plant is recorded at original cost, which includes both direct costs of construction or acquisition and indirect costs, including an allowance for funds used during construction. The capitalization threshold for tangible assets was \$5,000, and for intangible assets, \$500,000 in 2014 and 2013. 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 \$28.4 million in 2014 and \$49.7 million in 2013. 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 57 years. The Department uses a half-year convention method on the assumption that additions and replacements are placed in service at mid-year. Depreciation and amortization expense as a percentage of depreciable utility plant-in-service was approximately 2.7% in 2014 and 2.7% in 2013. 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

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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.

At December 31, 2014, and 2013, assets of \$1.8 million and \$2.5 million, respectively, were identified as temporarily impaired due to construction stoppage, in order that the Department could focus on higher priority projects. Of the assets that were temporarily impaired, \$1.8 million and \$0.7 million are included in Assets held for future use at December 31, 2014, and 2013, respectively, and \$1.8 million is included in Construction work-in-process at December 31, 2013.

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.

Utility plant-in-service at original cost, excluding land, at December 31, 2014, and 2013, was:

| | Hydroelectric Production | Transmission | Distribution | General | Intangible | Total |
|---|-----------------------------|-----------------|-------------------|-----------------|-----------------|-------------------|
| 2014 | | | | | | |
| <i>(\$ in millions)</i> | | | | | | |
| Original cost: | | | | | | |
| Beginning balance | \$ 761.2 | \$ 201.9 | \$ 2,086.4 | \$ 305.2 | \$ 440.6 | \$ 3,795.3 |
| Capital acquisitions | 28.6 | 6.0 | 118.9 | 18.1 | 27.4 | 199.0 |
| Dispositions | (26.2) | (0.1) | (11.1) | (9.4) | (11.5) | (58.3) |
| Transfers and adjustments | - | - | - | - | - | - |
| Total original cost | <u>763.6</u> | <u>207.8</u> | <u>2,194.2</u> | <u>313.9</u> | <u>456.5</u> | <u>3,936.0</u> |
| Accumulated depreciation and amortization: | | | | | | |
| Beginning balance | 351.1 | 77.8 | 764.0 | 193.8 | 177.2 | 1,563.9 |
| Increase in accumulated depreciation and amortization | 15.1 | 4.5 | 65.1 | 15.1 | 13.8 | 113.6 |
| Retirements | (26.5) | (0.6) | (16.5) | (9.6) | (11.5) | (64.7) |
| Retirement work-in-progress | <u>(0.1)</u> | <u>(0.3)</u> | <u>(0.9)</u> | <u>-</u> | <u>-</u> | <u>(1.3)</u> |
| Total accumulated depreciation and amortization | <u>339.6</u> | <u>81.4</u> | <u>811.7</u> | <u>199.3</u> | <u>179.5</u> | <u>1,611.5</u> |
| Ending balance | <u>\$ 424.0</u> | <u>\$ 126.4</u> | <u>\$ 1,382.5</u> | <u>\$ 114.6</u> | <u>\$ 277.0</u> | <u>\$ 2,324.5</u> |

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| | Hydroelectric Production | Transmission | Distribution | General | Intangible | Total |
|---|-----------------------------|-----------------|-------------------|-----------------|-----------------|-------------------|
| 2013 | | | | | | |
| <i>(\$ in millions)</i> | | | | | | |
| Original cost: | | | | | | |
| Beginning balance | \$ 714.7 | \$ 189.9 | \$ 1,966.9 | \$ 310.4 | \$ 411.5 | \$ 3,593.4 |
| Capital acquisitions | 59.5 | 13.3 | 121.5 | 10.0 | 29.6 | 233.9 |
| Dispositions | (13.0) | (1.3) | (11.2) | (15.2) | (0.5) | (41.2) |
| Transfers and adjustments | - | - | 9.2 | - | - | 9.2 |
| Total original cost | <u>761.2</u> | <u>201.9</u> | <u>2,086.4</u> | <u>305.2</u> | <u>440.6</u> | <u>3,795.3</u> |
| Accumulated depreciation and amortization: | | | | | | |
| Beginning balance | 357.3 | 76.1 | 720.6 | 193.2 | 164.0 | 1,511.2 |
| Increase in accumulated depreciation and amortization | 14.0 | 4.4 | 61.1 | 16.1 | 13.7 | 109.3 |
| Retirements | (20.4) | (2.7) | (17.9) | (15.5) | (0.5) | (57.0) |
| Retirement work-in-progress | <u>0.2</u> | <u>-</u> | <u>0.2</u> | <u>-</u> | <u>-</u> | <u>0.4</u> |
| Total accumulated depreciation and amortization | <u>351.1</u> | <u>77.8</u> | <u>764.0</u> | <u>193.8</u> | <u>177.2</u> | <u>1,563.9</u> |
| Ending balance | <u>\$ 410.1</u> | <u>\$ 124.1</u> | <u>\$ 1,322.4</u> | <u>\$ 111.4</u> | <u>\$ 263.4</u> | <u>\$ 2,231.4</u> |

3. 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 to be drawn down to supplement revenues when surplus power sales revenues are below the budgeted amount, and conversely, deposits are to be made to the RSA when the surplus power sales revenues are greater than budgeted. Deposits or withdrawals may be made up to and including the date 90 days after the end of the applicable year.

Ordinance No. 123260 established a target size for the RSA of no less than \$100.0 million and no greater than \$125.0 million, and authorized the imposition of automatic temporary surcharges on electric rates when the RSA balance is within the below specified levels:

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| RSA Balance | Action |
|--|--|
| Less than or equal to \$90.0 million but greater than \$80.0 million | Automatic 1.5% surcharge |
| Less than or equal to \$80.0 million but greater than \$70.0 million | Automatic 3.0% surcharge |
| Less than or equal to \$70.0 million but greater than \$50.0 million | Automatic 4.5% surcharge |
| Less than or equal to \$50.0 million | City Council must initiate rate review within 45 days and determine actions to replenish RSA to \$100.0 million within 12 months |

In February 2014 the Seattle City Council adopted Ordinance No. 124426 (retroactive to December 2013), directing specific cash transfers to the RSA with the intention of reducing the likelihood of future rate surcharges.

Ordinance No. 123260 originally required a rate review whenever the RSA balance exceeded \$125.0 million, along with the implementation of measures to reduce the RSA balance to \$125.0 million within a period of 12 months or less. Subsequently, the Seattle City Council adopted Ordinance No. 124108 in February 2013 (retroactive to January 1, 2013) which extended the timing of this required rate review and associated action to an effective date of January 1, 2014.

In 2014, actual surplus power sales revenues were greater than budgeted and funds of \$3.4 million were transferred to the RSA from operating cash. Interest income of \$1.0 million was earned on the RSA. Total net increase to the RSA was \$4.4 million. The RSA balance was \$114.4 million at December 31, 2014, and no surcharges were in effect during 2014.

In 2013, actual surplus power sales revenues were less than the budgeted surplus sales revenues and, accordingly, funds of \$40.0 million were withdrawn from the RSA to supplement revenues. Interest income of \$0.7 million was earned on the RSA. The estimated excess of operating cash to achieve in excess of 1.80x debt service coverage was \$21.0 million and this amount was transferred to the RSA from operating cash in December 2013. Net 2013 RSA cash transferred to operating cash was \$18.3 million. The RSA balance was \$110.0 million at December 31, 2013, and no surcharges were in effect during 2013.

The RSA at December 31, 2014, and 2013, consisted of cash from the following sources:

| <i>(\$ in millions)</i> | 2014 | 2013 |
|----------------------------|-----------------|-----------------|
| Rate Stabilization Account | | |
| Beginning balance | \$ 110.0 | \$ 128.3 |
| RSA interest income | 1.0 | 0.7 |
| Operating revenue | <u>3.4</u> | <u>(19.0)</u> |
| Ending balance | <u>\$ 114.4</u> | <u>\$ 110.0</u> |

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RSA transactions are recorded in accordance with GASB Statement No. 62 *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.

The regulatory deferred inflow of resources Rate stabilization unearned revenue account at December 31, 2014, and 2013, consisted of the following:

| <i>(\$ in millions)</i> | 2014 | 2013 |
|---|----------------|----------------|
| Unearned revenue - Rate Stabilization Account | | |
| Beginning balance | \$ 85.0 | \$ 103.3 |
| RSA interest income | 1.0 | 0.7 |
| Operating revenue | <u>3.4</u> | <u>(19.0)</u> |
| Ending balance | <u>\$ 89.4</u> | <u>\$ 85.0</u> |

The initial \$25.0 million transfer from the Contingency Reserve Account to the RSA in May 2010 is not included in the Rate stabilization unearned revenue balance, and is not available to be transferred to current revenue in the event that net wholesale revenues are less than the budgeted amount. The Contingency Reserve Account was established in 2005 with proceeds that had been deposited in the Bond Reserve Fund, when the Bond Reserve Fund was replaced with a surety bond.

Transfers from/(to) the RSA in the statements of revenues, expenses and net position at December 31, 2014, and 2013 were as follows:

| <i>(\$ in millions)</i> | 2014 | 2013 |
|--|-----------------|----------------|
| Transfers from/(to) Rate Stabilization Account | <u>\$ (4.4)</u> | <u>\$ 18.3</u> |

4. CASH AND EQUITY IN POOLED INVESTMENTS AND INVESTMENTS

Cash and Equity in Pooled Investments—Cash resources of the Department are combined with cash resources of the City to form a pool of cash that is managed by the City’s Department of Finance and Administrative Services (FAS). Under the City’s investment policy, all temporary cash surpluses in the pool are invested. The Department’s share of the pool is included on the balance sheets as Cash and equity in pooled investments or as restricted assets. The pool operates like a demand deposit account in that all departments, including the Department, may deposit cash at any time and can also withdraw cash, out of the pool, up to the amount of the Department’s fund balance, without prior notice or penalty. Accordingly, the statements of cash flows reconcile to cash and equity in pooled investments. The City considers investments in financial instruments having a maturity of 90 days or less as a cash equivalent.

Custodial Credit Risk of Deposits—Custodial risk is the risk that, in the event of bank failure for one of the City’s depository institutions, the City’s deposits may not be returned in a timely manner, or in the case of collateralized securities, the City may not be able to recover the collateral held in the possession of an outside party.

As of December 31, 2014 and 2013, the City did not have custodial risk. The City’s deposits are covered by insurance provided by the Federal Deposit Insurance Corporation (FDIC) and the National Credit

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Union Association (NCUA) as well as protection provided by the Washington State Public Deposit Protection Commission (PDPC) as established in the Revised Code of Washington (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, 2014 and 2013, 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 and FDIC's \$250,000 standard maximum deposit insurance amount. Any of the City's cash not held in its vault, or a local depository, was held in the City's operating fund (investment pool), and at the close of every business day, any cash remaining in the operating fund is swept into an overnight repurchase agreement that matures the next day.

Investments—The Department's cash resources may be invested by FAS separate from the cash and investments pool. Investments are managed in accordance with the City's investment policy, with limits and restrictions applied at the City-wide level rather than to specific investments of the Department.

The City is authorized to purchase U.S. Treasury and government agency securities, certificates of deposits, and other investment deposits issued by Washington State depositories that qualify under the Washington State Deposit Protection Act as defined by RCW 39.58, bankers' acceptances purchased in the secondary market, commercial paper purchased in the secondary market and having received the highest rating by at least two nationally recognized rating agencies, repurchase and reverse repurchase agreements with "primary dealers" that have executed master repurchase agreements, public funds in the Local Government Investment Pool (LGIP) in the State Treasury, and other securities as authorized by law.

The City of Seattle has the following policies in managing its investments:

- The City seeks to preserve principal while maximizing income and maintaining liquidity to meet the City's need for cash.
- Investment decisions should further the City's social policies established by ordinance or policy resolutions of the City Council.
- 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.
- Securities purchased shall have a maximum maturity of fifteen years, and the average maturity of all securities shall be less than five years.
- All transactions are executed on a delivery-versus-payment basis.
- The standard of prudence to be used by investment personnel shall be the "Prudent Person Rule" and will be applied in the context of managing an overall portfolio.

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- Securities shall not be purchased with trading or speculation as the dominant criterion for the selection of the security.

Investments are recorded at fair value based on quoted market prices in accordance with Statement No. 31 of the GASB. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

As of December 31, 2014 and 2013, the Department did not have any dedicated investments. The City's pool and other dedicated investments were as follows:

| 2014 (\$ in millions) | Fair Value | | | Weighted-Average Maturity (Days) |
|---|-------------------------|---------------------------|-------------------|----------------------------------|
| | City Pooled Investments | Other City Dedicated Pool | Total | |
| Repurchase Agreements | \$ 73.8 | \$ - | \$ 73.8 | 2 |
| U.S. Treasury and U.S. Government-Backed Securities | 252.2 | - | 252.2 | 800 |
| U.S. Government Agency Securities | 550.3 | - | 550.3 | 1,208 |
| U.S. Government Agency Mortgage-Backed Securities | 171.4 | - | 171.4 | 2,054 |
| Commercial Paper | 319.4 | - | 319.4 | 44 |
| Municipal Bonds | 227.2 | - | 227.2 | 976 |
| Non-negotiable CD | 30.0 | - | 30.0 | 30 |
| Total | <u>\$ 1,624.3</u> | <u>\$ -</u> | <u>\$ 1,624.3</u> | |

Weighted Average Maturity of the City's Pooled Investments 894

| 2013 (\$ in millions) | Fair Value | | | Weighted-Average Maturity (Days) |
|---|-------------------------|---------------------------|-------------------|----------------------------------|
| | City Pooled Investments | Other City Dedicated Pool | Total | |
| Repurchase agreements | \$ 44.8 | \$ - | \$ 44.8 | 2 |
| U.S. treasuries and U.S. government-backed securities | 227.7 | - | 227.7 | 902 |
| U.S. government agencies securities | 666.8 | - | 666.8 | 880 |
| U.S. government agency mortgage-backed securities | 186.8 | - | 186.8 | 2,077 |
| Commercial paper | 155.0 | - | 155.0 | 47 |
| Municipal bonds | 156.8 | - | 156.8 | 818 |
| Total | <u>\$ 1,437.9</u> | <u>\$ -</u> | <u>\$ 1,437.9</u> | |

Portfolio weighted-average maturity 915

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As of December 31, 2014 and 2013, the Department's share of the City pool was as follows:

| <i>(\$ in millions)</i> | 2014 | 2013 |
|--|-----------------|-----------------|
| Cash and equity in pooled investments: | | |
| Restricted assets | \$ 298.4 | \$ 227.0 |
| Current assets | <u>128.3</u> | <u>193.8</u> |
| Total | <u>\$ 426.7</u> | <u>\$ 420.8</u> |
| Balance as a percentage of City pool | 26.3 % | 29.3 % |

Fair Value of Pooled Investments—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. Through March 31, 2015, interest rates declined relative to December 31, 2014. The net change in the fair value of the City's Pooled investments, and thus the Department's share in the Pooled investments, increased favorably through the first quarter 2015 due in part to declining interest rates.

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. The City's investment policy limits the maturity of individual securities to fifteen years and limits the weighted average maturity of the total investment portfolio to no longer than five years which mitigates interest rate risk.

Credit Risk—Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The City mitigates credit risk in several ways, as described below.

By state statutes and the City's investment policy, the City may purchase securities that carry the highest credit ratings issued by Moody's Investors Service, Standard & Poor's, and/or Fitch Ratings. Securities purchased must have the following ratings at the time of purchase: Securities backed by issuers with long-term credit ratings of Aaa, Aa1, and Aa2 by Moody's Investors Service; AAA, AA+, and AA by Standard & Poor's; and AAA, AA+, and AA by Fitch Ratings; and securities backed by issuers having short-term ratings of MIG1, VMIG1, and P1 by Moody's Investors Service; A1+ and A1 by Standard & Poor's; and F1+ and F1 by Fitch Ratings.

The City invests in U.S. Treasury securities which are considered free of credit risk, and in securities backed by the full faith and credit of the U.S. government, such as bonds issued by the Department of Housing and Urban Development (HUD). The City also invests in securities issued by U.S. government sponsored enterprises including Federal National Mortgage Association, Federal Home Loan Bank, and Federal Home Loan Mortgage Corporation.

Material credit risk in the City's investment portfolio resides in its holdings of commercial paper and municipal securities. In accordance with state statutes and the City's internal investment policy, the City manages that credit risk by purchasing securities backed by issuers having long-term and short-term credit ratings as noted above. The City also subscribes to asset-backed commercial paper research from Moody's Investors Service and Fitch Ratings, conducts internal due diligence of commercial paper and municipal issuers, and maintains an approved list of commercial paper issuers based upon internal and external credit research.

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Concentration of Credit Risk—Concentration risk is the risk of loss attributed to the magnitude of investments in a single issuer. In accordance with the City’s investment policy and state statutes that were in effect in 2014 and 2013, the City managed concentration risk by limiting its investments in any one issuer as follows:

- U.S Treasury bills, certificates, notes and bonds: 100% of the portfolio.
- U.S Government agency securities: 100% of the portfolio.
- Certificates of deposit: 25% of the portfolio and 10% of the portfolio per bank.
- Bankers’ acceptances: 25% of the portfolio and 5% of the portfolio per bank.
- Commercial paper: 25% of the portfolio and 5% of the portfolio per issuer.
- Municipal bonds or warrants: 15% of the portfolio and 5% of the portfolio per issuer.
- Repurchase agreements: (1) Term and overnight - 50% of the portfolio, and (2) Term only (180 days) - 25% of the portfolio. All repurchase agreements were limited to 75% of Regulatory Capital (Regulated by Securities and Exchange Commission Rule 15C3-1) per dealer.
- Reverse repurchase agreements: 20% of the portfolio and 75% of Regulatory Capital per dealer.
- Mortgage backed securities: 15% of the portfolio.
- Local government investment pool: 110% of the portfolio.

At December 31, 2014 and 2013, the City did not have the following investments: bankers’ acceptances, reverse repurchase agreements and local government investment pool.

The City’s investments in single issuers, including those maturing less than one year from date of purchase, and amounting to 5% or more of the total portfolio as of December 31, 2014, and 2013, are shown in the following table.

| Issuer | 2014 | | 2013 | |
|--|------------|------------------------------|------------|------------------------------|
| | Fair Value | Percent of Total Investments | Fair Value | Percent of Total Investments |
| Federal Home Loan Mortgage Corporation (Freddie Mac) | \$ 268.6 | 17 % | \$ 329.4 | 23 % |
| Federal National Mortgage Association (Fannie Mae) | 249.8 | 15 | 393.1 | 27 |
| Federal Farm Credit Bank | 121.7 | 7 | - | - |
| Federal Home Loan Bank | 81.7 | 5 | 86.5 | 6 |
| Total | \$ 721.8 | 44 % | \$ 809.0 | 56 % |

Custodial Credit Risk—Investments—The 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

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custodial credit risk for its investments by having its investment securities held by the City's contractual custodial agent, BNY Mellon, and not by the counterparty or the counterparty's trust department or agent. Additionally, the City mitigates custodial risk by settling its trades delivery-versus-payment through the City's contractual custodial agent.

By investment policy, the City maintains a list of approved securities dealers for transacting business. For repurchase agreements, the City transacts only with large primary dealers with investment grade credit ratings provided by at least two of the Nationally Recognized Statistical Rating Organizations (NRSROs). The City also conducts its own due diligence as to the financial wherewithal of its counterparties.

The City mitigates counterparty custodial risk from repurchase agreements by using a third-party custodian for tri-party repurchase agreements. The City conforms with industry standard requiring execution of a master repurchase agreement with each counterparty prior to transacting a repurchase agreement, execution of a third-party custodial agreement between the City, the broker, and the clearing bank, before transacting a third-party repurchase agreement, and over-collateralizing by a minimum of 102%. By investment policy, the underlying securities the City is willing to accept as collateral must have the highest credit ratings of at least two NRSROs. Throughout 2014 and 2013, the collateral underlying the City's repurchase agreements excluded securities other than U.S. Treasury, agencies, and agency mortgage-backed pass-throughs.

Foreign Currency Risk—The City Treasury pooled investment do not include securities denominated in in foreign currencies.

Reverse Repurchase Agreements—RCW 35.39.030 and City investment policy allow the investment of City monies in excess of current City needs in reverse repurchase agreements. However, at this time, the City does not engage itself in this type of investment strategy.

The City of Seattle's Comprehensive Annual Financial Report may be obtained by writing to The City of Seattle, Department of Finance and Administrative Services, P.O. Box 94680, Seattle, WA 98124-4689; telephone: (206) 684-2489, or obtained on-line at <http://www.seattle.gov/financial-services/comprehensive-annual-financial-report>.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

5. ACCOUNTS RECEIVABLE

Accounts receivable at December 31, 2014 and 2013, consist of:

| <i>(\$ in millions)</i> | Retail Electric | Wholesale Power | Other Operating | Operating Subtotal | Nonoperating Subtotal | Total |
|--------------------------------------|--------------------|--------------------|--------------------|-----------------------|--------------------------|----------------|
| 2014 | | | | | | |
| Accounts receivable | \$ 42.3 | \$ 14.8 | \$ 9.9 | \$ 67.0 | \$ 13.8 | \$ 80.8 |
| Less allowance for doubtful accounts | <u>(2.8)</u> | <u>-</u> | <u>(4.9)</u> | <u>(7.7)</u> | <u>-</u> | <u>(7.7)</u> |
| | <u>\$ 39.5</u> | <u>\$ 14.8</u> | <u>\$ 5.0</u> | <u>\$ 59.3</u> | <u>\$ 13.8</u> | <u>\$ 73.1</u> |
| 2013 | | | | | | |
| Accounts receivable | \$ 42.4 | \$ 8.9 | \$ 10.2 | \$ 61.5 | \$ 11.1 | \$ 72.6 |
| Less allowance for doubtful accounts | <u>(3.5)</u> | <u>-</u> | <u>(5.9)</u> | <u>(9.4)</u> | <u>-</u> | <u>(9.4)</u> |
| | <u>\$ 38.9</u> | <u>\$ 8.9</u> | <u>\$ 4.3</u> | <u>\$ 52.1</u> | <u>\$ 11.1</u> | <u>\$ 63.2</u> |

Wholesale power receivable includes \$1.6 million at December 31, 2014, and \$2.8 million at December 31, 2013, for exchange energy at fair value under long-term contracts (see Note 15 Long-Term Purchased Power, Exchanges, and Transmission).

6. 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 and Endangered Species Act costs are reported as regulatory assets in accordance with Statement No. 62 and amortized over 20 years. Endangered Species Act costs are amortized over the remaining license period (see Note 16 Commitments and Contingencies). Environmental costs reported as regulatory assets are amortized over 25 years, beginning in the year costs are paid.

Other assets, which are not covered under 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 11 Environmental Liabilities).
- Puget Sound Energy interconnection and substation costs are being amortized to expense over 25 years.
- Studies, surveys, and investigations are reported as regulatory assets until such time they result in active projects, or when it is determined no assets will result, at which time they are expensed.

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- Long-term customer loans receivable and the remaining components of other assets, are not amortized.

Regulatory assets and other assets, net, at December 31, 2014 and 2013, consisted of the following:

| <i>(\$ in millions)</i> | 2014 | 2013 |
|--|-----------------|-----------------|
| Regulatory assets: | | |
| Conservation costs—net | \$ 228.1 | \$ 214.3 |
| Endangered Species Act costs—net | 2.2 | 2.3 |
| Environmental costs | <u>34.5</u> | <u>31.7</u> |
| | <u>264.8</u> | <u>248.3</u> |
| Other charges and assets—net: | | |
| Suburban infrastructure long-term receivables | 43.1 | 44.0 |
| Long-term interfund receivable for environmental costs | 4.1 | 3.1 |
| Long-term customer notes receivable | 0.7 | 0.8 |
| Puget Sound Energy interconnection and substation | 0.6 | 0.7 |
| Studies, surveys, and investigations | 2.8 | 2.8 |
| Other | <u>3.6</u> | <u>1.3</u> |
| | <u>54.9</u> | <u>52.7</u> |
| Total Other Assets | <u>\$ 319.7</u> | <u>\$ 301.0</u> |

7. LONG-TERM DEBT

At December 31, 2014 and 2013, the Department's long-term debt consisted of the following prior lien or parity bonds:

LONG-TERM

(\$ in millions)

| | | Fixed Rate | Maturity Year | Original Issuance | 2014 | 2013 |
|------------------------|---|---------------|------------------|----------------------|-------------------|-------------------|
| Prior Lien Bonds: | | | | | | |
| 2014 | ML&P Improvement and Refunding Revenue Bonds | 4.000%–5.000% | 2044 | \$ 265.2 | \$ 265.2 | \$ - |
| 2013 | ML&P Improvement and Refunding Revenue Bonds | 2.000%–5.000% | 2043 | 190.8 | 187.7 | 190.8 |
| 2012A | ML&P Improvement and Refunding Revenue Bonds | 2.000%–5.000% | 2041 | 293.3 | 284.8 | 289.5 |
| 2012B | ML&P Refunding Revenue Bonds | 0.350%–0.700% | 2014 | 9.3 | - | 4.8 |
| 2012C | ML&P Clean Renewable Energy Bonds | 3.400%–3.750% | 2033 | 43.0 | 43.0 | 43.0 |
| 2011A | ML&P Improvement and Refunding Revenue Bonds | 1.000%–5.500% | 2036 | 296.3 | 266.0 | 278.0 |
| 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 | 181.6 | 181.6 |
| 2010B | ML&P Improvement and Refunding Revenue Bonds | 2.000%–5.000% | 2026 | 596.9 | 466.4 | 510.1 |
| 2010C | ML&P Recovery Zone Economic Development Bonds | 5.590%–5.590% | 2040 | 13.3 | 13.3 | 13.3 |
| 2008 | ML&P Revenue and Refunding Revenue Bonds | 4.000%–6.000% | 2029 | 257.4 | 185.8 | 201.1 |
| 2004 | ML&P Improvement and Refunding Revenue Bonds | 3.000%–5.250% | 2029 | <u>284.9</u> | <u>-</u> | <u>141.1</u> |
| Total prior lien bonds | | | | <u>\$ 2,442.0</u> | <u>\$ 1,903.8</u> | <u>\$ 1,863.3</u> |

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The Department had the following activity in long-term debt during 2014 and 2013:

| <i>(\$ in millions)</i> | Balance at 1/1/14 | Additions | Reductions | Balance at 12/31/14 | Current Portion |
|-------------------------|----------------------|-----------|------------|------------------------|--------------------|
| 2014 | | | | | |
| Prior Lien Bonds | \$ 1,863.3 | \$ 265.2 | \$ (224.7) | \$ 1,903.8 | \$ 104.9 |
| | Balance at 1/1/13 | Additions | Reductions | Balance at 12/31/13 | Current Portion |
| 2013 | | | | | |
| Prior Lien Bonds | \$ 1,778.6 | \$ 190.7 | \$ (106.0) | \$ 1,863.3 | \$ 99.7 |

Prior Lien Bonds—In November 2014 the Department issued \$265.2 million of tax exempt Municipal Light and Power (ML&P) Improvement and Refunding Revenue Bonds (2014 Bonds). Coupon interest rates range from 4.00% to 5.00% and mature serially from September 1, 2015 to September 1, 2038 with term Bonds maturing September 1, 2044. The arbitrage yield of the 2014 Bonds was 2.58%. 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 2014 Bonds are being used to finance certain capital improvement and conservation programs, to advance refund \$125.0 million of the 2004 series outstanding prior lien bonds, and to make a deposit to the Reserve Fund.

The debt service on the 2014 Bonds requires a cash flow over the life of the bonds of \$414.4 million, including \$149.2 million in interest. The difference between the cash flows required to service the old and new debt and to complete the refunding totaled \$20.5 million, and the aggregate economic gain on refunding totaled \$19.0 million at net present value. The accounting loss on refunding was \$1.3 million.

In July 2013 the Department issued \$190.8 million of tax exempt Municipal Light and Power (ML&P) Improvement and Refunding Revenue Bonds (2013 Bonds). Coupon interest rates range from 2.00% to 5.00% and mature serially from July 1, 2014 to July 1, 2033 with term Bonds maturing July 1, 2043. The arbitrage yield of the 2013 Bonds was 3.91%. Proceeds from the 2013 Bonds were used to finance certain capital improvement and conservation programs, to advance refund \$14.2 million of the 2004 series outstanding prior lien bonds, and to make a deposit to the Reserve Fund.

The debt service on the 2013 Bonds requires a cash flow over the life of the bonds of \$352.2 million, including \$161.4 million in interest. The difference between the cash flows required to service the old and new debt and to complete the refunding totaled \$1.4 million, and the aggregate economic gain on refunding totaled \$0.7 million at net present value. The accounting loss on refunding was \$0.8 million.

The Department has certain bonds outstanding that provide a refundable tax credit, or federal subsidy, paid to state or local governmental issuers by the United States Internal Revenue Service. 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.

Pursuant to the requirements of the Balanced Budget and Emergency Deficit Control Act of 1985, as amended, certain automatic reductions were effective March 1, 2013 for qualified bonds including the Department's 2012C series Bonds, 2011B series Bonds, 2010A series Bonds, and 2010C series Bonds. Federal subsidies for these bonds were reduced by 7.2% through the end of the federal fiscal year

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(September 30, 2014) at which time the automatic reductions were adjusted to 7.3%. The effect for the accrual of federal subsidies as of December 31, 2014 was inconsequential. The effect during 2015 is estimated to be lower federal subsidies by approximately \$0.4 million. The effect thereafter for federal subsidies is indeterminable.

Debt service requirements for prior lien bonds, excluding federal subsidies for the 2012, 2011 and 2010 bonds are as follows:

| Years Ending December 31 (\$ in millions) | Principal Redemptions | Interest Requirements | Total |
|---|--------------------------|--------------------------|-------------------|
| 2015 | \$ 104.9 | \$ 89.5 | \$ 194.4 |
| 2016 | 101.6 | 86.4 | 188.0 |
| 2017 | 102.8 | 81.3 | 184.1 |
| 2018 | 103.4 | 76.4 | 179.8 |
| 2019 | 100.2 | 71.4 | 171.6 |
| 2020 – 2024 | 500.9 | 281.6 | 782.5 |
| 2025 – 2029 | 358.1 | 166.1 | 524.2 |
| 2030 – 2034 | 208.7 | 100.8 | 309.5 |
| 2035 – 2039 | 208.6 | 49.4 | 258.0 |
| 2040 – 2044 | <u>114.6</u> | <u>10.8</u> | <u>125.4</u> |
| Total | <u>\$ 1,903.8</u> | <u>\$ 1,013.7</u> | <u>\$ 2,917.5</u> |

The Department is required by Ordinance No. 124336 (the bond ordinance) to fund reserves for the 2014 Bonds and other parity bonds in the Municipal light and power bond reserve fund (Reserve Fund) in an amount at any time equal to the lesser of (a) the maximum annual debt service on all parity bonds then outstanding; and (b) the maximum amount permitted by the Internal Revenue Code as a reasonably required reserve or replacement fund (Reserve Requirement). The Reserve Requirement upon issuance of the 2014 Bonds was an amount equal to \$114.4 million (125% of average annual debt service). The maximum annual debt service on prior lien bonds is \$194.4 million due in 2015 and the average annual debt service was \$91.5 million at issuance of the 2014 Bonds. The Reserve Requirement is funded in part with a Reserve Fund (an account within the books of the Department) with a balance of \$47.9 million at the end of 2014. Funding of the Reserve Fund is comprised of bond proceeds, operating cash transfers, and interest earnings. The Reserve Requirement was also funded by an existing surety bond purchased in 2005 from Financial Security Assurance, Inc., which is now known as Assured Guarantee Municipal Corporation, in the amount of \$77.1 million. The surety bond will expire on August 1, 2029. As of December 31, 2014, Assured Guarantee Municipal Corporation was rated A2 and AA by Moody's and Standard & Poor's, respectively. The bond ordinance does not require that the Reserve Requirement be funded with cash, a substitute surety bond, or letter of credit, if the provider of qualified insurance is downgraded. Under the bond ordinance, a surety bond qualifies as Qualified Insurance for purposes of satisfying the Reserve Requirement if the provider's ratings are in one of the top two rating categories at the time the policy is issued, even if the provider of such surety bond is subsequently downgraded.

A portion of the proceeds from the 2014 revenue refunding Bonds were placed in a separate irrevocable trust account to provide for all future debt service payments on certain prior lien bonds advance refunded or defeased. Neither the assets of the trust account nor the liabilities for the defeased bonds are reflected in the Department's financial statements. There was no outstanding principal balance of

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deceased bonds as of December 31, 2014, and \$41.8 million of deceased bonds were outstanding as of December 31, 2013. Also, \$121.4 million of the 2003 bonds were repaid from the 2013 irrevocable trust account during 2013. There were no irrevocable trust account assets at the end of December 31, 2014.

Bond Ratings—The 2014 and 2013 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 for 2014 and 2013 was \$189.9 million and \$178.0 million, respectively. Total revenue available for debt service as defined for the same periods was \$341.4 million and \$319.6 million, respectively. Annual interest and principal payments are expected to require 56.9% of revenues available for debt service for 2015 and required 59.4% in 2014.

Federal Arbitrage Regulations—Revenue bonds are subject to federal arbitrage regulations and the Department has complied with these regulations. There was no federal arbitrage rebate due in 2014 or 2013.

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, 2014 and 2013, respectively.

Fair Value—Fair values at December 31, 2014 and 2013 were provided by the Department’s financial advisor, Piper Jaffray & Company. The fair value for the Department’s bonds are estimated based on the quoted market prices for the same or similar issues or on the current rates offered to the Department for debt of the same remaining maturities. Carrying amounts (net of premiums and discounts) and fair values at December 31, 2014 and 2013, were as follows:

| (\$ in millions) | 2014 | | 2013 | |
|------------------|-----------------|------------|-----------------|------------|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Long-term debt: | | | | |
| Prior lien bonds | \$ 2,030.1 | \$ 2,145.2 | \$ 1,970.0 | \$ 2,012.6 |

Amortization—Discounts and premiums are amortized using the effective interest method over the term of the bonds.

The excess of costs incurred over the carrying value of bonds refunded on early extinguishment of debt is amortized as a component of interest expense using the effective interest method over the terms of the issues to which they pertain. Charges on advance refunding amortized to interest expense totaled \$3.8 million in 2014 and \$4.2 million in 2013. Charges on advance refunding in the amount of \$19.3 million and \$26.0 million are included as a component of Deferred Outflows of Resources on the 2014 and 2013 balance sheets, respectively.

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Noncurrent Liabilities—The Department had the following activities during 2014 and 2013:

| (\$ in millions) | Balance at 1/1/14 | Additions | Reductions | Balance at 12/31/14 |
|---|----------------------|---------------|------------------|------------------------|
| 2014 | | | | |
| Accumulated provision for injuries and damages | \$ 54.9 | \$ 0.3 | \$ (12.3) | \$ 42.9 |
| Compensated absences | 15.5 | 1.2 | - | 16.7 |
| Other | 7.7 | - | - | 7.7 |
| Total | <u>\$ 78.1</u> | <u>\$ 1.5</u> | <u>\$ (12.3)</u> | <u>\$ 67.3</u> |
| | | | | |
| | Balance at 1/1/13 | Additions | Reductions | Balance at 12/31/13 |
| 2013 | | | | |
| Accumulated provision for injuries and damages | \$ 53.5 | \$ 1.4 | \$ - | \$ 54.9 |
| Compensated absences | 15.1 | 0.4 | - | 15.5 |
| Other | 6.2 | 1.5 | - | 7.7 |
| Total | <u>\$ 74.8</u> | <u>\$ 3.3</u> | <u>\$ -</u> | <u>\$ 78.1</u> |

Additional information about the provision for injuries and damages can be found in Note 8 Provision for Injuries and Damages, and Note 11 Environmental Liabilities. Other includes primarily a liability for Other Postemployment Benefits; see Note 10 Seattle City Employees' Retirement System and Other Postemployment Benefits.

8. 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 11 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 2014 and 2013, liabilities for lawsuits, claims, and workers' compensation were discounted over a period of 16 to 19 years at the City's average annual rate of return on investments, which was 0.931% and 0.675%, 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. Beginning April 1, 2014, the City had general liability insurance coverage for losses over a \$6.5 million self-insured retention per occurrence, with a \$60.0 million limit per occurrence and in the aggregate. The Department had no settled claims exceeding coverage in the last three years.

The City also purchased an all risk comprehensive property insurance policy that provides \$500.0 million in limits subject to various deductible levels depending on the type of asset and value of the building. This includes \$100.0 million in earthquake and flood limits. Hydroelectric and certain other

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**NOTES TO FINANCIAL STATEMENTS
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utility producing and processing projects are not covered by the property policy. The City also purchased insurance for excess workers' compensation, fiduciary and crime liability, inland marine transportation, volunteers, and an assortment of commercial general liability, medical, accidental death and dismemberment, and miscellaneous policies. Bonds are purchased for public officials, public notaries, pension exposures, and specific projects and activities as necessary.

The changes in the provision for injuries and damages at December 31, 2014, and 2013, are as follows:

| <i>(\$ in millions)</i> | 2014 | 2013 |
|-----------------------------------|----------------|----------------|
| Beginning unpaid claims liability | \$ 11.7 | \$ 11.5 |
| Payments | (3.1) | (5.0) |
| Incurred claims | <u>4.3</u> | <u>5.2</u> |
| Ending unpaid claims liability | <u>\$ 12.9</u> | <u>\$ 11.7</u> |

The provision for injuries and damages included in current and noncurrent liabilities at December 31, 2014, and 2013 is as follows:

| <i>(\$ in millions)</i> | 2014 | 2013 |
|--|----------------|----------------|
| Noncurrent liabilities | \$ 8.9 | \$ 8.6 |
| Accounts payable and other current liabilities | <u>4.0</u> | <u>3.1</u> |
| Total liability | <u>\$ 12.9</u> | <u>\$ 11.7</u> |

9. ACCOUNTS PAYABLE

Accounts Payable and Other Current Liabilities—The composition of accounts payable and other current liabilities at December 31, 2014 and 2013, are as follows:

| <i>(\$ in millions)</i> | 2014 | 2013 |
|---|-----------------|----------------|
| Vouchers payable | \$ 38.4 | \$ 33.0 |
| Power accounts payable | 22.6 | 23.8 |
| Taxes payable | 7.8 | 10.5 |
| Claims payable | 27.7 | 17.1 |
| Guarantee deposit and contract retainer | 2.5 | 3.5 |
| Other accounts payable | <u>2.3</u> | <u>2.8</u> |
| Total | <u>\$ 101.3</u> | <u>\$ 90.7</u> |

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10. SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM AND OTHER POSTEMPLOYMENT BENEFITS

Pension Benefits—The Seattle City Employees' Retirement System (SCERS) is a single-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.

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. As of December 31, 2014, there were 6,020 retirees and beneficiaries receiving benefits and 8,746 active members of SCERS. In addition, 1,188 vested terminated employees were entitled to future benefits.

SCERS provides retirement, death, and disability benefits. Retirement benefits vest after 5 years of credited service, while death and disability benefits vest after 10 years of credited service. 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. The benefit is actuarially reduced for early retirement. Additional increases in the cost-of-living adjustments are available to current and future retired members only if SCERS attains at least a 100% funding ratio. SCERS does not provide termination benefits.

The contribution requirements of plan members and the City are established and may be amended by the Seattle City Council. In November 2010, the City Council adopted Ordinance No. 123482, amending Seattle Municipal Code Section 4.36.110 to provide for contribution rate increases for members of the City's Retirement System. In November 2011, the Seattle City Council adopted Resolution No. 31334, affirming the City's intent to fully fund its required contributions to SCERS. Changes to contribution rates are necessary to ensure continued financial support to the retired employees of the City. The City is required to contribute at an actuarially determined rate, equal to at least that of the members' contribution rate.

The City's contracts with all labor unions that represent members of SCERS describe how contribution rates would be changed in the event higher contributions are needed to improve the financial status of the Employee's Retirement Fund. Under these contracts, the City and employees will share any contribution rate increase equally, up to a maximum increase of 2% in the employee contribution. If a contribution rate increase is needed, the City intends to apply the same formula to non-represented employees.

Effective January 2012, the employee contribution rate of annual covered payroll was increased from 9.03% to 10.03%. The employer contribution rate was increased from 9.03% to 11.01%. The increase in contribution rates was necessary to acknowledge the financial and economic recession of 2007/2008 which adversely impacted SCERS' assets. Also, plan demographics showed active members in SCERS retire later in life and live longer, placing a heavier liability on SCERS' assets.

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In 2013, the total contribution rate was met with an employee contribution rate of 10.03% and in accordance with Resolution No. 31334, the City's contribution rate was increased from 11.01% to 12.89%. In 2014, the City's contribution rate was increased from 12.89% to 14.31% for a total combined contribution rate of 24.34% in accordance with Resolution No. 31474 adopted in August 2013.

In September 2014, the City Council adopted Resolution No. 31540, amending Resolution No. 31474, and increasing the City's contribution rate from 14.31% to 15.73% for a total contribution rate of 25.76% effective 2015, to reflect the results of the January 1, 2014 actuarial valuation study. This reflects the City's commitment to fund the actuarial required contribution rate.

Resolution No. 31474 clarified the City's approach toward amortizing the unfunded liability of SCERS and requested that the SCERS Board of Administration and its actuary deliver to the City Council in 2014 an analysis of other potential assumption and policy changes designed to further strengthen the retirement system. Resolution No. 31474 ended the rolling amortization practice that was effective with the January 1, 2013 actuarial valuation and revised the amortization period to amortize the UAAL to 29 years. Previously, the January 1, 2013 actuarial valuation required amortization for the unfunded liability as a closed, fixed period of 30 years. The change was retro-active to January 1, 2013.

Under the authority of the state and City, SCERS operates a securities lending program, and there were transactions during 2014 and 2013. In 2014 and 2013, SCERS did not incur a loss as a result of borrower default. SCERS did not have negative credit exposure at December 31, 2014, or 2013.

Employer contributions for the City were \$89.8 million, \$76.6 million, and \$62.5 million in 2014, 2013, and 2012, respectively. Employer contributions for the Department were \$22.0 million, \$18.4 million, and \$15.1 million in 2014, 2013, and 2012, respectively.

Actuarial Data

| | |
|-------------------------------|---------------------|
| Valuation date | January 1, 2014 |
| Actuarial cost method | Entry age |
| Amortization method | Level percent |
| Remaining amortization period | 29 years* |
| Amortization period | Maximum of 30 years |
| Asset valuation method | 5-Year Smoothing |

Actuarial Assumptions*

| | |
|--|-------|
| Price inflation | 3.25% |
| Investment rate of return | 7.50% |
| Projected general wage increases | 4.00% |
| Postretirement benefit increases | 1.50% |
| Cost-of-living year-end bonus dividend | 0.00% |

* The revised contribution rate of 24.34% currently in effect as of the January 1, 2014 valuation.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

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Annual Pension Cost and Net Pension Obligation

For Fiscal Years Ending December 31, 2014 and December 31, 2013

Based on January 1, 2013 and January 1, 2012 Valuations*

| (\$ in millions) | Fiscal Year Ended December 31 | |
|---|-------------------------------|----------------|
| | 2014 | 2013 |
| 1a Total normal cost rate | 14.95 % | 14.95 % |
| 1b Employee contribution rate | <u>10.03 %</u> | <u>10.03 %</u> |
| 1c Employer normal cost rate (1a-1b) | 4.92 % | 4.92 % |
| 2a Total employer contribution rate | 14.31 % | 12.89 % |
| 2b Amortization payment rate (2a-1c) | 9.39 % | 7.97 % |
| 2c Amortization period** | 35 years | 38 years |
| 2d GASB 27 amortization rate | 10.68 % | 9.10 % |
| 3 Total annual required contribution (ARC) rate (1c+2d) | 15.60 % | 14.02 % |
| 4 Covered employee payroll*** | \$ 598.0 | \$ 567.8 |
| 5a ARC (3x4)**** | \$ 83.9 | \$ 67.2 |
| 5b Interest on net pension obligation (NPO) | (0.2) | (0.6) |
| 5c ARC adjustment | <u>0.1</u> | <u>0.4</u> |
| 5d Annual pension cost (APC) (5a+5b+5c) | \$ 83.8 | \$ 67.0 |
| 6 Employer contribution | \$ 77.1 | \$ 62.5 |
| 7a Change in NPO (5d-6) | \$ 6.7 | \$ 4.5 |
| 7b NPO at beginning of year | <u>(2.6)</u> | <u>(7.1)</u> |
| 7c NPO at end of year (7a+7b) | \$ 4.1 | \$ (2.6) |

* Beginning with the January 1, 2013 actuarial valuation report, GASB calculations take into account the lag between determination of the actuarial contribution rate. For example, the January 1, 2012 actuarial valuation calculates the contribution rate beginning January 1, 2013 (for fiscal year ending December 31, 2013). This change was made due to SCERS' new funding policy, adopted in 2011, to contribute the actuarially determined contribution rate (previously, a fixed rate was contributed).

** If the amortization period determined by the actual contribution rate exceeds the maximum amortization period required by GASB Statement No. 27, the ARC is determined using an amortization of the UAAL over 30 years.

*** Covered payroll includes compensation paid to all active employees on which contributions were made in the year preceding the valuation date.

**** Items 5a-5d were calculated using prior year total ARC rate. In 2012, total ARC rate was 11.84%.

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The schedules of funding progress (\$ in millions) (unaudited) for SCERS are as follows:

| Actuarial Valuation Date January 1 | Actuarial Value of Assets (A) | Actuarial Accrued Liabilities (AAL) ^(a) (B) | Unfunded AAL (UAAL) ^(b) (B-A) | Funding Ratio (A/B) | Covered Payroll ^(c) (C) | UAAL (or Excess) as a Percentage of Covered Payroll ((B-A)/C) |
|---|--|--|---|---------------------------|--|--|
| 2012 | \$ 1,954.3 | \$ 2,859.3 | \$ 905.0 | 68.3 % | \$ 557.0 | 162.5 % |
| 2013 | 1,920.1 | 3,025.3 | 1,105.2 | 63.5 | 567.8 | 194.6 % |
| 2014 | 2,094.3 | 3,260.1 | 1,165.8 | 64.2 | 597.9 | 195.0 % |

- (a) Actuarial present value of benefits less actuarial present value of future normal costs based on entry age actuarial cost method.
- (b) Actuarial accrued liabilities less actuarial value of assets; funding excess if negative.
- (c) Covered payroll includes compensation paid to all active employees on which contributions were made in the year preceding the valuation date.

SCERS issues stand-alone financial statements that may be obtained by writing to the Seattle City Employees' Retirement System, 720 Third Avenue, Suite 900, Seattle, WA 98104; by telephone at (206) 386-1293; or by accessing the web site http://www.seattle.gov/retirement/annual_report.htm.

Other Postemployment Benefits (OPEB)—Health care plans for active and retired employees are administered by the City of Seattle as single-employer defined benefit public employee health care plans.

Employees retiring under the City may continue their health insurance coverage under the City's health insurance plans for active employees. When a retired participant dies, the spouse remains fully covered until age 65 and covered by the Medicare supplement plan thereafter. Employees that retire with disability retirement under the City may continue their health coverage through the City with same coverage provisions as other retirees. Eligible retirees self-pay 100 percent of the premium based on blended rates which were established by including the experience of retirees with the experience of active employees for underwriting purposes. The City provides an implicit subsidy of the post-retirement health insurance costs and funds the subsidy on a pay-as-you-go basis. The postemployment benefit provisions are established and may be amended by ordinance of the Seattle City Council and as provided in Seattle Municipal Code 4.50.020.

The City's expected contribution for employer-paid benefits was \$1.0 million, \$2.4 million, and \$2.4 million in 2014, 2013, and 2012, respectively. The Department's portion of the expected contribution was \$0.2 million, \$0.4 million, and \$0.4 million in years 2014, 2013 and 2012, respectively. The City recorded an expense and liability for OPEB of \$2.5 million in 2014 and \$4.8 million in 2013. The Department recorded a reduction to an expense and liability for OPEB of \$13.1 thousand in 2014, and an increase to an expense and liability for OPEB of \$1.5 million in 2013.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

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:

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

Actuarial data and assumptions

| | |
|--|--|
| Valuation date | January 1, 2014 |
| Actuarial cost method | Entry age normal |
| Amortization method | Level dollar |
| Initial amortization period | 30 years, open |
| Discount rate | 3.48% |
| Health care cost trend rates—medical: | Aetna plans: 8.0%, decreasing by 0.5% each year for 2 years with varying rate changes thereafter. Group Health plans: 7.5%, decreasing by 0.5% each year for 3 years with varying rate changes thereafter. |
| Participation | 40% of Active Employees who retire participate |
| Mortality | General Service Actives and Retirees based on RP-2000 Table and RP-2000 Combined Healthy, respectively, with ages set back six years for male and female actives; set back two years for male and female retirees. Rates are generational for both males and females using Projection Scale AA. |
| Marital status | 45% of members electing coverage: married or have a registered domestic partner. Male spouses two years older than their female spouses. |
| Morbidity factors | Morbidity rate ranges for ages 50 through 64: |
| Aetna Traditional & Aetna Preventive | Per-capita claim costs for the two Aetna plans were developed based on a blending of the following with equal weights (25% each): self-funding premium equivalent rates provided by City of Seattle, Aon Hewitt's internal manual rate, retiree claim experience specific to each plan from 1/1/2012 to 8/31/2014, and active claim experience specific to the Aetna plans from 1/1/2012 to 8/31/2014. For the Aetna plans, because the retirees' spouses pay a lower premium for health care coverage than retirees, the net cost to the City for the spouse coverage is greater than for a retiree of the same age and gender. The morbidity factors were adjusted to reflect this discrepancy. |
| Group Health Standard and Deductible Plans | Per-capita claim costs for the two Group Health plans were developed based on a blending of the following with equal weights (33.3% each): self-funding premium equivalent rates provided by City of Seattle, Aon Hewitt's internal manual rate, and retiree claim experience specific to each plan from 1/1/2012 to 8/31/2014. |
| Other considerations | Active employees with current spouse and/or dependent coverage elect same plan and coverage. After retirement, it is assumed that children will have aged off of coverage and will have \$0 liability. |

Based on the actuarial valuation date of January 1, 2014, the City's annual cost for fiscal years ended

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**NOTES TO FINANCIAL STATEMENTS
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December 31, 2014 and 2013, the amount of expected contribution to the plan, and changes in net obligation are as follows:

| <i>(\$ in millions)</i> | 2014 | 2013* |
|--|----------------|----------------|
| Annual required contribution | \$ 4.4 | \$ 8.5 |
| Interest on net OPEB obligation | 1.5 | 1.5 |
| Adjustment to annual required contribution | <u>(2.4)</u> | <u>(2.2)</u> |
| Annual OPEB cost (expense) | 3.5 | 7.8 |
| Expected contribution (employer-paid benefits) | <u>(1.0)</u> | <u>(3.0)</u> |
| Increase in net OPEB obligation | 2.5 | 4.8 |
| Net OPEB obligation - beginning of the year | <u>44.3</u> | <u>39.5</u> |
| Net OPEB obligation - end of year | <u>\$ 46.8</u> | <u>\$ 44.3</u> |

* Updated based on the latest actuarial valuation report dated January 1, 2014.

The schedules of funding progress (\$ in millions) (unaudited) are as follows:

| Actuarial Valuation Date January 1 | Actuarial Value of Assets (A) | Actuarial Liabilities (AAL) Entry Age (B) | Unfunded AAL (UAAL) (B-A) | Funding Ratio (A/B) | Covered Payroll (C) | UAAL as a Percentage of Covered Payroll ((B-A)/C) |
|---|--|---|------------------------------------|---------------------------|---------------------------|---|
| 2012 | \$ - | \$ 74.7 | \$ 74.7 | - % | \$ 891.6 | 8.4 % |
| 2013 | - | 78.9 | 78.9 | - | 936.1 | 8.4 |
| 2014 | - | 41.8 | 41.8 | - | 1,004.0 | 4.2 |

The Health Care Subfund of the General Fund is reported in The City of Seattle's Comprehensive Annual Financial Report.

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NOTES TO FINANCIAL STATEMENTS

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11. ENVIRONMENTAL LIABILITIES

Environmental liabilities were \$57.6 million and \$60.2 million, at December 31, 2014, and 2013, respectively.

The following is a brief description of the significant Superfund sites:

- *The Harbor Island Superfund Site*—In 1983, the U.S. Environmental Protection Agency (EPA) designated this site as a federal Superfund site. The Department and other entities are sharing costs of investigating contamination in the East Waterway alongside Harbor Island. The Department's involvement stems from its sale of transformers to a company on Harbor Island. The City of Seattle is one of four parties who are conducting a remedial investigation and feasibility study that will delineate cleanup actions. The EPA approved the remedial investigation report. The Department's ultimate liability is indeterminate.
- *The Lower Duwamish Waterway Superfund Site*—In 2001, the EPA designated this site as a federal Superfund site for contaminated sediments. The Department's involvement is attributable to its land ownership or use of property along the river. The City of Seattle is one of four parties who signed an Administrative Order on Consent (AOC) with the EPA and Washington State Department of Ecology to conduct a remedial investigation/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 Superfund Site. In November 2014, the EPA issued its final Record of Decision indicating its preferred alternative clean-up with an estimated cost of \$342.0 million. At this time, the cost of certain additional undefined requirements by the EPA is unknown. The Department's ultimate liability is indeterminate.

In November 2012, the EPA issued general notification letters to parties informing them of their potential liability for the Lower Duwamish Waterway cleanup. The City and other three parties who signed the AOC with the EPA have 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. The City has selected an allocator. The development of the allocation process agreement is ongoing. The Department has agreed to administer the allocator's contract. Parties participating in the allocation process will share the cost of the allocator and the process.

The City is also responsible for investigation and cleanup at the Port of Seattle Terminal 117. The City agreed to pay 40% of the costs to clean up the uplands and river sediment parts of the site and 100% of the costs to clean up contamination in adjacent streets. The City's share for the uplands and sediments is paid 100% by the Department and the Department's ultimate liability is indeterminate for Terminal 117.

- *North Boeing Field/Georgetown Steam Plant*—The City, King County, and Boeing have signed an Administrative Order issued by the Washington State Department of Ecology (Ecology) requiring them to investigate and possibly remove contamination in an area that encompasses North Boeing Field, the Department's Georgetown Steam Plant, and the King County Airport. This site was also the subject of the lawsuit brought by the City against Boeing. Boeing has agreed to pay 67% of the costs for Ecology's implementation of the order. The order requires completion and then implementation of a remedial investigation/feasibility study work plan. The final remedial investigation work plan was

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issued in November 2013. In January 2015, all parties executed the First Amendment to the North Boeing Field/Georgetown Steam Plant Agreed Order, making all parties responsible for conducting and completing remedial action at the site. The City is responsible for 1/3 of the costs, with the Department's share at 90%. The implementation of the work plan is scheduled for 2015. Boeing and the City will each pay 100% of costs for remedial action at their own facilities.

The Department has included in its estimated liability those portions of the environmental remediation work that are currently deemed to be reasonably estimable. Cost estimates were developed using the expected cash flow technique in accordance with Statement No. 49 of the GASB. Estimated outlays were based on current cost and no adjustments were made for discounting or inflation. Cost scenarios were developed that defined a particular solution for a given site. Scenarios considered relevant potential requirements and alternatives for remediation of a site. Costs were calculated on a weighted average that was based on the probabilities of each scenario being selected and reflected cost-sharing agreements in effect. In addition, certain estimates were derived from independent engineers and consultants. The estimates were made with the latest information available; as new information becomes available, estimates may vary significantly due to price increases or reductions, technology, or applicable laws or regulations.

The Department is aggressively pursuing other third parties that may have contributed to the contamination of superfund sites for appropriate cost sharing. The Department's estimate for realized recoveries was \$1.0 million and \$3.1 million at December 31, 2014, and 2013, respectively, primarily representing an interfund receivable from Seattle Public Utilities for recovery of remediation costs incurred related to the lower Duwamish Waterway site. The Department's estimate for not yet realized recoveries from other parties for their share of remediation work performed that partially offset the Department's estimated environmental liabilities were zero at December 31, 2014, and 2013. As of December 31, 2014, and 2013, environmental costs of \$34.5 million and \$31.7 million were deferred primarily for the cleanup estimate of the Department's responsibility for the Lower Duwamish Waterway Superfund Site, and these costs will be recovered through future rates in accordance with GASB Statement No. 62.

The changes in the provision for environmental liabilities at December 31, 2014, and 2013 are as follows:

| <i>(\$ in millions)</i> | 2014 | 2013 |
|--|----------------|----------------|
| Beginning environmental liability, net of recoveries | \$ 60.2 | \$ 58.3 |
| Payments | (6.4) | (6.3) |
| Incurred environmental liability | <u>3.8</u> | <u>8.2</u> |
| Ending environmental liability, net of recoveries | <u>\$ 57.6</u> | <u>\$ 60.2</u> |

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The provision for environmental liabilities included in current and noncurrent liabilities at December 31, 2014 and 2013, is as follows:

| (\$ in millions) | 2014 | 2013 |
|--|----------------|----------------|
| Noncurrent liabilities | \$ 34.0 | \$ 46.2 |
| Accounts payable and other current liabilities | <u>23.6</u> | <u>14.0</u> |
| Ending liability | <u>\$ 57.6</u> | <u>\$ 60.2</u> |

12. OTHER LIABILITIES

Other liabilities include unearned capital fees which are amortized to revenues as earned, deposits that are returned to customers, and certain other unearned revenues which expire at contract completion.

Other liabilities at December 31, 2014 and 2013 consisted of the following:

| (\$ in millions) | 2014 | 2013 |
|--|----------------|----------------|
| Other liabilities: | | |
| Unearned capital fees | \$ 20.7 | \$ 13.8 |
| Customer deposits—sundry sales | 5.4 | 4.4 |
| Unearned operations and maintenance revenues | 0.2 | 0.4 |
| Unearned revenues—other | <u>0.4</u> | <u>0.6</u> |
| Total | <u>\$ 26.7</u> | <u>\$ 19.2</u> |

13. 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 2014 and 2013 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 3 Rate Stabilization Account). Payments received from Bonneville's Energy Conservation Agreement are amortized to revenues over 20 years.

Bonneville Slice contract true-up credits are reported as regulatory liabilities in the year invoiced and recognized as revenue in the following year (see Note 15 Long-Term Purchased Power, Exchanges and Transmission). 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 15 Long-Term Purchased Power, Exchanges, and Transmission).

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Deferred inflows of resources at December 31, 2014 and 2013 consisted of the following:

| <i>(\$ in millions)</i> | 2014 | 2013 |
|---|-----------------|-----------------|
| Deferred inflows of resources: | | |
| Unearned revenue—rate stabilization account | \$ 89.4 | \$ 85.0 |
| Bonneville energy conservation agreement | 16.4 | 10.4 |
| Bonneville Slice true-up credit | 5.6 | 4.3 |
| Exchange energy: regulatory gain | <u>0.1</u> | <u>1.0</u> |
| Total | <u>\$ 111.5</u> | <u>\$ 100.7</u> |

14. 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. On the basis of these projections, the Department purchases and sells wholesale electric capacity and energy to match expected resources to expected electric load requirements, and to realize earnings from surplus energy resources. These transactions can be up to 24 months forward. Under these forward contracts, the Department commits to purchase or sell a specified amount of energy at a specified time, or during a specified time in the future. Except for limited intraday and interday trading to take advantage of owned hydro storage, the Department does not take market positions in anticipation of generating revenue. Energy transactions in response to forecasted seasonal resource and demand variations require approval by the Department's Risk Oversight Council.

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 Statement No. 53. These transactions are not required to be recorded at fair value in the financial statements.

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The 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 follow:

| <i>(\$ in millions)</i> | Aggregate Contract Amount | Aggregate Fair Value | Unrealized Gain (Loss) |
|-------------------------|--------------------------------------|---------------------------------|-----------------------------------|
| 2014 | | | |
| Sales | \$ 13.3 | \$ 11.9 | \$ 1.4 |
| Purchases | - | - | - |
| Total | <u>\$ 13.3</u> | <u>\$ 11.9</u> | <u>\$ 1.4</u> |
| | | | |
| | Aggregate Contract Amount | Aggregate Fair Value | Unrealized Gain (Loss) |
| 2013 | | | |
| Sales | \$ 19.4 | \$ 22.4 | \$ (3.0) |
| Purchases | 1.5 | 1.7 | 0.2 |
| Total | <u>\$ 20.9</u> | <u>\$ 24.1</u> | <u>\$ (2.8)</u> |

Fair value measurements at December 31, 2014, and 2013, used an income valuation technique consisting of Kiindex Forward Curves and interest rates from HIS Global Insight that are used to calculate discount rates.

All derivative instruments not considered as normal purchases and normal sales are to be recorded within the financial statements using derivative accounting according to 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 Statement No. 53. The Department did not have any such activity for 2014 and 2013. 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 Notes 6 Other Assets and 13 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

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limits and duration criteria to existing and prospective counterparties; and actively monitoring current credit exposures. The Department also seeks assurances of performance through collateral requirements in the form of letters of credit, parent company guarantees, or prepayment.

The Department has concentrations of suppliers and customers in the electric industry including: electric utilities; electric generators and transmission providers; financial institutions; and energy marketing and trading companies. In addition, the Department has concentrations of credit risk related to geographic location as it operates in the western United States. These concentrations of counterparties and concentrations of geographic location may impact the Department's overall exposure to credit risk, either positively or negatively, because the counterparties may be similarly affected by changes in conditions.

Other Operational and Event Risk—There are other operational and event risks that can affect the supply of the commodity, and the Department's operations. Due to the Department's primary reliance on hydroelectric generation, the weather, including spring time snow melt, runoff, and rainfall, can significantly affect the Department's operations. Other risks include regional planned and unplanned generation outages, transmission constraints or disruptions, environmental regulations that influence the availability of generation resources, and overall economic trends.

15. 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. Block quantities, Slice percentage and Bonneville rates are expected to be recalculated periodically during the term of the contract. Rates will be developed and finalized every two years. Accordingly, certain estimates and assumptions were used in the calculations in the estimated future payments table below.

The terms of the Slice product specify that the Department will receive a percentage of the actual output of the Federal Columbia River Power System (the System). The percentage is adjusted annually with a Slice Adjustment Ratio no greater than 1.0 times the 3.65663 initial slice percentage, no later than 15 days prior to the first day of each federal fiscal year, beginning with fiscal year 2012. The current Slice percentage is 3.62763%, the same as the previous fiscal year. The cost of Slice power is based on the Department's same percentage of the expected costs of the System and is subject to true-up adjustments based on actual costs with specified exceptions.

Bonneville's Residential Exchange Program (REP) was established as a mechanism to distribute financial benefits of the Federal Columbia River Power System to residential customers of the region's investor owned utilities (IOUs). In May 2007, the Ninth Circuit Court (the Court) rulings found the 2000 REP Settlement Agreements with IOUs inconsistent with the Northwest Power Act. To remedy this inconsistency, the court ruled that refunds be issued to non IOUs through 2019. The Department received \$5.7 million in both 2014 and 2013 in billing credits related to both the Block and Slice agreements as a result of the Court decision.

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

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NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

and operating costs, including debt service, over the term of the contract, whether or not the plant is operating or operable.

The Department provided and billed Lucky Peak \$0.3 million for operational and administrative services in both 2014 and 2013. These amounts are recorded as offsets to purchased power expense. The Department paid \$3.2 million for energy from Lucky Peak in both 2014 and 2013.

The Department's receivables from Lucky Peak were less than \$0.1 million at December 31, 2014, and 2013, respectively. The Department's payables to Lucky Peak were \$0.3 million and \$0.4 million at December 31, 2014, and 2013, respectively.

British Columbia—High Ross Agreement—In 1984, an agreement was reached between the Province of British Columbia and the City under which British Columbia will provide the Department with energy equivalent to that which would have resulted from an addition to the height of Ross Dam. Delivery of this energy began in 1986 and is to be received for 80 years. In addition to the direct costs of energy under the agreement, the Department incurred costs of approximately \$8.0 million in prior years related to the proposed addition and was obligated to help fund the Skagit Environmental Endowment Commission through four annual \$1.0 million payments. These other costs are included in utility plant-in-service as an intangible asset, and are being amortized to purchase power expense over 35 years through 2035 (see Note 2 Utility Plant).

Energy received and expenses incurred under these and other long-term purchased power agreements at December 31, 2014 and 2013 were as follows:

| (\$ in millions) | Expense | | Average Megawatts | |
|---|----------|----------|-------------------|--------|
| | 2014 | 2013 | 2014 | 2013 |
| Bonneville Block | \$ 78.1 | \$ 70.1 | 266.5 | 270.0 |
| Bonneville Slice | 77.5 | 80.0 | 322.0 | 309.9 |
| Long-term purchase power—Bonneville | 155.6 | 150.1 | 588.5 | 579.9 |
| Lucky Peak, including royalties | 6.3 | 5.2 | 35.2 | 24.6 |
| British Columbia - High Ross Agreement | 13.4 | 13.4 | 35.1 | 35.7 |
| Grant County Public Utility District | 3.2 | 3.0 | 2.5 | 3.8 |
| Grand Coulee Project Hydro Authority | 6.0 | 5.5 | 31.1 | 29.1 |
| Bonneville South Fork Tolt billing credit | (3.3) | (3.3) | - | - |
| Renewable energy - State Line Wind | 23.7 | 23.8 | 40.8 | 41.4 |
| Renewable energy - other | 7.1 | 4.5 | 12.5 | 9.0 |
| Exchanges and loss returns energy at fair value | 8.9 | 9.2 | 14.5 | 16.6 |
| Long-term purchased power booked out | (6.7) | (8.3) | (25.3) | (31.8) |
| Long-term purchased power—other | 58.6 | 53.0 | 146.4 | 128.4 |
| Total | \$ 214.2 | \$ 203.1 | 734.9 | 708.3 |

Renewable Energy Purchase and/or Exchanges—The Energy Independence Act, Chapter 19.285 Revised Code of Washington, requires all qualifying utilities in Washington State to meet certain annual targets of eligible new renewable resources and/or equivalent renewable energy credits as a percentage of total energy delivered to retail customers. The annual targets are: at least 3% by 2012, at least 9% by 2016, and at least 15% by 2020. The Department's 2014 and 2013 resource portfolio met the 3% target.

Energy Exchange—Northern California Power Agency (NCPA) and the Department executed a long-term Capacity and Energy Exchange Agreement in March 1993. The Department delivers energy to NCPA from June through October 15. NCPA returns energy under conditions specified in the contract at

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a 1.2:1 ratio of exchange power, from November through April. The agreement includes financial settlement and termination options. In a letter NCPA dated May 17, 2011, NCPA gave seven year's advance written notice to the Department terminating the agreement effective no later than May 31, 2018.

Fair Value of Exchange Energy—Exchange energy receivable and the related regulatory gains at December 31, 2014 and 2013, were valued using Kiorex Forward Curves, and Dow Jones U.S. Daily Electricity Price Indices for settled deliveries. An income valuation technique that uses interest rate forecasts from HIS Global Insight is used to discount for present value based on the interest rate for U.S. Government Treasury constant maturities, bond-equivalent yields by the future month of the transactions (see Note 13 Deferred Inflows of Resources).

Estimated Future Payments Under Purchased Power, Transmission and Related Contracts—The Department's estimated payments for purchased power and transmission, Renewable Energy Credits (RECs) and other contracts for the period from 2015 through 2065, undiscounted, are as follows:

| Years Ending December 31 (<i>\$ in millions</i>) | Estimated Payments ^(a) |
|--|--------------------------------------|
| 2015 | \$ 286.6 |
| 2016 | 302.8 |
| 2017 | 307.3 |
| 2018 | 324.8 |
| 2019 | 336.5 |
| 2020-2024 | 1,766.1 |
| 2025-2029(b)(c) | 1,204.1 |
| Thereafter (through 2065) | <u>239.0</u> |
| Total | <u>\$ 4,767.2</u> |

(a) 2015 to 2019 includes estimated REP recoveries from Bonneville.

(b) Bonneville transmission contract expires July 31, 2025.

(c) Bonneville Block and Slice contract expires September 30, 2028.

16. COMMITMENTS AND CONTINGENCIES

Operating Leases—While the Department owns several buildings including those at the Skagit and Boundary hydroelectric projects, service centers, and the System Control Center, the Department leases some administrative office space from the City. Such lease payments to the City are made through a central cost allocation process, similar to all other payments for tenancy of City property. These payments are not included in the operating leases table below. The Department also leases certain office equipment and smaller facilities for various purposes through long-term operating lease agreements. Expenses for all operating leases totaled \$1.6 million in 2014 and \$1.3 million in 2013.

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NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

Minimum payments under the operating leases are:

| Year Ending December 31 (\$ in millions) | Minimum Payments |
|--|---------------------|
| 2015 | \$ 1.4 |
| 2016 | 1.4 |
| 2017 | 1.4 |
| 2018 | 1.0 |
| 2019 | <u>0.9</u> |
| Total | <u>\$ 6.1</u> |

2015 Capital Program— The budget for the Department’s 2015 program for capital improvement, conservation, and deferred operations and maintenance including required expenditures on assets owned by others is \$561.1 million. At December 31, 2014, the Department had approximately \$30.3 million in commitments relating thereto. Department overhead costs and other allocations associated with the capital program are not included in the budget amount.

Federal Energy Regulatory Commission Fees—Estimated Federal land use and administrative fees related to hydroelectric licenses total \$258.9 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, at which time their current FERC licenses expire. The estimated portion of Boundary fees is included through 2055, the year in which the current license issued by FERC expires. The current Boundary FERC license and related issues are discussed below.

New Boundary License—The Department’s FERC license for the Boundary Project expired on September 30, 2011 and a new license was issued on March 20, 2013 with a 42 year life and a total cost of \$48.6 million. The terms and conditions of the new license have been evaluated and the Department has moved to the license implementation process, which imposes mitigation of endangered species including water quality standards and conservation management.

As part of the application process, the Department negotiated a settlement with external parties such as owners of other hydroelectric projects, Indian tribes, conservation groups and other government agencies. The settlement sought to preserve the Department’s operational flexibility at Boundary Dam while providing for natural resource protection, mitigation and enhancement measures.

The cost projections for such mitigation over the expected 42-year life of the license, included in the Department’s license application, were estimated to be \$399.1 million adjusted to 2014 dollars, of which \$21.2 million were expended through 2014. 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 of these licenses, the Department has taken and will continue to take required mitigating and compliance measures.

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Total Skagit license mitigation costs from the effective date until expiration of the federal operating license were estimated at December 31, 2014, to be \$127.8 million, of which \$110.9 million had been expended. Total South Fork Tolt license mitigation costs were estimated at \$1.8 million, of which \$1.3 million were expended through 2014. 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 2014 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 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, 2014, are estimated to be \$9.0 million, and \$0.9 million has been allocated for the program in the 2015 budget.

Project Impact Payments—Effective August 2010, the Department renewed its contract with Pend Oreille County and committed to pay a total of \$19.0 million over 10 years ending in 2019 to Pend Oreille County for impacts on county governments from the operations of the Department's hydroelectric projects. Effective February 2009, the Department renewed its contract with Whatcom County committing to pay a total of \$15.8 million over 15 years ending in 2023. The payments compensate the counties, and certain school districts and towns located in these counties, for loss of revenues and additional financial burdens associated with the projects. The Boundary Project, located on the Pend Oreille River, affects Pend Oreille County, and Skagit River hydroelectric projects affect Whatcom County. The impact payments totaled \$2.5 million and \$2.4 million to Pend Oreille County, and \$1.0 million and \$1.0 million to Whatcom County in 2014 and 2013, respectively.

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NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

Energy Crisis Refund Litigation —The Department (City) is involved in various legal proceedings relating to the enormous price spikes in energy costs in California and the rest of the West Coast in 2000 and 2001.

- **California Refund Case, Appeals and Related Litigation**—In the proceeding before the Federal Energy Regulatory Commission (FERC), various public and private California entities (the California Parties) sought refunds in markets that had been created by the State of California. In February 2011, the City agreed to a settlement, which was eventually approved by the trial court and by FERC. Under the settlement, the City has resolved this matter for \$9.0 million, none of which was immediately paid by the Department. As part of the settlement, the City has assigned its accounts receivable from the California Independent Systems Operator to the California Parties, which was valued at approximately \$1.4 million at the time of the settlement agreement. The balance of over \$7.6 million is contingent upon the Department recovering monies in the Pacific Northwest Refund Case, discussed below. To date, the Department has received \$4.6 million in payments in the Pacific Northwest Refund Case, half of which has been paid to the California parties pursuant to the settlement.
- **Pacific Northwest Refund Case**—In a proceeding before FERC, various buyers of energy, including the City, sought refunds from various sellers on energy sales in the Pacific Northwest between December 1999 and June 2001. The case was tried at FERC between August and October of 2013. In March 2014, the FERC administrative law judge issued an Initial Decision denying all refunds. In May 2014, the City filed a brief objecting to the Initial Decision, and the parties are now awaiting a final decision from FERC. Prior to the FERC trial, the City settled refund claims with twelve entities, with a combined total settlement amount of \$4.6 million.

Taylor, et al. v. City – Four plaintiffs allege that certain Department managers retaliated and discriminated against them on the basis of age, race, gender, and sexual orientation. The Department managers deny all allegations of discrimination, harassment, and retaliation. An adverse result in litigation could result in awards of back pay, compensatory damages, and attorneys’ fees. Trial is currently scheduled for November 23, 2015, in King County Superior Court. The Department’s ultimate liability is indeterminate.

State Farm, et al. v. City, Puget Sound Energy(PSE) and Inghams - This case stems from a gas explosion in September 2011 in the Pinehurst neighborhood in Seattle. Discovery thus far indicates the Ingham home exploded after an undiscovered gas leak caused a gas buildup in the crawl space of their home. The Inghams were inside their home at the time, and Mrs. Ingham suffered severe burns. After cross-claims and joinders of additional parties, this case involves the claims of six insurance companies seeking over \$1.0 million in property damages involving eight different properties and the personal injury claims of the Inghams and their next-door neighbors. The plaintiffs’ theory against the Department is that

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**NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

the gas leak was caused by arcing electricity from a fallen Department power line blocks away from the Inghams' home. Puget Sound Energy is a co-defendant and was sanctioned by the State UTC regarding this incident. The case is scheduled for trial to commence on May 5, 2015. The Department's ultimate liability is indeterminate.

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.

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THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

SCHEDULES OF FUNDING PROGRESS

SCERS. The schedule of funding progress for SCERS is presented below for the most recent actuarial valuation and the two preceding valuations for which the Department has available data (dollar amounts in millions):

| Actuarial Valuation Date January 1 | Actuarial Value of Assets (A) | Actuarial Accrued Liabilities (AAL) ^(a) (B) | Unfunded AAL (UAAL) ^(b) (B-A) | Funding Ratio (A/B) | Covered Payroll ^(c) (C) | UAAL (or Excess) as a Percentage of Covered Payroll ((B-A)/C) |
|---------------------------------------|----------------------------------|---|---|------------------------|---------------------------------------|--|
| 2012 | \$ 1,954.3 | \$ 2,859.3 | \$ 905.0 | 68.3 % | \$ 557.0 | 162.5 % |
| 2013 | 1,920.1 | 3,025.3 | 1,105.2 | 63.5 | 567.8 | 194.6 |
| 2014 | 2,094.3 | 3,260.1 | 1,165.8 | 64.2 | 597.9 | 195.0 |

- (a) Actuarial present value of benefits less actuarial present value of future normal costs based on entry age actuarial cost method.
- (b) Actuarial accrued liabilities less actuarial value of assets; funding excess if negative.
- (c) Covered payroll includes compensation paid to all active employees on which contributions were made in the year preceding the valuation date.

OPEB. The schedule of funding progress for the other post-employment benefit healthcare plans is presented below for the most recent actuarial valuation and the two preceding valuations for which the Department has available data (dollar amounts in millions):

| Actuarial Valuation Date January 1 | Actuarial Value of Assets (A) | Actuarial Accrued Liabilities (AAL) Entry Age (B) | Unfunded AAL (UAAL) (B-A) | Funding Ratio (A/B) | Covered Payroll (C) | UAAL as a Percentage of Covered Payroll ((B-A)/C) |
|---------------------------------------|----------------------------------|--|------------------------------|------------------------|------------------------|--|
| 2012 | \$ - | \$ 74.7 | \$ 74.7 | - % | \$ 891.6 | 8.4 % |
| 2013 | - | 78.9 | 78.9 | - | 942.0 | 8.4 |
| 2014 | - | 41.8 | 41.8 | - | 1,004.0 | 4.2 |

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 2014, 2013, and 2012. The target level for debt service coverage was 1.8x on all bonds for 2014, 2013, and 2012 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 | | |
|---|-----------------|-----------------|-----------------|
| | 2014 | 2013 | 2012 |
| Revenues: | | | |
| Total operating revenues (a) | \$ 890.5 | \$ 842.2 | \$ 800.3 |
| Adjustments: | | | |
| Valuation of exchange power revenues | (25.3) | (18.8) | (12.6) |
| BPA conservation augmentation revenue | (0.7) | (0.5) | (0.2) |
| Investment income (b) | 5.4 | 4.7 | 4.4 |
| Proceeds/gain on sale of property | 2.0 | 2.4 | 0.2 |
| Principal receipts from suburban infrastructure receivables | 0.8 | 0.7 | 0.5 |
| Other income (expense), net, excluding CIAC (d) | 0.1 | 3.1 | 2.6 |
| Total revenues | <u>\$ 872.8</u> | <u>\$ 833.8</u> | <u>\$ 795.2</u> |
| Expenses: | | | |
| Operation and maintenance | \$ 548.3 | \$ 529.4 | \$ 492.3 |
| Adjustments: | | | |
| Amortization and depreciation charged to operations | (24.8) | (22.3) | (21.5) |
| Valuation of exchange power purchases | (25.6) | (18.6) | (12.8) |
| Non-cash write-offs | (0.6) | (9.8) | (1.3) |
| Net non-cash claims | (1.3) | (1.0) | (1.5) |
| Subtotal | <u>496.0</u> | <u>477.7</u> | <u>455.2</u> |
| Taxes, excluding City Taxes (c) | 35.4 | 36.5 | 33.9 |
| Total expenses | <u>\$ 531.4</u> | <u>\$ 514.2</u> | <u>\$ 489.1</u> |
| Revenue available for debt service | <u>\$ 341.4</u> | <u>\$ 319.6</u> | <u>\$ 306.1</u> |
| Total Debt Service (d) | <u>\$ 184.8</u> | <u>\$ 172.8</u> | <u>\$ 169.1</u> |
| Debt service coverage ratio | <u>1.85</u> | <u>1.85</u> | <u>1.81</u> |

- (a) Operating revenues adjusted by \$4.1 million for prior years one-time true-up downward adjustment to unbilled revenue, a noncash item recorded in 2014. Prior years presented were not revised.
- (b) Excludes GASB 31 adjustments for fair market value investments.
- (c) City taxes take a junior lien to debt service.
- (d) Debt service reported net of federal bond subsidies; revenue for federal debt subsidies also excluded from Other income (expense), net, excluding CIAC.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

OTHER INFORMATION (UNAUDITED)

DEBT SERVICE COVERAGE: ALL BONDS

| Year Ending December 31 (<i>\$ in millions</i>) | Revenue Available for Debt Service | Debt Service Requirements | Debt Service Coverage |
|--|---|--------------------------------------|----------------------------------|
| 2014 | \$ 341.4 | \$ 184.8 | 1.85 |
| 2013 | 319.6 | 172.8 | 1.85 |
| 2012 | 306.1 | 169.1 | 1.81 |
| 2011 | 269.9 | 146.7 | 1.84 |
| 2010 | 210.4 | 118.4 | 1.78 |

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> | Principal | Interest | Total ^(a) |
|---|-------------------|-------------------|----------------------|
| 2015 | \$ 104.9 | \$ 89.5 | \$ 194.4 |
| 2016 | 101.6 | 86.4 | 188.0 |
| 2017 | 102.8 | 81.3 | 184.1 |
| 2018 | 103.4 | 76.4 | 179.8 |
| 2019 | 100.2 | 71.4 | 171.6 |
| 2020 | 99.8 | 66.3 | 166.1 |
| 2021 | 99.5 | 61.4 | 160.9 |
| 2022 | 98.7 | 56.4 | 155.1 |
| 2023 | 100.1 | 51.3 | 151.4 |
| 2024 | 102.8 | 46.2 | 149.0 |
| 2025 | 91.3 | 41.0 | 132.3 |
| 2026 | 87.4 | 36.5 | 123.9 |
| 2027 | 61.3 | 32.6 | 93.9 |
| 2028 | 62.4 | 29.5 | 91.9 |
| 2029 | 55.7 | 26.5 | 82.2 |
| 2030 | 38.6 | 24.1 | 62.7 |
| 2031 | 40.1 | 22.2 | 62.3 |
| 2032 | 41.7 | 20.2 | 61.9 |
| 2033 | 43.2 | 18.2 | 61.4 |
| 2034 | 45.1 | 16.1 | 61.2 |
| 2035 | 47.0 | 13.9 | 60.9 |
| 2036 | 49.0 | 11.7 | 60.7 |
| 2037 | 36.1 | 9.6 | 45.7 |
| 2038 | 37.5 | 8.0 | 45.5 |
| 2039 | 39.0 | 6.2 | 45.2 |
| 2040 | 40.5 | 4.4 | 44.9 |
| 2041 | 28.1 | 2.9 | 31.0 |
| 2042 | 18.2 | 1.9 | 20.1 |
| 2043 | 19.0 | 1.2 | 20.2 |
| 2044 | <u>8.8</u> | <u>0.4</u> | <u>9.2</u> |
| Total | <u>\$ 1,903.8</u> | <u>\$ 1,013.7</u> | <u>\$ 2,917.5</u> |

(a) Maximum debt service of \$194.4 is due in 2015. See Note 7 Long-term debt.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

OTHER INFORMATION (UNAUDITED)

STATEMENT OF LONG-TERM DEBT

As of December 31, 2014

(\$ in millions)

| Bond Series | When Due | Interest Rate (%) | Amount Issued | Amount Outstanding | Amount Due Within One Year | Accrued Interest |
|--------------|-----------|-------------------|---------------|--------------------|----------------------------|------------------|
| Series 2008 | 2015 | 5.250 | \$ 16.3 | \$ 16.3 | \$ 16.3 | \$ 0.2 |
| Series 2008 | 2016-2018 | 5.000 | 36.7 | 36.7 | | 0.5 |
| Series 2008 | 2019-2020 | 5.250 | 20.6 | 20.6 | | 0.3 |
| Series 2008 | 2021-2022 | 5.500 | 21.4 | 21.4 | | 0.3 |
| Series 2008 | 2023 | 5.750 | 10.8 | 10.8 | | 0.2 |
| Series 2008 | 2024-2025 | 6.000 | 23.6 | 23.6 | | 0.4 |
| Series 2008 | 2026-2029 | 5.750 | 56.4 | 56.4 | | 0.8 |
| Series 2010A | 2015-2021 | 4.447 | 4.6 | 4.6 | | 0.1 |
| Series 2010A | 2022 | 4.597 | 7.2 | 7.2 | | 0.1 |
| Series 2010A | 2023 | 4.747 | 7.5 | 7.5 | | 0.1 |
| Series 2010A | 2024 | 4.947 | 7.7 | 7.7 | | 0.2 |
| Series 2010A | 2025 | 5.047 | 8.0 | 8.0 | | 0.2 |
| Series 2010A | 2026 | 5.147 | 8.2 | 8.2 | | 0.2 |
| Series 2010A | 2027 | 5.247 | 8.5 | 8.5 | | 0.2 |
| Series 2010A | 2028-2030 | 5.470 | 27.4 | 27.4 | | 0.6 |
| Series 2010A | 2031-2040 | 5.570 | 102.6 | 102.5 | | 2.4 |
| Series 2010B | 2015 | 3.000 | 1.4 | 1.4 | 1.4 | 0.0 |
| Series 2010B | 2015 | 5.000 | 43.8 | 43.8 | 43.8 | 0.9 |
| Series 2010B | 2016 | 4.000 | 10.0 | 10.0 | | 0.2 |
| Series 2010B | 2016 | 5.000 | 38.3 | 38.3 | | 0.8 |
| Series 2010B | 2017 | 4.000 | 4.4 | 4.4 | | 0.1 |
| Series 2010B | 2017 | 5.000 | 46.3 | 46.3 | | 1.0 |
| Series 2010B | 2018 | 4.000 | 5.0 | 5.0 | | 0.1 |
| Series 2010B | 2018 | 5.000 | 38.8 | 38.8 | | 0.8 |
| Series 2010B | 2019 | 4.000 | 1.5 | 1.5 | | 0.0 |
| Series 2010B | 2019 | 5.000 | 42.7 | 42.7 | | 0.9 |
| Series 2010B | 2020 | 4.000 | 2.6 | 2.6 | | 0.0 |
| Series 2010B | 2020 | 5.000 | 43.9 | 43.9 | | 0.9 |
| Series 2010B | 2021-2026 | 5.000 | 187.8 | 187.8 | | 3.9 |
| Series 2010C | 2015-2040 | 5.590 | 13.3 | 13.3 | | 0.3 |
| Series 2011A | 2015-2027 | 5.000 | 176.9 | 160.4 | 13.0 | 3.5 |
| Series 2011A | 2028 | 5.250 | 9.4 | 9.4 | | 0.2 |
| Series 2011A | 2029-2030 | 5.500 | 20.4 | 20.4 | | 0.5 |
| Series 2011A | 2031-2036 | 5.250 | 75.8 | 75.8 | | 1.6 |
| Series 2011B | 2027 | 5.750 | 10.0 | 10.0 | | 0.2 |
| Series 2012A | 2015-2027 | 5.000 | 198.0 | 198.0 | 12.2 | 0.8 |
| Series 2012A | 2028 | 3.250 | 12.4 | 12.4 | | 0.0 |
| Series 2012A | 2034-2036 | 4.000 | 25.1 | 25.1 | | 0.1 |
| Series 2012A | 2037-2041 | 4.000 | 49.1 | 49.1 | | 0.2 |
| Series 2012C | 2028 | 3.400 | 4.3 | 4.3 | | 0.0 |
| Series 2012C | 2029 | 3.500 | 7.7 | 7.7 | | 0.0 |
| Series 2012C | 2030 | 3.500 | 7.7 | 7.7 | | 0.0 |
| Series 2012C | 2031-2033 | 3.750 | 23.4 | 23.4 | | 0.1 |
| Series 2013 | 2015 | 4.000 | 2.9 | 2.9 | 2.9 | 0.1 |
| Series 2013 | 2016-2033 | 5.000 | 97.4 | 97.4 | | 2.3 |
| 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 2013 | 2039-2043 | 4.500 | 48.3 | 48.3 | | 1.0 |
| Series 2014 | 2015-2029 | 5.000 | 163.2 | 163.2 | 15.3 | 1.3 |
| Series 2014 | 2030-2038 | 4.000 | 53.9 | 53.9 | | 0.3 |
| Series 2014 | 2039-2040 | 4.000 | 14.8 | 14.8 | | 0.1 |
| Series 2014 | 2041-2044 | 4.000 | 33.3 | 33.3 | | 0.2 |
| Total | | | \$ 1,920.4 | \$ 1,903.8 | \$ 104.9 | \$ 30.0 |

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

OTHER INFORMATION (UNAUDITED)

POWER COSTS AND STATISTICS

| Year ending December 31 (\$ in millions) | 2014 | 2013 | 2012 | 2011 | 2010 |
|--|------------------|-------------------|--------------------|-------------------|------------------|
| POWER COSTS | | | | | |
| Hydroelectric generation(a)(c) | \$ 49.9 | \$ 54.0 | \$ 45.7 | \$ 43.3 | \$ 35.6 |
| Long-term purchased power(b) | 214.3 | 203.1 | 204.1 | 206.9 | 223.6 |
| Wholesale power purchases(c)(e) | 14.9 | 19.8 | 11.8 | 11.5 | 24.5 |
| Fair valuation & other power purchases(b)(e) | 17.7 | 14.1 | 7.8 | 9.0 | 25.1 |
| Owned transmission(a) | 15.3 | 15.1 | 14.5 | 12.4 | 11.0 |
| Wheeling expenses | 42.1 | 37.4 | 36.5 | 38.9 | 38.5 |
| Other power expenses | 13.2 | 12.2 | 10.3 | 10.2 | 10.2 |
| Total power costs | <u>367.4</u> | <u>355.7</u> | <u>330.7</u> | <u>332.2</u> | <u>368.5</u> |
| Less short-term wholesale power sales(c) | (96.8) | (63.0) | (70.4) | (102.7) | (74.5) |
| Less other power-related revenues | (25.5) | (21.5) | (16.8) | (37.7) | (33.5) |
| Less fair valuation other power-related(b) | <u>(25.3)</u> | <u>(18.9)</u> | <u>(12.5)</u> | <u>(17.0)</u> | <u>(33.0)</u> |
| Net power costs | <u>\$ 219.8</u> | <u>\$ 252.2</u> | <u>\$ 231.0</u> | <u>\$ 174.8</u> | <u>\$ 227.5</u> |
| POWER STATISTICS (MWh) | | | | | |
| Hydroelectric generation(c) | 7,091,368 | 6,108,908 | 6,947,088 | 7,546,905 | 5,509,191 |
| Long-term purchased power(b) | 6,658,689 | 6,482,960 | 7,232,362 | 7,859,766 | 6,843,267 |
| Wholesale power purchases(c) | 900,527 | 2,072,066 | 2,592,354 | 1,696,861 | 1,550,224 |
| Wholesale power sales(c) | (4,083,391) | (3,854,352) | (5,625,088) | (6,053,258) | (3,334,872) |
| Other(d) | <u>(722,984)</u> | <u>(805,810)</u> | <u>(1,130,247)</u> | <u>(928,663)</u> | <u>(702,434)</u> |
| Total power available | <u>9,844,209</u> | <u>10,003,772</u> | <u>10,016,469</u> | <u>10,121,611</u> | <u>9,865,376</u> |
| Less self consumed energy | (29,717) | (30,910) | (31,072) | (32,752) | (30,726) |
| Less system losses | <u>(473,908)</u> | <u>(466,462)</u> | <u>(518,755)</u> | <u>(488,627)</u> | <u>(463,654)</u> |
| Total power delivered to retail customers | <u>9,340,584</u> | <u>9,506,400</u> | <u>9,466,642</u> | <u>9,600,232</u> | <u>9,370,996</u> |
| Net power cost per MWh delivered | \$ 23.53 | \$ 26.53 | \$ 24.40 | \$ 18.21 | \$ 24.27 |

(a) Including depreciation.

(b) Long-term purchased power, fair valuation power purchases and fair valuation other power-related include energy exchanged under seasonal and other exchange contracts valued at market in accordance with GASB Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB & AICPA Pronouncements.

(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.

Note: Certain dollar amounts for 2010 - 2013 have been revised to conform to the 2014 presentation.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

OTHER INFORMATION (UNAUDITED)

HISTORICAL ENERGY RESOURCES (in MWh)

| | 2014 | 2013 | 2012 | 2011 | 2010 |
|---|-------------------|-------------------|-------------------|-------------------|-------------------|
| Department-Owned Generation | | | | | |
| Boundary Project | 4,249,957 | 3,465,890 | 3,802,251 | 4,499,134 | 3,161,351 |
| Skagit Hydroelectric Project | | | | | |
| Gorge | 1,057,865 | 955,265 | 1,081,349 | 1,094,529 | 871,686 |
| Diablo | 857,757 | 828,200 | 937,646 | 920,969 | 720,244 |
| Ross | 796,513 | 726,560 | 939,943 | 870,310 | 647,899 |
| Cedar Falls/Newhalem | 65,687 | 77,397 | 122,615 | 111,959 | 69,948 |
| South Fork Tolt | 63,589 | 55,596 | 63,284 | 50,004 | 54,010 |
| Subtotal | <u>7,091,368</u> | <u>6,108,908</u> | <u>6,947,088</u> | <u>7,546,905</u> | <u>5,525,138</u> |
| Energy Purchases | | | | | |
| Bonneville | 5,155,271 | 5,079,991 | 5,633,906 | 6,214,839 | 5,242,301 |
| Priest Rapids(a) | 21,961 | 33,205 | 36,381 | 32,285 | 168,251 |
| GCPHA(b) | 272,842 | 254,568 | 255,569 | 237,785 | 240,787 |
| High Ross | 307,873 | 312,350 | 308,365 | 313,817 | 307,390 |
| Lucky Peak | 308,334 | 215,587 | 401,400 | 388,786 | 285,757 |
| Stateline Wind Project | 357,325 | 363,099 | 365,192 | 413,697 | 348,524 |
| Columbia Ridge | 68,920 | 51,577 | 49,779 | 50,120 | 50,955 |
| Seasonal and Other Exchange(c) | 411,555 | 69,940 | 100,782 | 276,656 | 278,885 |
| Wholesale Market Purchases(d) | <u>900,527</u> | <u>2,072,066</u> | <u>2,592,354</u> | <u>1,696,861</u> | <u>1,550,224</u> |
| Subtotal | <u>7,804,608</u> | <u>8,452,383</u> | <u>9,743,728</u> | <u>9,624,846</u> | <u>8,473,074</u> |
| Total Department Resources | <u>14,895,976</u> | <u>14,561,291</u> | <u>16,690,816</u> | <u>17,171,751</u> | <u>13,998,212</u> |
| Minus Offsetting Energy Sales | | | | | |
| Firm Energy Sales and Marketing Losses(e) | 461,259 | 466,303 | 557,279 | 520,394 | 421,627 |
| Seasonal and Other Exchange(c) | 507,117 | 236,864 | 491,980 | 476,488 | 376,337 |
| Wholesale Market Sales(f) | <u>4,083,391</u> | <u>3,854,352</u> | <u>5,625,088</u> | <u>6,053,258</u> | <u>3,334,872</u> |
| Total Net Energy Resources | <u>9,844,209</u> | <u>10,003,773</u> | <u>10,016,469</u> | <u>10,121,611</u> | <u>9,865,376</u> |

(a) City Light made an election for 2010 to purchase the energy instead of reselling at auction.

(b) Grand Coulee Project Hydroelectric Authority.

(c) Includes exchange contracts with the Northern California Power Authority (NCPA), Sacramento Municipal Utility District (SMUD) and the Lucky Peak Project.

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

(e) 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.

(f) Runoff was 121% of historical average in 2012, and 133% of historical average in 2011.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

OTHER INFORMATION (UNAUDITED)

CUSTOMER STATISTICS

| Year ended December 31 | 2014 | | 2013 | | 2012 | | 2011 | | 2010 | |
|--|----------------|------------------|----------------|------------------|----------------|------------------|----------------|------------------|----------------|------------------|
| Average number of customers: | | | | | | | | | | |
| Residential | 374,619 | | 367,837 | | 362,658 | | 360,442 | | 359,079 | |
| Non-residential | <u>40,437</u> | | <u>40,218</u> | | <u>39,950</u> | | <u>39,909</u> | | <u>39,779</u> | |
| Total | <u>415,056</u> | | <u>408,055</u> | | <u>402,608</u> | | <u>400,351</u> | | <u>398,858</u> | |
| Megawatt-hours ^(b) : | | | | | | | | | | |
| Residential | 32% | 2,987,711 | 33% | 3,158,629 | 33% | 3,098,745 | 34% | 3,217,101 | 33% | 3,073,405 |
| Non-residential | 68% | <u>6,352,873</u> | 67% | <u>6,347,771</u> | 67% | <u>6,367,897</u> | 66% | <u>6,383,131</u> | 67% | <u>6,297,591</u> |
| Total | 100% | <u>9,340,584</u> | 100% | <u>9,506,400</u> | 100% | <u>9,466,642</u> | 100% | <u>9,600,232</u> | 100% | <u>9,370,996</u> |
| Average annual revenue per customer ^(b) : | | | | | | | | | | |
| Residential | \$ 695 | | \$ 710 | | \$ 664 | | \$ 679 | | \$ 635 | |
| Non-residential | \$ 11,448 | | \$ 10,820 | | \$ 10,603 | | \$ 10,306 | | \$ 9,962 | |

| Year ended December 31 | 2014 | | 2013 | | 2012 | | 2011 | | 2010 | |
|--|---------|--|---------|--|---------|--|---------|--|---------|--|
| Average annual consumption per customer (kWhs) ^{(a)(b)} : | | | | | | | | | | |
| Residential | | | | | | | | | | |
| - Seattle | 7,975 | | 8,587 | | 8,545 | | 8,925 | | 8,559 | |
| - National | n/a | | 10,908 | | 10,837 | | 11,279 | | 11,500 | |
| Non-residential | | | | | | | | | | |
| - Seattle | 157,107 | | 157,834 | | 159,399 | | 159,942 | | 158,314 | |
| - National | n/a | | 125,778 | | 125,674 | | 126,703 | | 125,325 | |
| Average rate per kilowatt-hour (cents) ^{(a)(b)} | | | | | | | | | | |
| Residential | | | | | | | | | | |
| - Seattle | 8.71 | | 8.27 | | 7.77 | | 7.61 | | 7.42 | |
| - National | n/a | | 12.12 | | 11.88 | | 11.72 | | 11.54 | |
| Non-residential | | | | | | | | | | |
| - Seattle | 7.29 | | 6.86 | | 6.65 | | 6.44 | | 6.29 | |
| - National | n/a | | 8.84 | | 8.64 | | 8.78 | | 8.75 | |

(a) Source of national data: Department of Energy (www.eia.doe.gov/electricity/annual/) 2014 National average annual consumption data and average rate data not available. 2013 National average annual consumption and average rate data updated.

(b) Seattle amounts include an allocation for the net change in unbilled revenue. Effective 2013, allocation of net change in unbilled revenue excludes retail customer voluntary payments for conservation and solar energy. Prior years presented were not revised.

NOTE: Effective January 1, 2014, there was a comprehensive rate change of 5.6%. In addition, the most recent comprehensive rate change was 4.2% effective January 1, 2015. 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. Additional information about Council meetings can be found on the Web at www.seattle.gov/council/calendar.

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APPENDIX E
DEMOGRAPHIC AND ECONOMIC INFORMATION

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DEMOGRAPHIC AND ECONOMIC INFORMATION

Seattle is the largest city in the Pacific Northwest, serves as the County seat and is the center of the County's economic activity. King County is the largest county in the State in population, number of cities and employment, and the fourteenth most populated county in the United States. Of the State's population, nearly 30% reside in the County, and of the County's population, 32% live in the City of Seattle.

Population

Historical and current population figures for the State, the County, and the City are given below.

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

(1) Source: U.S. Department of Commerce, Bureau of Census

(2) Source: State of Washington, Office of Financial Management

Per Capita Income

The following table presents per capita personal income for the Seattle Metropolitan Division (the cities of Seattle, Bellevue, and Everett), the County, the State, and the U.S.

| | PER CAPITA INCOME | | | | |
|---------------------|--------------------------|-------------|-------------|-------------|-------------|
| | <u>2009</u> | <u>2010</u> | <u>2011</u> | <u>2012</u> | <u>2013</u> |
| Seattle MD | \$ 50,644 | \$ 51,370 | \$ 53,931 | \$ 56,267 | \$ 58,483 |
| King County | 53,933 | 54,927 | 57,837 | 60,090 | 62,770 |
| State of Washington | 41,504 | 42,024 | 43,878 | 46,045 | 47,717 |
| U.S. | 38,637 | 39,791 | 41,560 | 43,735 | 44,765 |

Source: U.S. Bureau of Economic Analysis, U.S. Department of Commerce

Construction

The table below lists the value of housing construction for which building permits have been issued by entities within the City. The value of public construction is not included in this table.

CITY OF SEATTLE RESIDENTIAL BUILDING PERMIT VALUES

| Year | New Single Family Units | | New Multifamily Units | | Total Value(\$) |
|---------------------|-------------------------|----------------|-----------------------|----------------|-----------------|
| | Number | Value(\$) | Number | Value(\$) | |
| 2010 | 241 | \$ 53,269,934 | 2,456 | \$ 192,261,935 | \$ 245,531,869 |
| 2011 | 316 | 71,808,767 | 2,857 | 376,591,834 | 448,400,601 |
| 2012 | 498 | 120,592,378 | 6,799 | 984,110,088 | 1,104,702,466 |
| 2013 | 822 | 205,297,350 | 5,855 | 805,297,482 | 1,010,594,832 |
| 2014 | 898 | 227,307,102 | 6,547 | 881,734,102 | 1,109,041,204 |
| 2014 ⁽¹⁾ | 439 | \$ 106,978,273 | 2,498 | \$ 343,717,023 | \$ 450,695,296 |
| 2015 ⁽¹⁾ | 349 | 92,627,620 | 5,090 | 783,960,162 | 876,587,782 |

(1) Estimates through May.

Source: U.S. Bureau of the Census

Retail Activity

The following table presents taxable retail sales in King County and Seattle.

KING COUNTY AND THE CITY OF SEATTLE TAXABLE RETAIL SALES

| Year | King County | Seattle |
|---------------------|-------------------|-------------------|
| 2009 | \$ 39,594,903,520 | \$ 15,101,407,742 |
| 2010 | 39,275,353,140 | 14,783,168,932 |
| 2011 | 40,846,118,928 | 15,751,585,856 |
| 2012 | 43,506,804,227 | 17,162,539,275 |
| 2013 | 46,601,198,766 | 18,258,200,683 |
| 2014 ⁽¹⁾ | 49,638,174,066 | 19,995,171,842 |

(1) Preliminary through the fourth quarter.

Source: Washington State Department of Revenue

Industry and Employment

The following table presents major Puget Sound-area employers and their State-wide employment data in 2014.

PUGET SOUND AREA MAJOR EMPLOYERS

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

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

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

(3) Source: City of Seattle, as of March 2015. Figure includes temporary workers.

Source: *Puget Sound Business Journal Book of Lists, 2015*

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

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

May 2015

| | |
|------------------------|-----------|
| Civilian Labor Force | 1,181,760 |
| Total Employment | 1,137,440 |
| Total Unemployment | 44,320 |
| Percent of Labor Force | 3.7% |

(1) Columns may not add to totals due to rounding.

Source: Washington State Employment Security Department

APPENDIX F
BOOK-ENTRY TRANSFER SYSTEM

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BOOK-ENTRY TRANSFER SYSTEM

The following information has been provided by DTC. The City makes no representation as to the accuracy or completeness thereof. Purchasers of the Bonds (the “Beneficial Owners”) should confirm the following with DTC or its participants (the “Participants”).

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully registered bonds, registered in the name of Cede & Co. (DTC’s partnership nominee), or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.6 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has a Standard & Poor’s rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC’s records. The ownership interest of each actual purchaser of each Bond (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC’s records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices will be sent to DTC. If less than all of the Bonds within a maturity are being redeemed, DTC’s practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's MMI procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or the Bond Registrar on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Bond Registrar or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) are the responsibility of the City or the Bond Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the City or the Bond Registrar. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

The following information has been provided by the City.

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

The information in this Appendix F 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).