SALE DATE: JUNE 8, 2016
SALE TIME: 7:45 A.M., PACIFIC TIME

PRELIMINARY OFFICIAL STATEMENT DATED MAY 31, 2016

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.

New Issue	**Moody's Rating: Aa1**
Book-Entry Only	**Standard & Poor's Rating: AA+**
	(See "Other Bond Information—Ratings on the Bonds.")

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

$164,945,000(1)

THE CITY OF SEATTLE, WASHINGTON

DRAINAGE AND WASTEWATER SYSTEM IMPROVEMENT AND REFUNDING REVENUE BONDS, 2016

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

The City of Seattle, Washington (the "City"), will issue its Drainage and Wastewater System Improvement and Refunding Revenue Bonds, 2016 (the "Bonds"), as fully registered bonds under a book-entry only system, registered in the name of the Securities Depository.

The Depository Trust Company, New York, New York ("DTC"), will act as initial Securities Depository for the Bonds. Individual purchases of the Bonds will be made in book-entry form, in the denomination of $5,000 or any integral multiple thereof within a single maturity. Purchasers will not receive certificates representing their interest in the Bonds. Interest on the Bonds is payable semiannually on each April 1 and October 1, beginning October 1, 2016. The principal of and interest on the Bonds are payable by the City's Bond Registrar, currently the fiscal agent of the State of Washington (currently U.S. Bank National Association), to DTC, which is obligated in turn to remit such payments to its participants for subsequent disbursement to beneficial owners of the Bonds, as described in "Description of the Bonds—Registration and Book-Entry Transfer System" and in Appendix E.

The Bonds are being issued to pay for part of the costs of various projects of the City's Drainage and Wastewater System, to make a deposit into the Reserve Subaccount, to refund certain outstanding obligations of the Drainage and Wastewater System, and to pay the costs of issuing the Bonds and administering the Refunding Plan.

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

The Bonds are special limited obligations of the City payable from and secured solely by the Net Revenue of the Drainage and Wastewater System (including all utility local improvement district assessments pledged to Parity Bonds) and by money in the Parity Bond Account and subaccounts therein (including the Reserve Subaccount). Net Revenue is pledged to make the payments into the Bond Account and the Reserve Subaccount required by the Bond Legislation, which pledge constitutes a charge and lien upon such Net Revenue prior and superior to all other liens and charges whatsoever. The Bonds are on a parity with the Outstanding Parity Bonds and all Future Parity Bonds, without preference or priority of right or lien. See "Security for the Bonds."

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

The Bonds are offered for delivery by the Underwriter, when, as, and if issued, subject to the approving legal opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Seattle, Washington, Bond Counsel. The form of Bond Counsel's opinion is attached hereto as Appendix B. It is expected that the Bonds will be ready for delivery at DTC's facilities in New York, New York, or to the Bond Registrar on behalf of DTC for closing by Fast Automated Securities Transfer, on or about June 22, 2016.

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.

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(1) Preliminary, subject to change.

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

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

The Bonds have not been registered under the Securities Act of 1933, as amended, and the Bond 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 Drainage and Wastewater System's *Audited Financial Statements that are included in Appendix C 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 for a specific maturity is subject to change after the issuance of the Bonds. Neither the City nor the successful bidder take responsibility for the accuracy of the CUSIP numbers.

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

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

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.

MATURITY SCHEDULE

THE CITY OF SEATTLE, WASHINGTON

$164,945,000[1]

DRAINAGE AND WASTEWATER SYSTEM IMPROVEMENT AND REFUNDING REVENUE BONDS, 2016

Due April 1	Amounts[1]	Interest Rates	Yields	Prices	CUSIP Numbers
Oct. 1, 2016	$ 285,000				
2017	1,610,000				
2018	1,695,000				
2019	3,805,000				
2020	4,005,000				
2021	4,210,000				
2022	4,430,000				
2023	4,650,000				
2024	4,885,000				
2025	5,140,000				
2026	5,405,000				
2027	5,655,000 [2]				
2028	5,880,000 [2]				
2029	6,125,000 [2]				
2030	6,370,000 [2]				
2031	6,635,000 [2]				
2032	6,905,000 [2]				
2033	7,185,000 [2]				
2034	7,480,000 [2]				
2035	7,785,000 [2]				
2036	8,100,000 [2]				
2037	8,435,000 [2]				
2038	8,775,000 [2]				
2039	4,275,000 [2]				
2040	4,450,000 [2]				
2041	4,630,000 [2]				
2042	4,820,000 [2]				
2043	5,015,000 [2]				
2044	5,220,000 [2]				
2045	5,430,000 [2]				
2046	5,655,000 [2]				

(1) Preliminary, subject to change.

(2) These amounts will constitute principal maturities of the Bonds unless Term Bonds are specified by the successful bidder, in which case the amounts so specified will constitute mandatory sinking fund redemptions of the Term Bonds.

THE CITY OF SEATTLE

MAYOR AND CITY COUNCIL

Edward B. Murray	Mayor

Council Member	**Term Expiration**
Sally Bagshaw	2019
Tim Burgess	2017
Lorena Gonzalez	2017
Bruce Harrell	2019
Lisa Herbold	2019
Rob Johnson	2019
Debora Juarez	2019
Mike O'Brien	2019
Kshama Sawant	2019

CITY ADMINISTRATION

Glen M. Lee	Director of Finance
Peter Holmes	City Attorney

SEATTLE PUBLIC UTILITIES

Ray Hoffman	Director
Susan Sánchez	Deputy Director for Customer Service
Melina Thung	Deputy Director for Utility Services
Sherri Crawford	Deputy Director for Finance and Administration
Henry Chen	Interim Deputy Director for Project Delivery and Engineering
Madeline Goddard	Deputy Director for Drainage and Wastewater Line of Business
Ken Snipes	Deputy Director for Solid Waste Line of Business
Rick Scott	Deputy Director for Water Line of Business and Shared Services

BOND COUNSEL

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

FINANCIAL ADVISOR

Piper Jaffray & Co.
Seattle, Washington

BOND REGISTRAR

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

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OFFICIAL NOTICE OF BOND SALE

$164,945,000(1)
THE CITY OF SEATTLE, WASHINGTON
DRAINAGE AND WASTEWATER SYSTEM IMPROVEMENT AND REFUNDING REVENUE BONDS, 2016

Electronic bids for the purchase of The City of Seattle Drainage and Wastewater System Improvement and Refunding Revenue Bonds, 2016 (the "Bonds"), will be received by The City of Seattle, Washington (the "City"), by the Director of Finance via the PARITY Electronic Bid Submission System ("Parity"), in the manner described below on

JUNE 8, 2016, NO LATER THAN 7:45 A.M., PACIFIC TIME,

or such other day or time and under such other terms and conditions as may be established by the Director of Finance and provided to Parity as described under "Modification, Cancellation, Postponement."

Bids must be submitted electronically via Parity in accordance with this Official Notice of Bond Sale. For further information about Parity, potential bidders may contact Parity at 212-849-5021. Hard-copy bids will not be accepted.

No bid will be received after the cut-off time for receiving bids specified above. All proper bids received with respect to the Bonds will be considered and acted on by the City Council at approximately 1:30 p.m. on June 8, 2016. Each bidder (and not the City) is responsible for the timely electronic delivery of its bid. The official time will be determined by the City and not by any bidder or Parity. No bid will be awarded until the City Council has adopted a resolution accepting the bid at its meeting.

Bidders are referred to the Preliminary Official Statement for additional information regarding the City, Seattle Public Utilities, the Bonds, the security for the Bonds, and other matters.

Modification, Cancellation, Postponement

The City may modify the terms of this Official Notice of Bond Sale prior to the cut-off time for receiving bids if the City elects to change the principal amounts or the redemption or other provisions or increase or decrease the total principal amount or the amounts of individual maturities of Bonds. Any such modification will be provided to Parity on or before June 7, 2016. In addition, the City may cancel or postpone the date and time for receiving bids for the Bonds at any time prior to the cut-off time for receiving bids. Notice of such cancellation or postponement will be provided to Parity as soon as practicable following such cancellation or postponement. As an accommodation to bidders, telephone, facsimile, or electronic notice of any such modification, cancellation, or postponement will be given to any bidder requesting such notice from the City's Financial Advisor at the address and phone number provided under "Contact Information" below. Failure of any bidder to receive such notice will not affect the legality of the sale.

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(1) Preliminary, subject to change.

CONTACT INFORMATION

Finance Division	Michael van Dyck, Debt Manager, City of Seattle (206) 684-8347 *michael.vandyck@seattle.gov*
Financial Advisor	Rob Shelley, Piper Jaffray & Co. Office phone: (206) 628-2879 Day of sale phone: (206) 601-2249 *robert.e.shelley@pjc.com*
Bond Counsel	Alice Ostdiek, Stradling Yocca Carlson & Rauth, P.C. (206) 829-3002 *aostdiek@sycr.com*

DESCRIPTION OF THE BONDS

Bond Details

The Bonds will be dated the date of their initial delivery. Interest on the Bonds is payable semiannually on each April 1 and October 1, beginning October 1, 2016.

Registration and Book-Entry Transfer System

The Bonds will be issued only in registered form as to both principal and interest 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). The Bonds initially will be registered in the name of the Securities Depository, which is defined in the Bond Legislation as the Depository Trust Company, New York, New York ("DTC"), or any successor thereto.

Election of Maturities

The successful bidder for the Bonds shall designate whether some or all of the principal amounts of the Bonds maturing on and after April 1, 2027, shall be retired as shown in the table below as serial bonds maturing in such year or as amortization installments of Term Bonds maturing in the years specified by the bidder. Term Bonds, if any, must consist of the total principal payments of two or more consecutive years and mature in the latest of those years.

Years (April 1)	Serial Maturities or Amortization Installments[1]	Years (April 1)	Serial Maturities or Amortization Installments[1]
Oct. 1, 2016	285,000	2032	6,905,000 [2]
2017	1,610,000	2033	7,185,000 [2]
2018	1,695,000	2034	7,480,000 [2]
2019	3,805,000	2035	7,785,000 [2]
2020	4,005,000	2036	8,100,000 [2]
2021	4,210,000	2037	8,435,000 [2]
2022	4,430,000	2038	8,775,000 [2]
2023	4,650,000	2039	4,275,000 [2]
2024	4,885,000	2040	4,450,000 [2]
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2026	5,405,000	2042	4,820,000 [2]
2027	5,655,000 [2]	2043	5,015,000 [2]
2028	5,880,000 [2]	2044	5,220,000 [2]
2029	6,125,000 [2]	2045	5,430,000 [2]
2030	6,370,000 [2]	2046	5,655,000 [2]
2031	6,635,000 [2]		

(1) Preliminary, subject to change. See "Bidding Information and Award—Adjustment of Principal Amounts and Bid Price After Receipt of Bids" below for a description of the City's right to adjust the principal amounts after the bids are received

(2) These amounts will constitute principal maturities of the Bonds unless Term Bonds are specified by the successful bidder, in which case the amounts so specified will constitute mandatory sinking fund redemptions of Term Bonds.

Redemption

Optional Redemption. The Bonds maturing on and before April 1, 2026, are not subject to redemption prior to maturity. The City reserves the right and option to redeem Bonds maturing on and after April 1, 2027, prior to their stated maturity dates at any time on or after April 1, 2026, as a whole or in part, at a price equal to the principal amount to be redeemed plus accrued interest to the date fixed for redemption. See "Description of the Bonds—Redemption of Bonds—Optional Redemption" in the Preliminary Official Statement.

Mandatory Redemption. As indicated on the schedule above, Bonds that are designated by the successful bidder as Term Bonds will be subject to mandatory sinking fund redemption. See "Description of the Bonds—Redemption of Bonds—Mandatory Redemption" in the Preliminary Official Statement.

Selection of Bonds for Redemption. If fewer than all of the Bonds are to be redeemed prior to maturity, the selection of such Bonds for redemption shall be made as described under "Description of the Bonds—Redemption of Bonds—Selection of Bonds for Redemption" in the Preliminary Official Statement.

Purpose

The Bonds are being issued to pay for part of the costs of various projects of the City's Drainage and Wastewater System, to make a deposit into the Reserve Subaccount, to refund, subject to market conditions, certain outstanding obligations of the Drainage and Wastewater System, and to pay the costs of issuing the Bonds and administering the Refunding Plan.

Security

The Bonds are special limited obligations of the City payable from and secured solely by the Net Revenue of the Drainage and Wastewater System (including all utility local improvement district assessments pledged to Parity Bonds) and by money in the Parity Bond Account and subaccounts therein (including the Reserve Subaccount). Net Revenue is pledged to make the payments into the Bond Account and the Reserve Subaccount required by the Bond

Legislation, which pledge constitutes a charge and lien upon such Net Revenue prior and superior to all other liens and charges whatsoever. The Bonds are on a parity with the Outstanding Parity Bonds and all Future Parity Bonds, without preference or priority of right or lien.

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 Drainage and Wastewater System, are pledged to the payment of the Bonds.

BIDDING INFORMATION AND AWARD

Bidders are invited to submit bids for the purchase of the Bonds fixing the interest rate or rates that the Bonds will bear. Interest rates included as part of a bid shall be in multiples of 1/8 or 1/20 of 1%, or any combination thereof. Bidders must specify interest rates of equal to or greater than 4% for each maturity of the Bonds maturing on or after April 1, 2027, and no interest rate greater than 5% is allowed for any maturity of the Bonds. No more than one rate of interest may be fixed for any one maturity of the Bonds.

No bid will be considered for the Bonds that is less than an amount equal to 108.5% of the par value of the Bonds nor more than an amount equal to 122.5% of the par value of the Bonds. For the purpose of this paragraph, "price" means the lesser of the price to the redemption date, if any, or the price to the maturity date.

Bids for the Bonds must be unconditional. No bid for less than the entire offering of the Bonds will be accepted. Bids may not be withdrawn or revised after the cut-off time for receiving bids. The City strongly encourages the inclusion of women and minority business enterprise firms in bidding syndicates.

Bidding Process

Bids for the Bonds must be submitted via Parity. By submitting an electronic bid for the Bonds, each bidder thereby agrees to the following terms and conditions:

(i) If any provision in this Official Notice of Bond Sale conflicts with information or terms provided or required by Parity, this Official Notice of Bond Sale (including any modifications provided by the City to Parity) shall control.

(ii) Each bidder is solely responsible for making necessary arrangements to access Parity for purposes of submitting a timely bid in compliance with the requirements of this Official Notice of Bond Sale (including any modifications provided by the City to Parity).

(iii) The City has no duty or obligation to provide or assure access to Parity, and the City shall not be responsible for the proper operation of Parity, or have any liability for any delays or interruptions or any damages caused by use or attempted use of Parity.

(iv) Parity is acting as an independent contractor, and is not acting for or on behalf of the City.

(v) The City is not responsible for ensuring or verifying bidder compliance with Parity's procedures.

(vi) If the bidder's bid is accepted by the City, this Official Notice of Bond Sale (including any modifications provided by the City to Parity) and the information that is submitted electronically through Parity shall form a contract, and the bidder shall be bound by the terms of such contract.

(vii) Information provided by Parity to bidders shall form no part of any bid or of any contract between the successful bidder and the City unless that information is included in this Official Notice of Bond Sale (including any modifications provided by the City to Parity).

Good Faith Deposit

The winning bid must be backed by a good faith deposit in the amount of $1,650,000. The good faith deposit must be paid by federal funds wire transfer within 90 minutes after notice from the City to the apparent successful bidder for the Bonds. Wiring instructions will be provided to the apparent successful bidder at the time of the notice from the City.

The good faith deposit for the Bonds shall be retained by the City as security for the performance of the apparent successful bidder and shall be applied to the purchase price of the Bonds upon the delivery of the Bonds to the apparent successful bidder. Pending delivery of the Bonds, the good faith deposit may be invested for the sole benefit of the City. If the Bonds are ready for delivery and the apparent successful bidder fails or neglects to complete the purchase of the Bonds within 30 days following the acceptance of its bid, the good faith deposit shall be retained by the City as reasonable liquidated damages and not as a penalty.

Award

The Bonds will be sold to the bidder making a bid for the Bonds that conforms to the terms of the offering and is, based on the City's determination of the lowest true interest cost, the best bid. The true interest cost will be the rate that, when used to discount to the date of the Bonds all future payments of principal and interest (using semiannual compounding and a 30/360-day basis), produces an amount equal to the bid amount, without regard to the interest accrued to the date of the Bonds. The true interest cost calculations for the Bonds will be performed by the City's Financial Advisor, and the City will base its determination of the best bid for the Bonds solely on such calculations. If there are two or more equal bids for the Bonds and those bids are the best bids received, the Director of Finance will determine by random selection which bid will be presented to the City Council.

The apparent successful bidder for the Bonds will be notified by the City and must provide a good faith deposit as described above. The bid for the Bonds will be presented to the City Council at approximately 1:30 p.m., Pacific Time, on the date set for receiving bids and shall remain in effect until 5:00 p.m., Pacific Time, on that date. Such bid shall be considered awarded upon the City Council's adoption of a resolution accepting the bid.

The City reserves the right to reject any or all bids submitted and to waive any formality or irregularity in any bid or the bidding process. If all bids for the Bonds are rejected, then the Bonds may be sold in the manner provided by law. Any bid presented after the cut-off time for receiving bids will not be accepted.

Adjustment of Principal Amounts and Bid Price After Receipt of Bids

The City reserves the right to increase or decrease the preliminary aggregate principal amount of the Bonds by an amount not to exceed 10% of the aggregate principal amount of the Bonds after the cut-off time for receiving bids. The City also reserves the right to increase or decrease the preliminary principal amount of any maturity of the Bonds shown on Parity by an amount not to exceed the greater of $500,000 or 15% of the preliminary principal amount of that maturity.

If the preliminary principal amount of the Bonds is adjusted by the City, the price bid by the successful bidder for the Bonds will be adjusted by the City on a proportionate basis to reflect an increase or decrease in the principal amount and maturity schedule. In the event that the City elects to increase or decrease the principal amount of the Bonds after receiving bids, the Underwriter's discount, expressed in dollars per thousand, will be held constant. The City will not be responsible in the event and to the extent that any adjustment affects (i) the net compensation to be realized by the successful bidder, or (ii) the true interest cost of the winning bid or its ranking relative to other bids.

Issue Price Information

Upon award of the Bonds, the successful bidder for the Bonds shall advise the City and Bond Counsel of the initial reoffering prices to the public of each maturity of the Bonds (the "Initial Reoffering Prices"), for the City's inclusion in the final Official Statement for the Bonds. Prior to delivery of the Bonds, the successful bidder shall furnish to the City and Bond Counsel a certificate in form and substance acceptable to Bond Counsel:

(i) confirming the Initial Reoffering Prices,

(ii) certifying that a *bona fide* offering of the Bonds has been made to the public (excluding bond houses, brokers, and other intermediaries),

(iii) stating the first price at which a substantial amount (at least 10%) of each maturity of the Bonds was sold to the public (excluding bond houses, brokers, and other intermediaries), and

(iv) if the first price at which a substantial amount of any maturity of the Bonds is sold does not conform to the Initial Reoffering Price of that maturity, providing an explanation of the facts and circumstances that resulted in that nonconformity.

A draft form of such certificate will be available prior to the sale date from the City's Financial Advisor. See "Contact Information" in this Official Notice of Bond Sale.

Insurance

No bid for the Bonds may be conditioned upon obtaining insurance or any other credit enhancement, or upon the City's acceptance of any of the terms of insurance or other credit enhancement. Any purchase of municipal bond insurance or commitment therefor shall be at the sole option and expense of the bidder, and any increased costs of issuance of the Bonds resulting by reason of such insurance, unless otherwise paid, shall be paid by such bidder, but shall not, in any event, be paid by the City. Any failure of the Bonds to be so insured or of any such policy of insurance to be issued shall not in any way relieve the successful bidder of its contractual obligations arising from the acceptance of its bid.

If the successful bidder purchases insurance for any of the Bonds, the City may require the successful bidder to furnish to the City and Bond Counsel a certificate in form and substance acceptable to Bond Counsel confirming that the present value (calculated using the same yield as the yield on the insured Bonds) of the insurance premium is less than the present value (calculated using the same yield as the yield on the insured Bonds) of the interest cost savings represented by the comparative differences between interest amounts that would have been payable on the various maturities of the insured Bonds at interest rates on the insured Bonds issued with and without the insurance on the insured Bonds.

Ratings

The Bonds have been rated "Aa1" and "AA+" by Moody's Investors Service, Inc. and Standard & Poor's Ratings Services, respectively. The City will pay the fees for these ratings; any other ratings are the responsibility of the successful bidder.

DELIVERY

The City will deliver the Bonds (consisting of one certificate for each maturity of the Bonds) to DTC in New York, New York, or to the Bond Registrar on behalf of DTC for closing by Fast Automated Securities Transfer, prior to the date of closing. Closing shall occur within 30 days after the sale date. Settlement shall be in immediately available federal funds on the date of delivery.

If, prior to the delivery of the Bonds, the interest receivable by the owners of the Bonds becomes includable in gross income for federal income tax purposes, or becomes subject to federal income tax other than as described in the Preliminary Official Statement, the successful bidder for the Bonds, at its option, may be relieved of its obligation to purchase the Bonds and in that case the good faith deposit accompanying its bid will be returned without interest.

The City will furnish to the successful bidder for the Bonds one CD-ROM transcript of proceedings; additional transcripts will be furnished at the successful bidder's cost.

Legal Opinion

The approving legal opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Seattle, Washington, Bond Counsel, with respect to the Bonds will be provided to the successful bidder for the Bonds at the time of the delivery of the Bonds. The form of Bond Counsel's opinion is attached to the Preliminary Official Statement as Appendix B. A no-litigation certificate will be included in the closing documents for the Bonds.

CUSIP Numbers

It is anticipated that a CUSIP identification number will appear on each Bond, but neither the failure to insert such number nor any error with respect thereto shall constitute cause for a failure or refusal by the successful bidder for the Bonds to accept delivery of and pay for the Bonds in accordance with the terms of this Official Notice of Bond Sale.

The successful bidder for the Bonds is responsible for obtaining CUSIP numbers for the Bonds. The charge of the CUSIP Service Bureau shall be paid by such successful bidder.

CONTINUING DISCLOSURE UNDERTAKING

In order to assist bidders in complying with paragraph (b)(5) of United States Securities and Exchange Commission Rule 15c2–12 ("Rule 15c2-12"), the City will undertake to provide certain annual financial information and notices of the occurrence of certain events. A description of this undertaking and the City's compliance with its prior undertakings is set forth in the Preliminary Official Statement under "Legal and Tax Information—Continuing Disclosure Undertaking" and also will be set forth in the final Official Statement.

OFFICIAL STATEMENT

Preliminary Official Statement

The Preliminary Official Statement is in a form that the City expects to deem final for the purpose of paragraph (b)(1) of Rule 15c2-12, but is subject to revision, amendment, and completion in a final Official Statement, which the City will deliver, at the City's expense, to the successful bidder through its designated representative not later than seven business days after the City's acceptance of the successful bidder's bid, in sufficient quantities to permit the successful bidder to comply with Rule 15c2-12.

By submitting the successful proposal for the Bonds, the successful bidder's designated senior representative agrees:

(i) to provide to the City's Debt Manager, in writing, within 24 hours after the acceptance of the bid, pricing and other related information, including Initial Reoffering Prices of the Bonds, necessary for completion of the final Official Statement (see "Issue Price Information");

(ii) to disseminate to all members of the underwriting syndicate, if any, copies of the final Official Statement, including any amendments or supplements prepared by the City;

(iii) to take any and all actions necessary to comply with applicable rules of the Securities and Exchange Commission and Municipal Securities Rulemaking Board governing the offering, sale, and delivery of the Bonds to ultimate purchasers, including the delivery of a final Official Statement to each investor who purchases Bonds; and

(iv) to file the final Official Statement or cause it to be filed with the Municipal Securities Rulemaking Board within one business day following its receipt from the City.

The Preliminary Official Statement may be obtained from i-Deal Prospectus at *www.i-dealprospectus.com*, telephone (212) 849-5024. In addition, the Preliminary Official Statement may be obtained upon request to the City's Debt Manager or Financial Advisor. See "Contact Information" in this Official Notice of Bond Sale.

Official Statement

At closing, the City will furnish a certificate of an official or officials of the City, stating that, to the best knowledge of such official(s), as of the date of the Official Statement and as of the date of delivery of the Bonds:

(i) the information (including financial information) regarding the City contained in the Official Statement was and is true and correct in all material respects and did not and does not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading; and

(ii) the descriptions and statements, including financial data, of or pertaining to entities other than the City and their activities contained in the Official Statement have been obtained from sources that the City believes to be reliable and the City has no reason to believe that they are untrue in any material respect (however, the City will make no representation regarding Bond Counsel's form of opinion, the information provided by Bond Counsel under "Legal and Tax Information—Limitations on Remedies and Municipal Bankruptcies" and "—Tax Exemption," or the information provided by or obtained from DTC or any entity providing bond insurance, reserve insurance, or other credit facility).

DATED at Seattle, Washington, this 31st day of May, 2016.

/s/ Glen M. Lee

Glen M. Lee
Director of Finance

PRELIMINARY OFFICIAL STATEMENT

$164,945,000[1]
THE CITY OF SEATTLE, WASHINGTON
DRAINAGE AND WASTEWATER SYSTEM IMPROVEMENT AND REFUNDING REVENUE BONDS, 2016

The purpose of this Official Statement, which includes the cover, inside cover, and appendices, is to set forth certain information concerning The City of Seattle, Washington (the "City"), a municipal corporation duly organized and existing under and by virtue of the laws of the State of Washington (the "State"), in connection with the offering of $164,945,000[1] aggregate principal amount of its Drainage and Wastewater System Improvement and Refunding Revenue Bonds, 2016 (the "Bonds"). This Official Statement contains certain information related to such offering and sale concerning the City, the Bonds, Seattle Public Utilities ("SPU"), and the City's drainage and wastewater system (the "Drainage and Wastewater System").

Appendix A to this Official Statement is a copy of the ordinance authorizing the new money portion of the Bonds (see "Description of the Bonds—Authorization for the Bonds"). Appendix B is the form of legal opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Seattle, Washington ("Bond Counsel"). Appendix C is SPU's audited financial statements for the fiscal year ended December 31, 2015 ("2015 Financial Statements"). Appendix D provides demographic and economic information for the City. Appendix E is a description provided on its website by The Depository Trust Company, New York, New York ("DTC"), of DTC procedures with respect to book-entry bonds. Capitalized terms that are not defined herein have the meanings set forth in Section 1 of the ordinance attached as Appendix A and in the Bond Resolution (as defined below).

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

DESCRIPTION OF THE BONDS

Authorization for the Bonds

The Bonds are to be issued by the City pursuant to the State Constitution, chapters 35.92 and 39.53 of the Revised Code of Washington ("RCW"), the Seattle City Charter, Ordinance 124914, passed by the City Council on November 23, 2015 (the "New Money Ordinance"), Ordinance 124338 (as amended by Ordinance 124914) (the "Refunding Bond Ordinance" and, together with the New Money Ordinance, the "Bond Ordinance"), and Resolution __________, adopted by the City Council on ____________ (the "Bond Resolution" and together with the Bond Ordinance, the "Bond Legislation").

Principal Amounts, Dates, Interest Rates, and Maturities

The Bonds will be dated the date of their initial issuance and delivery, and will mature on the dates and in the amounts set forth on page i of this Official Statement. Interest on the Bonds is payable semiannually on each April 1 and October 1, beginning October 1, 2016, at the rates set forth on page i of this Official Statement. Interest on the Bonds will be computed on the basis of a 360-day year consisting of twelve 30-day months.

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(1) Preliminary, subject to change.

Registration and Book-Entry Transfer System

Book-Entry Transfer System. The Bonds will be issued only in registered form as to both principal and interest 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). The Bonds initially will be registered in the name of the Securities Depository, which is defined in the Bond Legislation as DTC or any successor thereto, and held fully immobilized in book-entry form, in accordance with the provisions of the Blanket Letter of Representations between the City and DTC dated October 4, 2006 (the "Letter of Representations"). Neither the City nor the Bond Registrar has any responsibility or obligation to participants of the Securities Depository or the persons for whom they act as nominees with respect to the Bonds regarding accuracy of any records maintained by the Securities Depository or its participants of any amount in respect of principal of or interest on the Bonds, or any notice which is permitted or required to be given to Owners under the Bond Legislation (except such notice as is required to be given by the Bond Registrar to the Securities Depository). For information about DTC and its book-entry system, see Appendix E—Book Entry Transfer System. The City makes no representation as to the accuracy or completeness of the information in Appendix E obtained from DTC. Purchasers of the Bonds should confirm this information with DTC or its participants.

Termination of Book-Entry System. Upon the resignation of the Securities Depository from its functions as depository, or upon a determination by the City to discontinue services of the Securities Depository, the City may appoint a substitute Securities Depository. 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, then ownership of the Bonds may be transferred to any person as provided in the Bond Legislation and the Bonds no longer will be held in book-entry form.

Transfer and Exchange; Record Date. The Bond Registrar is not obligated to exchange or transfer any Bond during the period between the Record Date and the corresponding interest payment or redemption date. Record Date means, in the case of each interest or principal payment or redemption date, the Bond Registrar's close of business on the 15th day of the month preceding the interest or principal payment date. With regard to redemption of a Bond prior to its maturity, the Record Date means the Bond Registrar's close of business on the day prior to the date on which the Bond Registrar sends the notice of redemption. Registered ownership of any Bond registered in the name 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 (iii) to any person if the Bond is no longer to be held in book-entry only form.

Payment of Bonds

Principal of and interest on each Bond registered in the name of the Securities Depository is payable in the manner set forth in the Letter of Representations. 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. However, the City 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.

Redemption of Bonds

Optional Redemption The Bonds maturing on and before April 1, 2026, are not subject to redemption prior to maturity. The City reserves the right and option to redeem Bonds maturing on and after April 1, 2027, prior to their stated maturity dates at any time on and after April 1, 2026, as a whole or in part, at a price equal to the principal amount to be redeemed plus accrued interest to the date fixed for redemption.

Mandatory Redemption. If not redeemed or purchased at the City's option prior to maturity, the Term Bonds due on _______, will be redeemed, at a price equal to the principal amount thereof plus accrued interest, on April 1 in the years and amounts as follows:

TERM BONDS		TERM BONDS		TERM BONDS	
Years	**Amounts**	**Years**	**Amounts**	**Years**	**Amounts**
(1)		(1)		(1)	

(1) Maturity.

If the City redeems or purchases Term Bonds at the City's option prior to maturity, the Term Bonds so redeemed or purchased (irrespective of their actual redemption or purchase prices) will be credited at the par amount thereof against the remaining mandatory redemption requirements as determined by the Director of the Finance Division of the City's Department of Finance and Administrative Services (the "Director of Finance"). In the absence of a determination by the Director of Finance or other direction from the Bond Legislation, credit will be allocated on a *pro rata* basis.

Selection of Bonds for Redemption. If fewer than all of the outstanding Bonds are to be redeemed at the option of the City, the Director of Finance will select the maturity or maturities to be redeemed. If fewer than all of the outstanding bonds of a single maturity are to be redeemed prior to maturity, the Securities Depository will select Bonds registered in the name of the Securities Depository to be redeemed in accordance with the Letter of Representations, and the Bond Registrar will 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 denominations of $5,000 or integral multiples thereof within a maturity of the Bonds ("Authorized Denominations"). If less than all of the outstanding principal amount of any Bond is redeemed, upon surrender of that Bond to the Bond Registrar, there will be issued to the Registered Owner, without charge, a new Bond (or Bonds, at the option of the Registered Owner) of the same maturity and interest rate in any Authorized Denomination in the aggregate principal amount to remain outstanding.

Notice of Redemption. The City will 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. The notice requirements will be deemed to have been fulfilled when notice has been mailed as so provided, whether or not it actually is received by the Owner of any Bond. As long as a Bond is held in book-entry form, notices with respect to such Bond will be given in accordance with procedures established by the Securities Depository. See "Description of the Bonds—Registration and Book-Entry Transfer System" and Appendix E.

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 the Bonds by giving a notice of rescission to the affected Registered Owners at any time on or prior to the scheduled optional redemption date. Any notice of optional redemption that is rescinded by the Director of Finance will be of no effect, and the Bonds for which the notice of optional redemption has been rescinded will remain outstanding.

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.

Purchase

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

Refunding and 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 premium, if any, and interest on any Bond or 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 investment thereof, to redeem and retire, release, refund, or defease the defeased Bonds in accordance with their terms, are set aside in a special trust fund or escrow account irrevocably pledged to such redemption, retirement, or defeasance (the "trust account"), then all right and interest of the Owners of the defeased Bonds in the covenants of the Bond Legislation and in Gross Revenue less Operating and Maintenance Expense ("Net Revenue") and the funds and accounts pledged to the payment of such defeased Bonds, other than the right to receive the funds so set aside and pledged, thereafter will cease and become void. Such Owners thereafter have the right to receive payment of the principal of and interest or redemption price on the defeased Bonds from the trust account. After the trust account is established and fully funded, the defeased Bonds will be deemed to be no longer outstanding and the Director of Finance then may apply any money in any other fund or account established for the payment or redemption of the defeased Bonds to any lawful purposes. Notice of refunding or defeasance will be given, and selection of Bonds for any partial refunding or defeasance will be conducted, in the manner set forth in the Bond Legislation for the redemption of Bonds.

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.

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 sources pledged in the Bond Legislation, interest on that Bond at the same rate provided in that Bond from and after its maturity or redemption date until that Bond, principal, premium, if any, and interest, is paid in full or until sufficient money for its payment in full is on deposit in the Bond Account, and that Bond has been called for payment by giving notice of that call to the Registered Owner of that Bond.

USE OF PROCEEDS

Purpose

The Bonds are being issued to pay for part of the costs of various projects of the City's Drainage and Wastewater System, to make a deposit into the Reserve Subaccount, to refund certain of the City's outstanding obligations (described below under "Refunding Plan"), and to pay the costs of issuing the Bonds and administering the Refunding Plan.

Sources and Uses of Funds

The proceeds of the Bonds will be applied as follows:

SOURCES OF FUNDS	
Par Amount of Bonds	
Net Original Issue Premium (Discount)	
Total Sources of Funds	
USES OF FUNDS	
Construction Account Deposit	
Escrow Deposit	
Reserve Subaccount 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 and administering the Refunding Plan.

Refunding Plan

In the Bond Ordinance, the City has authorized the refunding of all or a portion of its outstanding callable Drainage and Wastewater Revenue Bonds, 2008 the "Refunding Candidates"). The Refunding Candidates are identified in the table below. The refunding is being undertaken, subject to market conditions, to achieve debt service savings. The Refunding Candidates that are refunded with the proceeds of the Bonds will be identified as the "Refunded Bonds."

REFUNDING CANDIDATES(1)

Bond	Maturity Date	Par Amount	Coupon	Call Price	Call Date	CUSIP Number
Drainage and Wastewater Revenue Bonds, 2008						
Serials	6/1/2019	$ 2,075,000	5.000%	100%	6/1/2018	812631 GC7
	6/1/2020	2,175,000	4.250%	100%	6/1/2018	812631 GD5
	6/1/2021	2,270,000	4.375%	100%	6/1/2018	812631 GE3
	6/1/2022	2,380,000	5.000%	100%	6/1/2018	812631 GF0
	6/1/2023	2,500,000	5.000%	100%	6/1/2018	812631 GG8
	6/1/2024	2,620,000	4.500%	100%	6/1/2018	812631 GH6
	6/1/2025	2,750,000	5.000%	100%	6/1/2018	812631 GJ2
	6/1/2026	2,890,000	5.000%	100%	6/1/2018	812631 GK9
	6/1/2027	3,040,000	5.000%	100%	6/1/2018	812631 GL7
	6/1/2028	3,195,000	5.000%	100%	6/1/2018	812631 GM5
Term	6/1/2031	10,600,000	5.000%	100%	6/1/2018	812631 GN3
Term	6/1/2038	31,885,000	5.000%	100%	6/1/2018	812631 GP8
Total		$ 68,380,000				

(1) Preliminary, subject to change.

The City will enter into a Refunding Trust Agreement with U.S. Bank National Association, as Refunding Trustee, upon the delivery of the Bonds, to provide for the refunding of the Refunded Bonds. The Refunding Trust Agreement creates an irrevocable trust fund to be held by the Refunding Trustee and to be applied solely to the payment of the Refunded Bonds. A portion of the proceeds of the Bonds will be deposited with the Refunding Trustee and will be invested in Government Obligations that will mature and bear interest at rates sufficient to pay the principal of and accrued interest coming due on the redemption date of the Refunded Bonds.

The Government Obligations and earnings thereon will be held solely for the benefit of the registered owners of the Refunded Bonds.

The mathematical accuracy of (i) the computations of the adequacy of the maturing principal amounts of and interest on the Government Obligations to be held by the Refunding Trustee to pay principal of and interest on the Refunded Bonds as described above, and (ii) the computations supporting the conclusion of Bond Counsel that the Bonds are not "arbitrage bonds" under Section 148 of the Internal Revenue Code of 1986, as amended (the "Code"), will be verified by Causey Demgen & Moore P.C., independent certified public accountants.

SECURITY FOR THE BONDS

Pledge of Net Revenue

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

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 Drainage and Wastewater System, are pledged to the payment of the Bonds.

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

Reserve Subaccount

The Reserve Subaccount has been created in the Parity Bond Account to secure the payment of the principal of and interest on the Parity Bonds. The City covenants that it will at all times, so long as any Parity Bonds are outstanding, maintain the Reserve Subaccount at the least of (i) Maximum Annual Debt Service on all Parity Bonds outstanding at the time of calculation, (ii) 1.25 times Adjusted Annual Debt Service on all Parity Bonds outstanding at the time of calculation, or (iii) 10% of the proceeds of each series of Parity Bonds then outstanding, as of the delivery of each such series (the "Reserve Requirement"), as it is adjusted from time to time, except for withdrawals authorized by the Bond Legislation. The amount necessary to satisfy the Reserve Requirement upon the issuance of a series of Bonds may be funded (i) on the date of issuance, by a deposit of bond sale proceeds or a Reserve Security (as defined in the Bond Legislation), or (ii) in annual installments from Net Revenue so that the Reserve Requirement is fully funded by the fifth anniversary of the issuance of the Bonds.

The City expects to fund the additional amount necessary to satisfy the Reserve Requirement upon the issuance of the Bonds, approximately $3,614,000[(1)], with a deposit of Bond proceeds. Under the Bond Legislation, the surety policies shown in the following table qualify as Reserve Securities in order to satisfy the Reserve Requirement, as each issuer was assigned a credit rating in the two highest rating categories at the time of issuance. See Appendix A—Bond Ordinance. The existing Reserve Securities and cash on deposit securing the Reserve Subaccount are shown in the following table.

CASH AND SURETY BONDS

					Ratings as of 5/31/2016	
Bond Issue	**Surety Amount**	**Provider**		**Expiration**	**Moody's**	**S&P**
1998[(1)]	$ 1,577,250.00	AMBAC		11/01/2027	withdrawn	
1999[(1)]	3,572,313.00	MBIA	(2)	11/01/2029	A3	AA-
2001	3,756,104.00	FGIC	(2)	11/01/2031	A3	AA-
2002	3,866,550.00	FGIC	(2)	07/01/2032	A3	AA-
2004	3,538,991.97	MBIA	(2)	09/01/2034	A3	AA-
2006	2,188,810.00	MBIA	(2)	02/01/2037	A3	AA-
2007[(3)]	5,053,914.00	MBIA	(2)	02/01/2037	A3	AA-
Total Surety Amount	$ 23,553,932.97					
Cash Reserves						
Series 2008 Reserve Fund	$ 5,340,016.61					
Series 2009 Reserve Fund	6,285,138.04					
Series 2009B Reserve Fund	1,131,858.00					
Series 2012 Reserve Fund	1,927,670.27					
Series 2014 Reserve Fund	3,957,873.90					
Series 2016 Reserve Fund[(4)]	2,851,252.23					
Total Cash Reserves	$ 21,493,809.05					
Total Cash and Surety Bonds	$ 45,047,742.02					
Reserve Fund Requirement	$ 45,020,184.61					

(1) Surety will be outstanding until the earlier of the expiration date or the day on which no Parity Bonds are outstanding.

(2) Reinsured by National Public Finance Guarantee Corp. (a wholly-owned subsidiary of MBIA, Inc.) ("NPFG"). The ratings shown here are NPFG's ratings.

(3) Purchased in 2007 independent of a bond issue as a substitution of Reserve Security for cash held in the Reserve Subaccount.

(4) Preliminary, subject to change.

Note: Totals may not add due to rounding.

Outstanding Parity Bonds

The outstanding 2006 Bonds, 2008 Bonds (a portion of which are designated as Refunding Candidates), 2009 Bonds, 2012 Bonds, and 2014 Bonds issued by the City and secured by Net Revenue on a parity with the Bonds collectively are referred to as the "Outstanding Parity Bonds." The Outstanding Parity Bonds, the Bonds and any Future Parity Bonds collectively are referred to as the "Parity Bonds." The following table provides a summary of the Outstanding Parity Bonds.

(1) Preliminary, subject to change.

OUTSTANDING PARITY BONDS

Bond Description	Original Par Amount	Outstanding Principal on 5/31/2016
2006 Bonds	$ 121,765,000	$ 70,215,000
2008 Bonds	84,645,000	74,015,000 (1)
2009A Bonds	102,535,000	102,535,000
2009B Bonds	36,680,000	16,145,000
2012 Bonds	222,090,000	201,640,000
2014 Bonds	133,180,000	129,520,000
Total	$ 700,895,000	$ 594,070,000

(1) Includes the Refunding Candidates. Preliminary, subject to change.

State Loan Program Obligations

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

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

STATE LOAN PROGRAM OBLIGATIONS

Entity	Year of Agreement	Maturity Date	Amount Outstanding	Interest Rate
High Point(1)	2004	5/31/2029	$ 1,922,529	1.50%
Thornton Creek(2)	2004	6/1/2024	1,762,941	0.50%
South Park(2)	2005	6/1/2025	1,971,228	0.50%
Thornton Creek(1)	2006	6/30/2030	5,402,159	1.50%
Ballard Raingarden ARRA(1)	2010	12/31/2020	336,400	2.90%
Midvale(2)	2011	6/1/2031	3,388,331	0.50%
Capitol Hill Water Quality(1)	2014	11/30/2033	1,782,198	2.60%

(1)Ecology loan.

(2)Public Works Assistance Account loan.

In addition to the loans listed above, the City expects, in the third quarter of 2016, to execute an additional loan agreement with Ecology from the Clean Water State Revolving Fund in a principal amount of approximately $39.4 million for a term of 20 years at an interest rate of 2.4% annually. Terms of this loan will be substantially the same as the other Ecology loans described herein.

Additional Obligations

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

(i) a certificate of the Director of Finance demonstrating that, during any 12 consecutive calendar months out of the immediately preceding 24 calendar months, the Coverage Requirement has been met (see "Rate Covenant" for the definition of "Coverage Requirement") ; or

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

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

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

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

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

Rate Covenant

The City has covenanted to establish, maintain, revise as necessary, and collect rates and charges for services and facilities provided by the Drainage and Wastewater System so that Adjusted Net Revenue in each fiscal year will be sufficient to meet or exceed the Coverage Requirement. Calculations of historical coverage ratios for the Drainage and Wastewater Fund are provided below in Table 9—Drainage and Wastewater System Operating Results under "Drainage and Wastewater System – Financial Results."

"Coverage Requirement" is defined in the Bond Legislation as Adjusted Net Revenue equal to at least 1.25 times Adjusted Annual Debt Service on all Parity Bonds then outstanding. The definitions of Adjusted Annual Debt

Service and Adjusted Gross Revenue in the Bond Legislation provide for adjustments for deposits to and withdrawals from the Rate Stabilization Account and for ULID Assessments.

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

Rate Stabilization Account

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

Other Covenants

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

No Acceleration of the Bonds

The Bonds are not subject to acceleration under any circumstances. The City is liable only for principal and interest payments as they become due. In the event of multiple defaults in the payment of principal of or interest on the Parity Bonds, the registered owners would be required to bring a separate action for each such payment not made. If the City encounters difficulties in making timely payment of debt service on the Parity Bonds, this could give rise to a difference in interests between registered owners of earlier and later maturing Parity Bonds.

Separate Utility Systems

The City has reserved the right to create, acquire, construct, finance, own, and operate one or more additional systems for drainage and wastewater service or other commodity or service relating to the Drainage and Wastewater System. The revenue of that separate utility system will not be included in Gross Revenue and may be pledged to the payment of revenue obligations issued to purchase, construct, condemn, or otherwise acquire or expand the separate utility system. Neither the Gross Revenue nor Net Revenue will be pledged by the City to the payment of any obligations of the separate utility system, except as a Contract Resource Obligation or, with respect to Net Revenue, on a basis subordinate to the lien of the Parity Bonds on that Net Revenue. See Appendix A—Bond Ordinance—Section 19. The City has never created any such separate utility system relating to drainage and wastewater service and currently has no intention of doing so.

Combined Utility Systems

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

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

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

SECTION 24(d)OF THE BOND ORDINANCE PROVIDES THAT PURCHASERS OF THE BONDS HAVE CONSENTED TO THE ADOPTION BY THE CITY OF FUTURE SUPPLEMENTAL OR AMENDATORY ORDINANCES OR RESOLUTIONS THAT WOULD PERMIT THE TAX CREDIT SUBSIDY PAYMENTS TO BE NETTED AGAINST DEBT SERVICE TO BE PAID IN THE FUTURE. See Appendix A—Bond Ordinance—Section 24(d).

Effect of Federal Sequestration. With respect to the City's outstanding 2009A Parity Bonds, the City is eligible for a Tax Credit Subsidy Payment of 35% of each interest payment due. As a result of federal sequestration under the Budget Control Act of 2011, the interest subsidy payment from the federal government for interest coming due on May 1, 2016, is expected to be reduced by 6.8% ($64,112). The interest subsidy payments expected to be made by the federal government for interest coming due on November 1, 2016, and May 1, 2017, are each expected to be reduced by 7.3% ($68,826). The Drainage and Wastewater System has sufficient revenues to pay the interest without these subsidies.

Debt Service Requirements

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

DEBT SERVICE REQUIREMENTS[1]

Year	Outstanding Parity Bonds[2]	The Bonds[3] Principal	The Bonds[3] Interest	The Bonds[3] Total	Total Parity Bonds	State Loan Program Obligations[4]	Total Debt Service
2016	$ 47,450,953	$ -	$ 1,153,873	$ 1,153,873	$ 48,604,825	$ 1,403,445	$ 50,008,270
2017	47,529,553	1,610,000	4,155,650	5,765,650	53,295,203	1,400,951	54,696,154
2018	47,488,765	1,695,000	4,073,025	5,768,025	53,256,790	1,398,456	54,655,246
2019	47,455,146	1,780,000	3,986,150	5,766,150	53,221,296	1,395,962	54,617,258
2020	47,304,528	1,870,000	3,894,900	5,764,900	53,069,428	1,393,468	54,462,896
2021	45,752,763	1,970,000	3,798,900	5,768,900	51,521,663	1,318,178	52,839,841
2022	45,716,446	2,070,000	3,697,900	5,767,900	51,484,346	1,315,683	52,800,029
2023	44,323,746	2,175,000	3,591,775	5,766,775	50,090,521	1,313,189	51,403,710
2024	44,294,665	2,285,000	3,480,275	5,765,275	50,059,940	1,310,694	51,370,634
2025	44,245,240	2,405,000	3,363,025	5,768,025	50,013,265	1,112,318	51,125,583
2026	43,162,706	2,530,000	3,239,650	5,769,650	48,932,356	913,680	49,846,036
2027	43,121,859	2,645,000	3,123,500	5,768,500	48,890,359	913,150	49,803,509
2028	41,608,709	2,750,000	3,015,600	5,765,600	47,374,309	912,621	48,286,930
2029	41,535,846	2,865,000	2,903,300	5,768,300	47,304,146	833,143	48,137,289
2030	37,956,590	2,980,000	2,786,400	5,766,400	43,722,990	545,628	44,268,618
2031	37,886,715	3,105,000	2,664,700	5,769,700	43,656,415	337,060	43,993,475
2032	34,474,565	3,230,000	2,538,000	5,768,000	40,242,565	124,760	40,367,325
2033	31,244,813	3,360,000	2,406,200	5,766,200	37,011,013	124,759	37,135,772
2034	31,143,268	3,500,000	2,269,000	5,769,000	36,912,268	-	36,912,268
2035	27,214,975	3,640,000	2,126,200	5,766,200	32,981,175	-	32,981,175
2036	27,116,298	3,790,000	1,977,600	5,767,600	32,883,898	-	32,883,898
2037	27,005,078	3,945,000	1,822,900	5,767,900	32,772,978	-	32,772,978
2038	23,991,790	4,105,000	1,661,900	5,766,900	29,758,690	-	29,758,690
2039	18,485,565	4,275,000	1,494,300	5,769,300	24,254,865	-	24,254,865
2040	11,697,900	4,450,000	1,319,800	5,769,800	17,467,700	-	17,467,700
2041	11,696,300	4,630,000	1,138,200	5,768,200	17,464,500	-	17,464,500
2042	11,693,400	4,820,000	949,200	5,769,200	17,462,600	-	17,462,600
2043	6,433,400	5,015,000	752,500	5,767,500	12,200,900	-	12,200,900
2044	6,431,100	5,220,000	547,800	5,767,800	12,198,900	-	12,198,900
2045	-	5,430,000	334,800	5,764,800	5,764,800	-	5,764,800
2046	-	5,655,000	113,100	5,768,100	5,768,100	-	5,768,100
Total	$ 975,462,678	$ 99,800,000	$74,380,123	$174,180,123	$ 1,149,642,801	$18,067,145	$1,167,709,946

(1) Totals may not add due to rounding.

(2) Includes the Refunding Candidates. Does not reflect the Tax Credit Subsidy Payments associated with the 2009A Parity Bonds. See "Treatment of Tax Credit Subsidy Payments Under the Bond Legislation and Consent to Future Amendments."

(3) New money portion only; preliminary, subject to change. Assumes interest rates ranging from 4.00% to 5.00%.

(4) These loans are secured by a lien on Net Revenue of the Drainage and Wastewater System that is junior to the lien of the Parity Bonds.

SEATTLE PUBLIC UTILITIES

Administrative Structure

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

Management

SPU consists of the Director's Office and seven Executive Branches: Customer Service, Utility Services, Finance and Administration, Project Delivery and Engineering, Drainage and Wastewater Line of Business, Solid Waste Line of Business, and Water Line of Business and Shared Services. In 2014, the SPU Executive Team announced a new organizational structure that aligns the utility more closely around the lines of business. The decision grew out of work done for the Strategic Business Plan. See "Drainage and Wastewater System—Strategic Business Plan." The Director administers SPU in accordance with policies established by the Mayor of the City (the "Mayor") and the City Council. Brief biographies of the members of SPU's executive management team follow.

Ray Hoffman, Director. Mr. Hoffman was named Director in 2010. In this role, he is responsible for SPU's annual budget and oversight of its rates and utility funds, as well as conservation of the City's watersheds and compliance with federal and State water quality and environmental laws. Previously, he was Director of Corporate Policy and Performance, with responsibilities for external government relations, legislative affairs, and risk management. In addition, he formerly served as an advisor to the Mayor on utilities and environmental issues, was the lead for regional affairs and negotiations for SPU, worked in recycling planning and program development for solid waste, and served as Executive Director for Washington Citizens for Recycling. He has more than 20 years of increasingly responsible roles in public policy and management, negotiating multi-party agreements on complex policy issues. Mr. Hoffman has a doctorate from the University of Washington School of Business, as well as a bachelor's degree and master's degree in accounting from the University of Illinois.

Susan Sánchez, Deputy Director for Customer Service. Ms. Sánchez was named Deputy Director for the branch, which serves as the main liaison between SPU ratepayers and the department's operations, in 2010. Prior to this, she was the Director for the Customer Programs and Contract Management Division, which manages the City's graffiti abatement and education, waste prevention, resource conservation, and community stewardship programs. She has more than 20 years of experience in the environmental, transportation, and land use fields at the local, regional, and federal levels. Before joining SPU, she was Director of the Race and Social Justice Office for the Seattle Department of Transportation, after serving more than five years as the Director of the Seattle Department of Transportation's Policy and Planning Division. She holds a bachelor's degree in urban planning from the University of Washington.

Melina Thung, Deputy Director for Utility Services. Ms. Thung was appointed to this position in 2014 and oversees the implementation of SPU's Strategic Business Plan. The Office of Utility Services is composed of the Corporate Services Division, the Risk and Quality Assurance Division, and the Web Team. The staff is responsible for asset management standards and methods, economic services, internal policies and procedures, public records, risk and claims management, quality assurance, climate adaptation, and web services. Prior to working in the Office of Utility Services, Ms. Thung was Deputy Director for Finance and Administration. She also formerly served SPU in the roles of Finance Director, budget manager, budget analyst, and environmental planner. Ms. Thung holds a bachelor's degree in international relations from Georgetown University, a master's degree in public administration from the University of Washington, and a master's degree in finance from Seattle University.

Sherri Crawford, Deputy Director for Finance and Administration. Ms. Crawford was appointed to this position in 2014 and oversees the branch's activities, including finance, information technology, fleet and facilities management, human resources, and the Environmental Justice and Service Equity Division. Prior to holding this position, she was Finance Director for SPU. She held similar positions at the Cities of Auburn and Tacoma. Ms.

Crawford holds a bachelor's degree in business administration from the University of Wisconsin and a master's degree in public administration from Seattle University.

Henry Chen, Interim Deputy Director for Project Delivery and Engineering. Mr. Chen was appointed to this position in 2015, and oversees engineering, capital project delivery, and development services for all lines of business in SPU. Prior to this assignment, he was Director of Engineering and Technical Services Division and PDB Branch Operations Lead. He has also served as lead design engineer, construction engineer, and materials engineering supervisor for the Seattle Department of Transportation; and construction engineering manager, project support division director, and senior adviser to SPU senior executives on asset management and utility performance in SPU. Mr. Chen graduated from the University of Washington with a degree in Civil Engineering. He has a certificate in Water and Wastewater Executive Leadership from the University of North Carolina Kenan-Flagler Business School. He is a licensed Professional Civil Engineer and holds a Project Management Professional certification from the Project Management Institute.

Madeline Goddard, Deputy Director for Drainage and Wastewater Line of Business. Ms. Goddard was appointed to this position in 2015 and oversees the operations of SPU's Drainage and Wastewater business. She has 30 years of experience and most recently served as Deputy General Superintendent of the Sewerage and Water Board of New Orleans. Prior to this position, she worked in the Water Services Department for the City of Phoenix, Arizona, with increasingly responsible leadership roles. Ms. Goddard has a bachelor's degree in civil engineering from the University of California, Berkeley, and a master's of science in sanitary engineering from the Georgia Institute of Technology. She is a registered Professional Civil Engineer in the states of Washington, Louisiana, and Arizona.

Ken Snipes, Deputy Director for Solid Waste Line of Business. Mr. Snipes was appointed to this position in 2015. He joined SPU in 2007 after serving in the United States Air Force. Prior to heading up Solid Waste, he was the Director of Solid Waste Operations and previously held a number of other positions, including Facilities Maintenance Supervisor, Transfer Station Manager, Out of Class Water Operations Director, and Maintenance Manager. He also previously served as a construction manager, electrical superintendent, and emergency management chief. He has led large teams responsible for coordinating humanitarian aid relief efforts and managing the restoration of utility services after major storms, and was a key leader in the construction of a major airfield in a foreign country. A graduate of Wayland Baptist University, Mr. Snipes earned dual bachelors' degrees in business administration and occupational education. In addition, he has associate degrees in several technical areas, including applied science and mechanical and electrical technology. He has also begun work toward a master's degree at the University of Arkansas.

Rick Scott, Deputy Director for Water Line of Business and Shared Services. Mr. Scott was appointed as Deputy Director of the Water Line of Business and Shared Services in 2014. He also leads the shared services functions that support SPU's three lines of business. He joined SPU in 2010 as Director of SPU's Distribution and Transmission Division and was appointed Deputy Director of the former Field Operations and Maintenance branch in 2011. Prior to joining SPU, he served as the Water Treatment superintendent for the City of Glendale, Arizona, where he worked for 24 years. Mr. Scott has an associate degree in civil engineering from Glendale Community College and additional credit hours in utility operations and management or work-related courses.

Employment Retirement System and Employee Relations

Currently SPU has approximately 1,350 regular employees, approximately 71% of whom are represented under one of ten labor agreements with the Coalition of City Unions. See "The City of Seattle—Labor Relations."

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

DRAINAGE AND WASTEWATER SYSTEM

General

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

Wastewater Services

The wastewater system currently serves a population of more than 660,000, substantially all of which are within the City limits. Residential accounts generate, on average, about 35% of total wastewater volumes and 37% of total wastewater revenues. Table 1 presents an overview of key wastewater operating statistics for the past five years. Between 2011 and 2015, wastewater volumes fluctuated from year to year, with year-over-year changes in residential wastewater volumes, for example, ranging from an increase of 4.1% in 2012 to a decrease of 2.4% in 2014. The average of these changes over that period is an increase of 0.6% per year, growth that was primarily driven by commercial construction activity in 2012 and 2015.

TABLE 1
WASTEWATER SYSTEM OPERATING STATISTICS

	2011	2012	2013	2014	2015
Population Served	612,100	616,500	626,600	640,500	662,400
Wastewater Revenues (000)					
Residential	$ 79,480	$ 86,307	$ 89,478	$ 92,234	$ 93,981
Commercial	129,626	150,387	154,998	152,299	163,111
Total Wastewater Revenues (000)	$209,106	$236,694	$244,476	$244,534	$257,092
Billed Wastewater Volume (MG)					
Residential	7,400	7,707	7,594	7,408	7,546
Commercial	12,803	13,217	13,218	13,243	13,872
Total Billed Wastewater Volume	20,203	20,924	20,812	20,651	21,418
Gallons Billed Per Day Per Capita	90.4	93.0	91.0	88.3	88.6

Source: Drainage and Wastewater System and Washington State Office of Financial Management

Note: Totals may not add due to rounding.

In 2006, SPU completed the 20-year Wastewater System Plan (the "WSP"). Although SPU had produced some elements of such a plan in the past, including a combined sewer overflow ("CSO") control plan and a sewer rehabilitation plan, the WSP is the first plan that ties together wastewater needs, policies, and service levels for conveyance systems in a comprehensive manner. The WSP focuses on system capacity, combined sewers, and CSOs.

The WSP identifies gaps between existing and desired service levels and develops options to provide the desired level of service with an acceptable level of risk and least life cycle cost. WSP planning-level cost estimates indicate an increase in both operations and maintenance and Capital Improvement Program ("CIP") expenditures, driven primarily by the requirements of the National Pollutant Discharge Elimination System ("NPDES") CSO permit. See "Regulations—Combined Sewer Overflow NPDES Permit, Reduction Plan, and Amendments."

Regional Treatment and Disposal. In 1958, a regional sewage treatment agency, the Municipality of Metropolitan Seattle ("Metro"), was formed to provide a regional solution to water quality problems. The City, rather than expanding its own treatment facilities, entered into a contract with Metro for sewage treatment. Metro is responsible for and has built major treatment plants along with an extensive regional interceptor system to route sewage to the plants and stop untreated discharges into Lake Washington and other bodies of water.

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

The County's Regional Wastewater Services Plan ("RWSP") outlines important projects, programs, and policies for the County to implement through 2030 to continue to protect public health and water quality and ensure sufficient wastewater capacity to meet future growth. The current RWSP was first adopted in 1999 and last updated in 2013. Between 1999 and 2013 the County completed $2.43 billion in projects, including Brightwater, a 36-million-gallon-per-day ("mgd") treatment and reclaimed water plant and associated conveyance system, at a cost of $1.86 billion. Between 2013 and 2030, an additional $1.01 billion investment in the sewer system is planned, including $0.40 billion in conveyance system improvements to meet the 20-year peak flow storm design standard and $0.60 billion in CSO control improvements.

The County finances the capital and operating costs of its sewage treatment and disposal system, including projects from the RWSP, with a wholesale charge to the City and other component agencies that is established by the County Council pursuant to the current agreement. Currently, the City's share of these costs is approximately 40%, and SPU passes the wholesale charge on to the City's Drainage and Wastewater System ratepayers. The County has approximately $3.8 billion of sewer system debt outstanding with a final maturity of 2052. The City pays a portion of the debt service on these bonds through the wholesale charge it pays to the County. The wholesale charge paid to the County is included as an Operating and Maintenance Expense under the Bond Ordinance. See Appendix A—Bond Ordinance.

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

City ordinance allows SPU to pass through increases in the County's wastewater treatment charges based on adopted wholesale rates and projected billed consumption. The County, which treats virtually all of the City's wastewater, typically increases its wholesale treatment rate every two years. In 2015, the County increased its wholesale treatment rate 5.6% , after a 10.2% increase in 2013. The increase in the County's charges is passed through to SPU customers. The County's treatment charge for 2016 is being held constant at the 2015 level. In June 2016, the County Council is expected to adopt a new treatment rate that will be in effect beginning January 1, 2017.

In 2015, the City Council adopted a 2016 wastewater rate of $12.27 per hundred cubic feet ("ccf"). Table 2 shows adopted City wastewater rates since 2011 and Table 3 shows typical 2016 residential bills for wastewater services in other cities on the West Coast. The City Council approved a 0.1% rate increase for 2017 and 1.2% rate increase for 2018.

TABLE 2
ADOPTED WASTEWATER RATES[(1)]

Effective Date	Volume Rate ($/ccf)	Percentage Change
January 2018	$ 12.43	1.20%
January 2017	12.28	0.10
January 2016	12.27	3.60
January 2015	11.84	0.80
January 2014	11.75	0.90
January 2013	11.65	9.10
January 2012	10.68	3.90
January 2011	10.28	14.50

(1) Reflects County wastewater treatment charges through 2016, including rate increases in 2011, 2013, and 2015. Does not reflect increases in County wastewater treatment charges for 2017 and 2018 as those rates have not been set by the County. Typical consumption for a resident of the City in 2015 was 4.3 ccf.

TABLE 3
2016 RESIDENTIAL WASTEWATER CHARGES

City	Monthly Bill[(1)]
Kirkland WA[(2)]	$ 76.15
Bellevue WA[(2)]	75.35
Issaquah WA[(2)]	56.34
Redmond WA	56.18
Tacoma WA	52.89
Seattle WA[(2)]	**52.76**
Portland OR	40.42

(1) Bills assume typical consumption for each city; include taxes except Issaquah, which only taxes water consumption.

(2) County wastewater treatment customers.

Source: Survey by SPU of rates in effect on January 1, 2016, in each respective city. Issaquah and Kirkland are estimated bills; Bellevue, Seattle, Tacoma, and Portland are actuals as provided by the respective utilities.

SPU accounts are billed bimonthly for residential and small commercial customers and monthly for larger accounts. Residential customers currently receive a combined utility bill that itemizes amounts due for water, wastewater and solid waste services. See "Billing."

Because the Water Fund is affected first in the event of customer payment delinquencies, the Drainage and Wastewater Fund benefits from any enforcement action that would shut off the water supply to the delinquent payer. City ordinance further provides that, in accordance with RCW 35.67.200, overdue accounts become a lien on property if not paid within 90 days and delinquent charges bear interest at the rate of 8% per annum. As a result of this strong collection mechanism, the Drainage and Wastewater System allowance for the collection of doubtful accounts has averaged approximately 0.1% of direct service revenues since 2001.

The City's wastewater system serves approximately 174,600 accounts in a developed urban area. Commercial accounts have, on average, comprised approximately 10% of the total. SPU generally experiences very little change from year to year in the number of wastewater customers it serves.

The wastewater system's ten largest customers in 2015 are listed in Table 4. In total, the revenue from these ten customers was approximately 10.4% of aggregate wastewater service revenues. No single customer comprises more than 5% of total wastewater revenue in the service area.

TABLE 4
TEN LARGEST WASTEWATER CUSTOMERS IN 2015

Name	Revenue	% of Total Revenue
University of Washington	$ 7,798,728	3.1%
Seattle Housing Authority	4,712,239	1.9%
City of Seattle	3,158,159	1.3%
Seattle Tunnel Partners(1)	2,327,875	0.9%
Equity Residential Property	1,673,147	0.7%
Starwood Hotel/Resort Group	1,589,437	0.6%
King County	1,433,434	0.6%
Port of Seattle	1,233,421	0.5%
Darigold	1,116,444	0.4%
Bellwether Housing	998,326	0.4%
Total-Ten Largest Customers	$ 26,041,210	10.4%

(1) Seattle Tunnel Partners will no longer be a wastewater customer of the wastewater system after completion of the State's project to replace the Alaskan Way viaduct. See "The City of Seattle—Considerations Related to Alaskan Way Viaduct and Seawall Replacement Program."

Source: SPU Wastewater Billing System and 2015 Financial Statements—Other Information (unaudited)

Drainage Services

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

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

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

Drainage rates for 2016 through 2018 are shown in Table 5, and the annual rate of increase in drainage rates for the period 2012-2018 is shown in Table 6.

TABLE 5
DRAINAGE RATE CATEGORIES

Rate Category	Percent Impervious[1]	2016 Annual Charge	2017 Annual Charge	2018 Annual Charge
Small Residential		per parcel	per parcel	per parcel
(less than 10,000 square feet)				
0-1,999 sq. ft.		$123.81	$140.05	$154.85
2,000-2,999 sq.ft.		206.93	230.84	251.85
3,000-4,999 sq. ft.		286.63	318.14	345.37
5,000-6,999 sq. ft.		390.03	431.20	466.29
7,000-9,999 sq. ft.		491.40	542.40	585.61
General Service/Large Residential[2]		per 1,000 sq.ft.	per 1,000 sq.ft.	per 1,000 sq.ft.
Undeveloped	0-15%			
Regular		$31.24	$34.65	$37.60
Low Impact[3]		18.57	20.61	22.37
Light	16-35%			
Regular		$48.52	$53.38	$57.44
Low Impact[3]		38.31	42.13	45.33
Medium	36-65%			
Regular		$70.67	$77.37	$82.86
Low Impact[3]		57.21	62.68	67.18
High	66-85%	93.56	102.18	109.16
Very High	86-100%	112.38	122.58	130.77

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

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

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

TABLE 6
ANNUAL DRAINAGE FEE PERCENTAGE INCREASE
(%)

	2012	2013	2014	2015	2016	2017	2018
Residential[1]	11.4	10.5	10.3	9.9	11.3	10.6	8.1
Commercial	11.4	9.6	10.3	9.9	11.2	9.4	7.1

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

Table 7 compares the typical residential charge for drainage services of comparable cities in the Northwest.

TABLE 7
2016 RESIDENTIAL DRAINAGE CHARGES

City	Typical Monthly Bill
Seattle WA	**$ 32.50**
Portland OR	26.59
Bellevue WA	22.95
Tacoma WA	22.25
Kirkland WA	18.14
Issaquah WA	14.78

Source: Survey by SPU of rates in effect on January 1, 2016, in each respective city

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

The City's drainage system serves approximately 214,000 accounts in a developed urban area; the system has experienced little change from year to year in the number of customers. Residential customers make up approximately 69% of the total customers. The ten largest customers of the drainage system in 2015 are listed in Table 8. In 2015, revenue billed to these ten customers totaled $20.8 million, or approximately 20.2% of drainage service revenues. The Port of Seattle (the "Port") has historically been one of the City's largest drainage customers. However, on January 1, 2015, the Port established a stormwater utility pursuant to RCW 53.08040, RCW 53.08.043, and other statutes which apply to Port-owned land within the City limits. The Port Stormwater Utility Charter was approved by the Port Commission on November 25, 2014. In 2015, the Port made a settlement payment to the City that was equivalent to the bill it would have paid the City if the Port had been a drainage customer in 2015.

TABLE 8
TEN LARGEST DRAINAGE CUSTOMERS IN 2015

Name	Revenue	% of Total Revenue
City of Seattle	$ 6,359,998	6.2%
King County	2,044,639	2.0%
Seattle Public Schools	2,026,646	2.0%
University of Washington	1,644,229	1.6%
BNSF Railway Company	1,545,224	1.5%
Seattle Housing Authority	902,184	0.9%
U.S. Government	869,156	0.8%
CCAS Property and Construction	754,603	0.7%
Union Pacific Railroad Company	614,865	0.6%
Seattle Community College	406,468	0.4%
Total-Ten Largest Customers	$17,168,012	16.7%

Note: Totals may not add due to rounding.

Source: SPU Wastewater Billing System and 2015 Financial Statements—Other Information (unaudited)

Billing

The City's utility billing function is co-managed by SPU and the City's electric utility enterprise ("Seattle City Light"). SPU provides customer service through the call center and walk-in center. Seattle City Light operates and manages the billing system. SPU and Seattle City Light bill and reimburse each other for these services. A joint project is underway between SPU and Seattle City Light to replace the current legacy customer information and billing system. The new system will provide utility customers new self-service features, while improving operational efficiencies. The system was originally expected to be operational in late 2015 but completion has been delayed until the end of 2016. Additionally, due to the increased scope and implementation timeline, the projected cost of this system has increased from the original budgeted amount of $64 million to approximately $100 million. The Drainage and Wastewater Fund's allocated share of the cost of this project is included in the Drainage and Wastewater System's capital improvement plan, and this increased cost will result in a reallocation between components of the adopted capital improvement plan. See "Capital Improvement Program."

SPU accounts are billed bimonthly for residential and small commercial customers and monthly for larger accounts. Residential customers receive a combined utility bill that itemizes amounts due for water, wastewater, and solid waste services. Payments received from the combined utility bills are allocated to the appropriate funds. If a payment received from a residential customer is insufficient to cover the total amount due and payable under the combined utility bill, that payment is credited first to the Solid Waste Fund. The balance of the payment is then credited to the Drainage and Wastewater Fund and then, if funds are available, to the Water Fund. If an account is 20 days past due, customers receive a water shut-off notice. Under State law, SPU has the authority to shut off water when an account is 30 days past due. Delinquent charges bear interest at the rate of 12% per annum. Total 90-day-plus outstanding balances for SPU billed water, wastewater, and solid waste services, including inactive accounts, were $2.2 million (less than 1% of annual direct service revenue billed by SPU) as of December 2015. These figures include all outstanding amounts going back to 2009.

Regulations

Clean Water Act. The Federal Water Pollution Control Act (the "Clean Water Act"), as amended, establishes a broad goal of restoring and maintaining the chemical, physical, and biological integrity of the nation's waters. Among other directives, the Clean Water Act requires permitting of point source discharges of pollutants into waters of the United States under the NPDES; mandates that states set water quality standards, and requires periodic listing of impaired waters (section 303(d) list); mandates "total maximum daily load" analyses for impaired waters; and requires programs to encourage control of nonpoint source pollution.

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

NPDES Municipal Stormwater Permit. Section 402 of the Clean Water Act requires certain municipalities to obtain an NPDES permit for municipal stormwater discharges to receiving waters. In Washington, Ecology is responsible for issuing and renewing these permits. Municipal stormwater discharges are regulated as point sources that should be controlled to reduce discharge of pollutants to the "maximum extent practicable," through a primarily programmatic permit. Under Phase I of the program, large and medium municipal separate storm sewer systems ("MS4s") such as the City's must obtain NPDES permits for the discharges of stormwater to surface waters and ground waters of the State (not including CSOs or discharges from public treatment facilities). As a condition of MS4 permit coverage, permittees are required to develop a stormwater management program. Ecology issued the current Phase I municipal stormwater permit to the City in 2012, which became effective in 2013. The 2013 permit includes requirements that were intended to improve the quality of the receiving waters in the City and included prescriptive programmatic requirements, measurement guidelines for specific programs, and best management practices based on Ecology's 2012 Stormwater Management Manual for Western Washington. This permit is in effect from 2013 to 2018 and continues many of the previous prescriptive programmatic permit requirements while changing others. The largest changes affect the implementation of low impact development, as required by a 2008 decision by the State Pollution Control Hearings Board and the requirement to participate in an Ecology-led regional monitoring program.

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

Ecology issues NPDES permits for CSO discharges under the authority of the Clean Water Act. On March 31, 2016, Ecology issued SPU a new NPDES permit for its CSO discharges. The new permit updated and replaced the previous NPDES permit, which had been scheduled to expire in November 2015 but which continued in force until Ecology issued the new permit. The new permit authorizes CSO discharges at 86 permitted locations and sets requirements for management of the wastewater system and deadlines for completing a list of activities related to CSO control and infrastructure rehabilitation.

In 2012, EPA, Ecology, and the U.S. Department of Justice entered into Consent Decree negotiations with the City and the County related to completion of the agencies' CSO reduction programs and management of each agency's wastewater system. The negotiated consent decrees were entered in U.S. District Court in 2013. The City's Consent Decree requires the City to develop and implement plans and projects including a Capacity, Management, Operations, and Maintenance Performance Program Plan, Long-Term Control Plan ("LTCP"), Fats, Oils, and Grease Control Program Plan, revised Floatables Observation Program Plan, Final Post-Construction Monitoring Plan, and the Henderson CSO reduction project, and requires the City and the County to develop and implement a joint operations and systems optimization plan. The Final Plan to Protect Seattle's Waterways was submitted to EPA and Ecology for approval on May 29, 2015, in accordance with the City's Consent Decree requirements. The Plan commits SPU to constructing a large combined sewage storage facility (the Ship Canal Water Quality Project), several smaller storage projects and sewer system improvement projects to control all remaining uncontrolled CSO outfalls, and three projects to remove pollutants from stormwater: Natural Drainage Systems ("NDS") Partnering, South Park Water Quality Facility, and Arterial Street Sweeping Expansion. The stormwater projects are expected to be completed by the end of 2025, and all CSO outfalls are expected to be controlled by the end of 2030. The Ship Canal Water Quality Project benefits both the City and the County. SPU and the County's Department of Natural Resources and Parks have agreed to a coordination strategy and are developing a project agreement for the construction, operation, and maintenance of the facility. The Plan was approved by EPA and Ecology on August 26, 2015.

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

Over the last four decades, the City has invested more than $700 million in CSO controls. Between 2016 and 2021, the City expects to spend an additional $240 million (in 2016 dollars) in CSO improvements. Improvements will include large CSO storage facilities, retrofit, and green stormwater infrastructure projects. See "Capital Improvement Program."

Financial Policies

Drainage and wastewater rates are set in accordance with financial policies adopted by the City Council, including the Coverage Requirement. Revenues to cover depreciation and City taxes are considered available for debt service. Under the City Charter, City taxes on the Drainage and Wastewater System may be paid only after provision has been made for debt service payable from Net Revenues and for necessary betterments and replacements for the current year. The City Council has adopted a coverage target of Adjusted Net Revenue available for debt service in each calendar year at least equal to 1.80 times Adjusted Annual Debt Service. Other adopted internal policy targets in effect since 2004 include generally positive net income, a minimum year-end cash balance equal to the average monthly wastewater treatment cost, and a minimum of 25% cash funding of the CIP based on a four-year rolling average. Between 2011 and 2015, the Drainage and Wastewater System met or exceeded all targets.

Financial Performance

Table 9 shows actual revenues and expenses of the Drainage and Wastewater System for the years 2011 through 2015, as well as projected results for 2016 and 2017. Footnotes for the Table 9 are on the following page.

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

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

The 2015 Financial Statements, included herein as Appendix C, have been audited by Moss Adams LLP, independent auditors, as stated in its report appearing herein. SPU has not requested that Moss Adams LLP provide permission for inclusion of its report on the audited financial statements in this official statement, and Moss Adams LLP has not performed, since the date of its report included herein, any procedures on the financial statements addressed in that report. Further, Moss Adams LLP has not participated in any way in the preparation or review of this Official Statement.

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

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

TABLE 9
DRAINAGE AND WASTEWATER SYSTEM OPERATING RESULTS
($000)

	Actual					Projected	
	2011	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**
Operating Revenues							
Wastewater(1)(2)	$ 206,644	$ 223,138	$ 244,476	$ 244,534	$ 257,092	$ 260,269	$ 271,126
Drainage(1)(2)	67,580	75,537	84,157	92,784	102,020	107,657	118,183
Other	4,733	5,327	5,127	4,683	4,666	4,156	4,160
Total Operating Revenue	$ 278,957	$ 304,002	$ 333,760	$ 342,000	$ 363,779	$ 372,082	$ 393,468
Operating Expense							
Wastewater Treatment Contract(2)	$ 125,252	$ 125,744	$ 139,434	$ 140,307	$ 150,326	$ 152,261	$ 161,694
Other Operations & Maintenance(3)	71,957	72,070	73,095	77,128	80,917	104,618	112,968
City Taxes(4)	32,449	35,375	38,852	40,266	42,876	43,633	46,147
Other Taxes	3,582	4,172	4,340	4,329	4,549	4,865	5,063
Total Operating Expenses Before Debt Service	$ 233,239	$ 237,362	$ 255,721	$ 262,031	$ 278,669	$ 305,376	$ 325,872
Net Operating Income	$ 45,718	$ 66,640	$ 78,039	$ 79,969	$ 85,110	$ 66,706	$ 67,597
Adjustments							
Plus (Less):							
Claim Expense	$ 1,516	$ (875)	$ 922	$ 1,341	$ 243	$ 243	$ 243
City Taxes(4)	32,449	35,375	38,852	40,266	42,876	43,633	46,147
Investment Interest	894	984	1,152	1,552	2,032	1,500	1,500
DSRF Earnings	(100)	(105)	(131)	(140)	(209)	(225)	(235)
BABs Subsidy(5)	1,886	1,886	2,109	1,734	1,754	1,748	1,748
Net Other Nonoperating Revenues/(Expenses)	76	(5)	114	65	995	200	200
Environmental Liabilities	603	1,616	-	727	-	-	-
Proceeds from Sale of Assets	112	44	644	222	687	-	-
Total Adjustments	$ 37,435	$ 38,919	$ 43,662	$ 45,767	$ 48,379	$ 47,099	$ 49,603
Net Revenue Available for Debt Service	$ 83,153	$ 105,559	$ 121,702	$ 125,736	$ 133,489	$ 113,805	$ 117,200
Annual Debt Service							
Annual Debt Service(6)	$ 29,508	$ 30,489	$ 30,124	$ 42,291	$ 47,371	$ 53,774	$ 57,844
Less: DSRF Earnings	(100)	(105)	(131)	(140)	(209)	(209)	(209)
Adjusted Annual Debt Service	$ 29,407	$ 30,384	$ 29,994	$ 42,150	$ 47,162	$ 53,565	$ 57,635
Coverage(7)	2.83	3.47	4.06	2.98	2.83	2.12	2.03

NOTES TO TABLE 9:

(1) Reflects adopted 2016 rate increases of 3.6% for wastewater and 9.9% for drainage and adopted 2017 rate increases of 5.0% for wastewater and 9.7% for drainage. 2017 rate increases also include the proposed 5.2% County wastewater treatment rate increase.

(2) Includes County wastewater treatment rate increases of 13.2% in 2011, 10.2% in 2013, 5.6% in 2015, and 5.2% proposed for 2017.

(3) Excludes non-cash accounting entries for depreciation, amortization, and unfunded net pension expense resulting from the implementation of GASB 68. Spending is projected to increase in 2016 and beyond in order to complete the work necessary to meet regulatory requirements and increased investment in systems maintenance.

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

(5) Includes interest income on Build America Bonds. The 7.2% reduction in payments resulting from sequestration has been assumed through the forecast horizon. See "Treatment of Tax Credit Subsidy Payments Under the Bond Legislation and Consent to Future Amendments."

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

(7) Calculated in accordance with the Bond Legislation, including springing changes to the Coverage Requirement definition and related definitions and covenants. Therefore, the ratios displayed may differ from those set forth in prior official statements and disclosure documents, in order to track the revised definitions in the Bond Legislation as now in effect. Such calculations are performed in accordance with the definitions of the terms Adjusted Annual Debt Service, Adjusted Net Revenue, and certain other terms as provided in the Bond Legislation. See Appendix A—Bond Ordinance—Section 1.

Note: Totals may not add due to rounding.

Source: Drainage and Wastewater System

Management Discussion and Analysis of Operating Results

This section provides a brief discussion of operating results for the period 2011-2015 based on information in Table 3, and the Management's Discussion and Analysis included in Appendix C—2015 Audited Financial Statements of the Drainage and Wastewater Fund.

Between 2011 and 2015, the Drainage and Wastewater System maintained high levels of debt service coverage (well above policy targets), with strong cash performance equal to or above the policy target. Despite some decline in wastewater volumes since 2005, aggregate operating revenues have shown steady growth, averaging 6.7% per year for the period.

SPU expects to meet or exceed debt service coverage, cash balance, cash financing of the CIP, and net income targets in 2016 and 2017. Financial performance figures for 2016 and 2017 assume the drainage and wastewater rates for those years that have been adopted by ordinance. See "Wastewater Services—Wastewater Rates" and "Drainage Services—Drainage Rates."

Payments to the County for wastewater treatment constitute an Operating and Maintenance Expense that must be paid prior to payment of the principal of or interest on any bonds secured by the revenues of the Drainage and Wastewater System, including the Parity Bonds. Approximately 41% of the Drainage and Wastewater System's total operating revenue in 2015 was spent on wastewater treatment. City ordinance allows SPU to pass through increases in the County's wastewater treatment expense. Additionally, these revenues and expenses are impacted by overall demand. Demand is expected to increase by 0.3% and 0.1% in 2016 and 2017, respectively, as a result of increased construction activity and population and employment growth within the City.

Strategic Business Plan

SPU worked with its customers and employees during 2013 and 2014 to develop a Strategic Business Plan to guide its work from 2015 through 2020. The Strategic Business Plan outlines what strategic focus areas, efficiency savings, and new plans SPU will focus on from 2015 through 2020. The plan grew out of SPU's efforts to provide greater rate predictability to its customers, while still making important investments for the future. The Strategic Business Plan was adopted by the City Council in 2014.

Capital Improvement Program

Each year, SPU prepares a six-year Drainage and Wastewater CIP. The CIP identifies rehabilitation and upgrades that are needed for existing facilities, as well as any new facilities that are required, and includes a financial plan for funding the planned improvements. SPU expects to finance the CIP with a combination of bond proceeds, grants and reimbursements, and current revenues. The information provided in the table below displays projections prepared for planning purposes only.

The City is currently engaged in planning that will identify capital and operating and maintenance needs for the sewer drainage system. The City's Plan to Protect Seattle's Waterways (an Integrated Plan that addresses both sewage overflows and polluted stormwater runoff), which was approved by the EPA, Department of Justice, and Ecology in 2013, requires CIP investments in wastewater and stormwater projects through 2030. In addition, between 2016 and 2025, SPU will be conducting City-wide master planning to identify where investments in utility infrastructure can be made to improve capacity, reduce flooding, and improve water quality. These plans will guide capital and operational investments in drainage and wastewater in both the near and long term (50 years).

In 2015, the Mayor proposed the 2016-2021 CIP, which includes the Plan of Additions to be partially funded with proceeds of the Bonds. The City Council approved the CIP in November 2015. The adopted 2016-2021 CIP is approximately $873.7 million, which is $205.7 million larger than the adopted 2015-2020 CIP of $668 million. The significant factors driving this change are increases in projects associated with flood control programs, combined sewer overflows, and sewer pipe rehabilitation.

Table 10 shows actual CIP spending in 2015 based on SPU's analysis of year-end capital spending, and projected CIP spending in 2016 through 2021 in accordance with the most recent forecasts and adopted CIP.

TABLE 10
DRAINAGE AND WASTEWATER SYSTEM
CAPITAL IMPROVEMENT PROGRAM
(Amounts in Thousands)

	Actual	Spending Plan						
	2015	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**Total**
Program Area								
Combined Sewer Overflows	$ 60,736	$ 56,597	$ 30,591	$ 35,376	$ 63,446	$ 90,940	$ 100,239	$ 437,925
Rehabilitation	14,759	19,758	21,758	24,020	24,520	26,520	28,500	159,835
Flooding, Sewer Back-up, and Landslides	11,534	13,390	20,552	19,232	20,150	7,898	26,162	118,918
Protection of Beneficial Uses	4,917	4,820	8,769	13,952	7,952	8,702	10,160	59,272
Sediments	3,347	4,762	3,687	6,958	8,273	18,320	15,983	61,330
Shared Cost Projects	18,840	17,845	25,508	14,008	15,474	9,766	12,544	113,985
Technology	6,731	12,797	7,349	4,588	3,872	3,918	3,999	43,254
Total	$120,864	$129,969	$118,214	$118,134	$143,687	$166,064	$ 197,587	$ 994,519

	Actual	Planned						
Funding Sources	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**Total**
Debt Financing[1]								
2014 New Money Bonds	$ 72,096	$ 6,580	$ -	$ -	$ -	$ -	$ -	$ 78,676
2016 New Money Bonds	-	61,476	46,324	-	-	-	-	107,800
Future Bonds	-	-	41,601	90,682	110,065	118,863	138,649	499,859
Total Debt Financing	$ 72,096	$ 68,056	$ 87,925	$ 90,682	$110,065	$118,863	$ 138,649	$ 686,336
Revenue Financing								
Grants and Reimbursements	$ 5,084	$ 40,506	$ 1,929	$ 1,991	$ 1,736	$ 1,736	$ 1,736	$ 54,718
Internally Generated Funds	43,683	21,407	28,361	25,461	31,886	45,465	57,202	253,465
Total Revenue Financing	$ 48,767	$ 61,913	$ 30,290	$ 27,452	$ 33,622	$ 47,201	$ 58,938	$ 308,182
Total	$120,864	$129,969	$118,214	$118,134	$143,687	$166,064	$ 197,587	$ 994,519

(1) Bond proceeds provided are net of issuance expense.

Note: Totals may not add due to rounding.

The 2016-2021 CIP addresses seven program areas:

Combined Sewer Overflows. This program area consists of projects that are mandated by State and federal regulations to control CSOs into the City's receiving waters. Projects include large infrastructure projects (*e.g.*, storage structures, pipes, tunnels, wet weather treatment plants, stormwater separation, and pump stations), smaller retrofits, construction of green infrastructure for CSO control, and development of regulatory-required plans, such as the LTCP.

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

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

Protection of Beneficial Uses. This program area consists of improvements to the City's drainage system to reduce the harmful effects of stormwater runoff on creeks and receiving waters by improving water quality and protecting or enhancing habitat. The program area includes projects to improve water quality, protect creeks, meet regulatory requirements, and use best available science to meet community expectations for habitat. SPU is monitoring Ecology's efforts to update the water quality standards for protection of human health. The updated standards will incorporate a higher consumption rate of fish by humans and lead to more stringent standards for the surface waters of the state. The updated standards are expected to be in place by the end of 2016.

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

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

Related to sediment cleanup is the protection of the cleanup, to the extent practicable, from recontamination by ongoing sources. Identifying and managing these ongoing sources is known as source control and, for SPU, includes helping to improve housekeeping practices at facilities that discharge to City storm drains via municipal storm water permit and related water quality investments. Source control activities fall predominantly within the Protection of Beneficial Uses program area.

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

Technology. This program area makes use of recent technological advances to increase SPU's efficiency and productivity.

Risk Management and Quality Assurance

The Risk and Quality Assurance Program ("RQA") was first established in 2004 and became a separate division in 2011. The program reports to a Risk and Quality Assurance Board, which consists of the SPU Director, the Executive Team, and a representative from the City Attorney's Office. The program's goals are to:

(i) provide strategic advice to the Executive Team and ensure that SPU's policies and procedures enable the organization to be efficient and effective in meeting customer expectations;

(ii) assess ongoing business practices and procedures and recommend measures to ensure sufficient measures are in place to reduce risks to SPU employees, customers, and assets;

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

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

(v) provide physical security services and infrastructure for SPU assets and employees.

Among other efforts underway in 2016, the RQA team is focused on developing a Privacy and Payment Card Industry program that will help further ensure compliance with federal regulations and Payment Card Industry Standards.. The team is also reviewing and updating SPU's security system and practices, working with the warehouse group to centralize storage and management of tools, developing a strategic audit plan; and developing new claims investigation procedures. In addition to these projects, the RQA team continues to manage the ongoing functions of claims investigations, respond to public disclosure requests, coordinate the development of policies and procedures, coordinate external audits and conduct internal audits, investigate the loss or suspected loss of assets, and protect SPU's critical assets.

See "The City of Seattle—Risk Management."

Endangered Species Act and Regional Needs Assessment

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

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

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

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

Environmental Liabilities

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

In 2001, EPA listed the Lower Duwamish Waterway as a Superfund site under CERCLA to address the cleanup of historic contamination. EPA and Ecology followed the listing with a joint federal and State administrative order on consent ("AOC"), which named certain potentially responsible parties ("PRPs"), including the City (through SPU and Seattle City Light), the County, the Port of Seattle, and The Boeing Company. The AOC also provided for studies of risk and formulation of cleanup alternatives that determined the nature and extent of the contamination at the site and the preferred option for cleanup. Under the AOC for the Superfund site and early action units within the site, the PRPs are responsible for conducting and paying for the studies, known as the Duwamish Remedial Investigation, Feasibility Study, and Engineering and Cost Analyses, the latter analyses being related to clean-up of early action units within the overall Superfund site.

These studies resulted in a record of decision by EPA in 2014 delineating the full extent of cleanup actions and estimated total cleanup costs of $342 million (2014 present value). SPU's share of liability for this cleanup is uncertain and depends upon the number and location of the areas at which EPA requires cleanup and the extent to which SPU's drainage and wastewater operations contributed to the contamination. Other PRPs are expected to share in the total cleanup costs as well as past study costs. An allocation process and potential litigation expected to be completed by 2018 is intended to set a final allocation of costs among the various PRPs. The AOC has been amended to include additional pre-design studies by the PRPs in the 2016-2019 timeframe. .

Immediately downstream of the Lower Duwamish Waterway is the East Waterway. Contaminated sediments within the East Waterway are an operable unit of the Harbor Island Superfund site, and the Port of Seattle entered into an administrative settlement agreement and order on consent ("ASAOC") with EPA in 2006. The ASAOC covers an East Waterway sediment remedial investigation/feasibility study ("RI/FS"), which is underway and expected to be completed in 2017, with EPA issuing a record of decision for the operable unit in about 2018. The East Waterway is a Superfund cleanup project with many similar issues to the Lower Duwamish Waterway cleanup. The City, the Port of Seattle, and the County have entered into a memorandum of agreement that covers, among other things, interim sharing of costs and document review for the RI/FS. The total costs, and the City's share of those costs, for remediation of the East Waterway, if any, are not estimable at present. Other PRPs are expected to share in any costs.

In 2002, Ecology named the City and Puget Sound Energy as PRPs for the contamination of sediments adjacent to Gas Works Park and the Harbor Patrol areas in the North Lake Union area of the City. The City and Puget Sound Energy signed an Agreed Order with Ecology in 2005 to initiate two RI/FS for the sediment site: one in the western portion of the site led by the City and another in the eastern portion of the site led by Puget Sound Energy. Subsequently, in the fall of 2012, the City and Puget Sound Energy entered into a Settlement, Release, and Cost Allocation Agreement that puts Puget Sound Energy in the lead of all additional cleanup work at the site; the east-west split is no longer in place. Based on the 2012 agreement, the City pays for 20% of the shared costs incurred by Puget Sound Energy for the cleanup work. The RI/FS includes an evaluation of the nature and extent of the contamination on the site, an evaluation of multiple alternatives for remediating the sediments, and a recommended preferred alternative. Puget Sound Energy collected additional environmental data in 2013; the RI/FS is expected to be completed in 2017. A Clean-up Action Plan is expected from Ecology in approximately 2018.

In addition, the Drainage and Wastewater System could be liable for a portion of the costs of investigation and cleanup at other sediment sites, including some not yet identified. The magnitude of any such potential liability cannot be determined at this time. See Appendix C—2015 Audited Financial Statements of the Drainage and Wastewater Fund-Note 10.

As part of its federal Superfund liability, SPU also may have some liability for natural resources damages ("NRD"). The City settled its NRD liability for the Duwamish River in 1991. However the Natural Resource Trustees (federal, state and tribal agencies with natural resource responsibilities) are now bringing actions against other PRPs associated with the Duwamish River and have indicated that the City has some small residual liability at this site. The City is near finalization of the settlement of the Duwamish River NRD liability with the Natural Resource Trustees. NRD liability at other sediment sites has not yet been discussed. The magnitude of liability at the other sites cannot be determined at this time.

Climate Change

Climate change has affected and is projected to continue to affect the water cycle and hydrology, which will have varying implications for drinking water, stormwater, and wastewater utilities. The SPU Climate Resiliency Group (the "CRG"), which is located within the Office of Utilities Services, leads and directs SPU's corporate-wide response to climate change. The CRG's program addresses three main categories: conducting research to assess how climate change can affect SPU's interests, developing collaborative partnerships and influencing policy, and building institutional capacity in order to develop adaptation and mitigation strategies that can be incorporated into SPU operations, capital planning, and overall decision-making processes.

SPU's initial work on climate change focused on assessing how climate change will affect drinking water supply. That continues to be a sustained focus of SPU, but the work has also broadened to include drainage and wastewater issues. SPU has assessed the exposure of SPU assets to sea level rise along the marine shoreline of the City, and has modeled the combined effects of sea level rise with extreme precipitation events. SPU is currently extending that work to identify precipitation thresholds and associated capacity constraints in the non-tidally influenced sewer network. SPU is also exploring the development of "climate-perturbed" intensity, duration, and frequency curves. The completed and planned analysis will be reflected in guidance documents that can inform capital investment decisions through SPU's asset management process.

SPU's current Strategic Business Plan calls for the development of a drainage and wastewater adaptation strategy. Work on the strategy will start in 2016 and will provide an overall strategic framework for how SPU will adapt the Drainage and Wastewater System and services to a changing climate. See "Strategic Business Plan."

Emergency Operations Plan

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

THE CITY OF SEATTLE

The following provides general information about the City.

Municipal Government

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

The City is a general purpose government that provides a broad range of services typical of local municipalities, such as streets, parks, libraries, human services, law enforcement, firefighting and emergency medical services, planning, zoning, animal control, municipal court, and utilities. The City owns and operates water, electric, solid waste, and drainage and wastewater utilities, although the County provides wastewater treatment service. The County also provides certain services throughout the County and within the City, including courts of general jurisdiction, felony prosecution and defense, jail, public health, and transit services.

The City is organized under the mayor-council form of government and operates under its City Charter. The Mayor, the city attorney, and seven Municipal Court judges are all elected to four-year terms. In 2013, voters approved a charter amendment shifting from nine at-large City Council positions to seven City Council positions elected by district and two at-large positions. As a result, all nine City Council positions were up for election in 2015. The City Council members elected by district will serve four-year terms 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 2016 budget was adopted on November 23, 2015. The City's adopted General Subfund budget was $1,048.1 million in 2015 and $1,071.6 million in 2016.

Investments

Authorized Investments. Chapter 35.39 RCW permits the investment by cities and towns of their inactive funds or other funds in excess of current needs in the following: United States bonds; United States certificates of indebtedness; State bonds or warrants; general obligation or utility revenue bonds of its own or of any other city or town in the State; its own bonds or warrants of a local improvement district that are within the protection of the local improvement guaranty fund law; and any other investment authorized by law for any other taxing district. Under chapter 39.59 RCW, a city or town also may invest in the following: bonds of any local government in the State that have at the time of investment one of the three highest credit ratings of a nationally recognized rating agency; general obligation bonds of any other state or local government of any other state that have at the time of the investment one of the three highest credit ratings of a nationally recognized rating agency; registered warrants of a local government in the same county as the government making the investment; certificates, notes, or bonds of the United States, or other obligations of the United States or its agencies, or of any corporation wholly owned by the government of the United States; or United States dollar-denominated bonds, notes, or other obligations that are issued or guaranteed by supranational institutions, provided that, at the time of investment, the institution has the United States government as its largest shareholder; Federal Home Loan bank notes and bonds, Federal Land Bank bonds and Federal National Mortgage Association notes, debentures, and guaranteed certificates of participation, or the obligations of any other government-sponsored corporation whose obligations are or may become eligible as collateral for advances to member banks as determined by the Board of Governors of the Federal Reserve system; bankers' acceptances purchased on the secondary market; commercial paper purchased in the secondary market, provided that any local government of the State that invests in such commercial paper must adhere to the investment policies and procedures adopted by the Washington State Investment Board; and corporate notes purchased on the secondary market, provided that any local government of the State o that invests in such notes must adhere to the investment policies and procedures adopted by the Washington State Investment Board.

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

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

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

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

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

As of December 31, 2015, the combined investment portfolios of the City, not including pensions, totaled $1,762 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, 2015, the earnings yield on the City's investment portfolios was 1.11%. As of December 31, 2015, the average maturity of the City's investment portfolios was 897 days. Approximately 19.7%, or $298.4 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	27%
U.S. Treasuries(1)	26%
Taxable Municipal Bonds	16%
Mortgage-Backed Securities	13%
Commercial Paper	12%
Repurchase Agreements	3%
Certificates of Deposit	3%

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

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

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

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.

Pension Plans

The information below describes pension plans available to City employees generally. City employees are eligible for coverage by one of the following defined benefit pension plans: the Seattle City Employees' Retirement System ("SCERS"), Firefighter's 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 Washington State Department of Retirement Systems ("DRS"). In January 2016, the City announced plans, resulting from labor negotiations, to create a second plan within SCERS, referred to as "SCERS II." The City is currently in the process of preparing the City legislation necessary to implement the proposed SCERS II plan, which is proposed to become effective for new hires beginning in 2017. See "Update on SCERS Pension Benefit Agreement with Coalition and Non-Coalition City Unions" below.

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

Permanent non-uniformed City employees and certain grandfathered employees of the County (and a predecessor agency of the County) are eligible for membership in SCERS. Newly-hired uniformed police and fire personnel are generally eligible for membership in LEOFF. The Seattle Firefighters' Pension Fund and Police Relief and Pension Fund have been closed to new members since 1977.

Change in Accounting Standards. In 2012, the Governmental Accounting Standards Board ("GASB") approved Statements 67 and 68 ("GASB 67" and "GASB 68," respectively) that modified the accounting and financial reporting of pensions by pension plans (GASB 67) and by state and local government employers (GASB 68). GASB 67 affects the financial reporting requirements for the pension systems and does not change the funding requirements for members, employers, or the State. Under GASB 67, pension plans are required to report Total Pension Liability ("TPL") and Net Pension Liability ("NPL") instead of the previously required Unfunded Actuarial Accrued Liability ("UAAL"). GASB 67 requires multi-employer plans to provide a schedule in the notes to the financial statements that displays the proportionate share of contributions per employer, to be used in determining the proportionate share of the NPL that the employer recognizes on its financial statements under GASB 68. GASB 68 requires employers to report any NPL, including a proportionate share of the multiple-employer plans to which they contribute, as a liability in their Statement of Net Position.

The SCERS Annual Report (for the fiscal year ended December 31, 2014) and the State Department of Retirement Systems' Comprehensive Annual Financial Reports for LEOFF (for the fiscal year ended June 30, 2015) were prepared in accordance with GASB 67.

The 2015 Financial Statements, attached as Appendix C, have been prepared in accordance with GASB 68. As of December 31, 2015, the Drainage and Wastewater Fund reported a liability of $77,047,177, representing its proportionate share of NPL for SCERS. The effect of this recognition is reflected in its Statements of Net Position and as a cumulative adjustment to net position in its Statement of Revenues, Expenses and Changes in Net Position in the 2015 Financial Statements. The NPL was measured as of December 31, 2014, and the TPL used to calculate the NPL was determined by the actuarial valuation as of that date. The Drainage and Wastewater Fund's proportion of the NPL was based on a projection of the City's long-term share of contributions to SCERS relative to the projected contributions of all participating parties, actuarially determined. As of December 31, 2015, the Drainage and Wastewater Fund's proportion was 7.46%. Schedules of SPU's proportionate share of NPL and of SPU's contributions are provided as required supplementary information to the 2015 Audited Financial Statements.

The City's financial statements for the fiscal year ended December 31, 2015, are being prepared in accordance with GASB 68 and the audited financial statements are expected to become available by July of 2016.

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

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 up to 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. According to the actuarial valuation prepared as of January 1, 2015, there were 6,019 retirees and beneficiaries receiving benefits, and 8,746 active members of SCERS. There are an additional 1,188 terminated employees who are vested and entitled to future benefits and another 935 who are not vested and not entitled to benefits beyond contributions and accumulated interest. From January 1, 2014, to January 1, 2015, the net number of active members increased by 1.7%, the net number of retirees receiving benefits increased by 2.4%, and the net number of vested terminated members increased by 1.5%.

Certain demographic data from the most recent actuarial valuation (with a valuation date as of January 1, 2015), which was completed on May 26, 2015 (the "2014 Actuarial Valuation"), is shown below:

TABLE 11
PLAN MEMBER DEMOGRAPHIC INFORMATION

	Retirees and Beneficiaries Receiving Benefits		Active Employees	
Age Range	**Number[(1)]**	**Percent**	**Number**	**Percent**
<25	-	0.0%	77	0.9%
25-39	-	0.0%	1,995	22.8%
40-49	10 [(2)]	0.2% [(2)]	2,180	24.9%
50-59	332	5.6%	2,805	32.1%
60-69	2,334	39.3%	1,584	18.1%
70+	3,257	54.9%	104	1.2%

(1) Does not include 86 survivors receiving Option B or Option C benefits for a certain period.

(2) Includes everyone under the age of 50.

Source: 2014 Actuarial Valuation

FINANCIAL CONDITION AND ACTUARIAL VALUATIONS. As a department of the City, SCERS is subject to the City's internal control structure and is required by SMC 4.36.140.D to transmit a report to the City Council annually, regarding the financial condition of SCERS. The most recent such audited report, for the years ended December 31, 2013 and December 31, 2014, was transmitted on June 22, 2015, by CliftonLarsonAllen LLP (the "2014 SCERS Annual Report"). An audited SCERS Annual Report for the year ending December 31, 2015, is expected to be available in the third quarter of 2016.

On July 17, 2014, the Washington State Auditor's Office issued a finding of a significant deficiency in internal controls over financial reporting relating to SCERS account reconciliations as set forth in the financial statements for the year ending December 31, 2013. As described, the finding stated that general ledger accounts were not analyzed and reconciled with subsidiary information on a monthly basis. The City responded to this finding by stating that SCERS would work with the City's central accounting unit to establish a common understanding of how investments and investment activities should be reflected in the City's general ledger. A copy of that audit report is available on the State Auditor's website (*www.sao.wa.gov*).

Milliman Consultants and Actuaries, as consulting actuary, has evaluated the funding status of SCERS annually since 2010. The most recent actuarial report is the 2014 Actuarial Valuation (with a valuation date as of January 1, 2015). The next actuarial valuation (with a valuation date as of January 1, 2016) is expected to be completed by the end of July 2016. Historically, the City prepared actuarial valuations biennially, but has prepared them annually since 2010.

As of January 1, 2015 (as set forth in the 2014 Actuarial Valuation), the actuarial value of net assets available for benefits was $2.267 billion and the actuarial accrued liability was $3.433 billion. The 2014 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 $1,165.8 million as of January 1, 2014, to $1,165.9 million as of January 1, 2015. The funding ratio increased from 64.2% as of January 1, 2014, to 66.0% as of January 1, 2015, which increase is primarily due to the UAAL amortization payment made by the City during the prior year and the recognition of deferred asset gains in the actuarial value of assets ("AVA"). For the year ending December 31, 2014, SCERS assets returned about 5.7% on a market basis (gross of investment expenses), a rate of return less than the assumed rated of 7.50%. The result is an actuarial loss on assets for 2014, but only one-fifth of this loss will be recognized in the current year AVA. Unlike most public pension systems, prior to January 1, 2011, all valuations were reported on a mark-to-market basis. Consequently, the full impact of annual asset gains or losses occurring in recent years was reflected in each actuarial valuation. To improve its ability to manage short-term market volatility, the City adopted a five-year asset smoothing methodology in 2011 that recognizes the asset gain or loss occurring in each year evenly over a five-year period.

The following table provides historical plan funding information:

TABLE 12
HISTORICAL SCERS SCHEDULE OF FUNDING PROGRESS [(1)]
($000,000)

Actuarial Valuation Date (January 1)[(2)]	Actuarial Value of Assets (AVA)	Actuarial Accrued Liability (AAL)[(3)]	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll[(4)]	UAAL as % of Covered Payroll
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 %
2015[(5)]	2,266.7	3,432.6	(1,165.9)	66.0%	630.9	184.8 %

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

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

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

(4) Covered Payroll shown for the prior calendar year and 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: 2014 Actuarial Valuation

In accordance with GASB 67, the SCERS 2014 Annual Report calculated TPL and NPL based on the actuarial valuation dated as of January 1, 2014, rolled forward using generally accepted actuarial procedures (assuming a 7.50% investment rate of return and 4.00% salary increases) to December 31, 2014, as follows: TPL was calculated to be $3,430.7 million; plan fiduciary net position ("Plan Net Position") was calculated to be $2,322.7 million, and NPL was calculated to be $1,108.0 million, for a funding ratio (Plan Net Position as a percentage of TPL) of 67.7%. A Schedule of SPU's Proportionate Share of the Net Pension Liability and Schedule of SPU's Contributions are set forth in the required supplementary information in Appendix C—2015 Audited Financial Statements of the Drainage and Wastewater Fund.

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 2014 Actuarial Valuation calculation, a 28-year amortization period was used. This policy may be revised by the City Council in future years. The 2014 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 13

EMPLOYER AND EMPLOYEE SCERS CONTRIBUTION RATES

Calendar Years (beginning Jan. 1)	Employer Rate	Employee Rate	Total Contribution Rate	Total ARC(1)	% of Total ARC Contributed	Total ARC per GASB 27(2)	% of Total ARC Contributed per GASB 27
2011	9.03%	9.03%	18.06%	25.03%	72%	22.14%	82%
2012	11.01%	10.03%	21.04%	21.04%	100%	21.87%	96%
2013	12.89%	10.03%	22.92%	22.92%	100%	24.05%	95%
2014	14.31%	10.03%	24.34%	24.34%	100%	25.63%	95%
2015	15.73%	10.03%	25.76%	25.76%	100%	26.38%	98%

(1) Reflects total actuarial required contribution (*i.e.*, employer plus employee contribution rates). Beginning November 21, 2011, this rate is used for City budgeting purpose.

(2) The primary difference between the Total ARC calculation and that calculated under GASB 27 is that the Total ARC calculation uses a 0.50% membership growth assumption, while GASB specifies no membership growth assumption. The GASB rate calculations take into account the lag between the determination of the ARC and the expected contribution date associated with that determination (for example, contribution rates for calendar year 2012 were based on the ARC determined as part of the January 1, 2011, actuarial valuation.)

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 with its budget. See Table 13—Employer and Employee SCERS Contribution Rates and Table 14—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 has already been implemented, via 1% increases in 2011 and 2012. This contractual restriction shifts the risk of future increases to the City's employer contribution.

Projected total actuarially required contribution rates reported in the 2014 Actuarial Valuation are shown in the table below.

TABLE 14
PROJECTED ACTUARIALLY REQUIRED TOTAL CONTRIBUTION RATES BY EMPLOYER AND EMPLOYEE

Contribution Year[(1)]	Assuming 7.50% Returns	Confidence Range[(2)]
2016	25.26%	25.26-25.26
2017	25.20%	25.95-24.44
2018	24.88%	26.54-23.24
2019	24.73%	27.55-22.01
2020	24.80%	29.03-20.78
2021	24.80%	30.68-19.27

(1) Contribution year lags valuation year by one. For example, contribution year 2016 is based on the 2014 Actuarial Valuation (as of January 1, 2015) results, amortized over 28 years beginning in 2015 if the contribution rate increase takes place in 2016.

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

Source: 2014 Actuarial Valuation

Employer contributions were $90 million in 2014, of which approximately $6.2 million was from the Drainage and Wastewater Fund. In 2015, employer contributions were approximately $101 million, of which approximately $6.8 million was from the Drainage and Wastewater Fund. The employer share for employees of the utility funds is allocated to and paid out of those funds.

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 $105.8 million (4.8%) during 2014, including member and employer contributions of $154.0 million and net revenue from investment activity totaling $122.5 million. Expenses increased by $8.9 million in 2014, primarily attributed to a $8.8 million increase in retiree benefit payments.

Table 15 shows the historical market value of SCERS' net assets (as of each December 31). Table 16 shows the revenue or loss from investment activity for the last ten years.

TABLE 15
MARKET VALUE OF ASSETS

Year (As of December 31)	Market Value of Assets (MVA)[1]
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
2014	2,322.7
2015	2,309.4

(1) In millions.

Source: SCERS Actuarial Valuations

TABLE 16
SCERS INVESTMENT RETURNS

Year	Net Investment Income (Loss)	
(As of December 31)	Amount[1]	%[2]
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%
2014	122.5	5.7%

(1) In millions.

(2) Represents one-year return on asset classes. Based on preliminary results, earnings for 2015 are expected to be approximately 0.3%.

Source: SCERS Annual Reports

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

TABLE 17
HISTORICAL SCERS DISTRIBUTION OF INVESTMENTS BY CLASS

Investment Categories (January 1)	2015	2014	2013	2012	2011
Fixed Income	24.2%	23.7%	23.1%	22.8%	15.5%
Domestic Stocks	33.4%	32.1%	30.4%	30.8%	41.9%
International Stocks	26.6%	28.7%	29.0%	25.5%	20.4%
Real Estate	11.0%	10.6%	11.3%	12.7%	10.3%
Alternative Investments	4.8%	4.9%	6.2%	8.1%	11.9%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

Source: SCERS Actuarial Valuations

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

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

Update on SCERS Pension Benefit Agreement with Coalition and Non-Coalition City Unions. As part of an agreement with the Coalition of City Unions, reached in December 2015, and agreements with individual bargaining units that are not part of the Coalition, the City Council is expected to consider ratifying legislation in 2016 to create a new defined benefit retirement plan ("SCERS II") covering non-uniformed employees. The new plan is expected to be open to employees first hired on or after January 1, 2017. The current SCERS plan is expected to close to new entrants as of that date. The conceptual agreement regarding SCERS II includes, among other adjustments, a slight decrease in benefit levels, raising the minimum retirement age and deferring retirement eligibility by increasing the age-plus-years-of-service required for retirement with full benefits. The City expects SCERS II to provide a more cost-effective method for the City to provide retirement benefits to its employees. It would have no effect on uniformed employees.

See "The City of Seattle—Labor Relations."

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, 2014, membership in these plans consisted of 749 fire employees (23 of whom are active employees) and 761 police employees (13 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 valuations, dated January 1, 2015, use the Entry Age Normal ("EAN") Actuarial Cost Method and value plan assets at fair value. The actuarial valuation for the firefighters' pension fund uses the following actuarial assumptions: inflation rate (CPI), 2.25%; investment rate of return, 6.00%; and projected salary increases, 2.75%. The actuarial valuation for the Police Relief and Pension Fund uses the following actuarial assumptions: inflation rate (CPI), 2.25%; investment rate of return, 3.50%; and projected salary increases, 2.75%. Postretirement benefit increases are projected based on salary increase assumptions for benefits that increase based on salary, and based on CPI assumptions for benefits based on CPI.

Since both pension plans were closed to new members effective October 1, 1977, the City is not required to adopt a plan to fund the actuarial accrued liability of these plans. In 1994, the City established an actuarial fund for the Firefighter's 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, 2015, the actuarial value of net assets available for benefits in the Firefighters' Pension Fund was $14.7 million, and the AAL was $82.0 million. As a result, the UAAL was $67.3 million and the funded ratio was 18.0%. The City's employer contribution to the fund in 2014 was $8.5 million, representing 177% 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, 2015, the actuarial value of net assets available for benefits in the Police Relief and Pension Fund was $5.1 million, and the AAL was $99.3 million. As a result, the UAAL was $94.2 million and the funded ratio was 5.1%. The City's employer contribution to the fund in 2014 was $9.4 million, representing 160% of the ARC; there were no current member contributions. The fund also receives police auction proceeds of unclaimed property.

Law Enforcement Officers' and Firefighters' Retirement System. Substantially all of the City's current uniformed firefighters and police officers are enrolled in LEOFF. LEOFF is a State-wide, multiple-employer defined benefit plan administered by the DRS. Contributions by employees, employers, and the State are based on gross wages. LEOFF participants who joined the system by September 30, 1977, are Plan 1 members. LEOFF participants who joined on or after October 1, 1977, are Plan 2 members. For all of the City's employees who are covered under LEOFF, the City contributed $13.9 million in 2014 and $12.9 million in 2013. Table 18 outlines the contribution rates of employees and employers under LEOFF.

TABLE 18
LEOFF CONTRIBUTION RATES EXPRESSED AS A PERCENTAGE OF COVERED PAYROLL
(As of December 31, 2015)

	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% 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 2014 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, 2014, valuation, LEOFF had no UAAL. LEOFF Plan 1 had a funded ratio of 127% and LEOFF Plan 2 had a funded ratio of 107%. 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 EAN Actuarial Cost Method and assets were valued using the AVA, which defers a portion of the annual investment gains or losses over a period of up to eight years.

Other Post-Employment Retirement 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 Firefighter's 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 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 plan. The last valuation was as of January 1, 2015, and showed the UAAL for the implicit rate subsidy was $44.4 million; the City's estimated annual cost in 2015 was $3.7 million and the City's estimated contribution in 2015 was $1.1 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, 2015, the UAAL for OPEB in the City's Firefighters' Pension Fund was $320.3 million; the annual cost for 2015 was $16.8 million and the estimated annual contribution for 2015 was $10.2 million. As of January 1, 2015, the UAAL for OPEB in the Police Relief and Pension Fund was $358.3 million; the annual cost for 2015 was $22.6 million and the estimated annual contribution for 2015 was $13.2 million.

For additional information regarding the City's OPEB liability, see Note 11 to the City's 2014 Comprehensive Annual Financial Report.

Labor Relations

As of March 2016**,** the City had 36 separate departments and offices with approximately 13,200 regular and temporary employees. Twenty-six different unions and 51 bargaining units represent approximately 75% of the City's regular employees.

Agreements with the Seattle Police Management Association and IBEW Local 77 Construction Maintenance and Equipment Operators expired in December 2013. Agreements with the Carpenters, Seattle Police Officers' Guild, the Seattle Fire Fighters Union, and the Seattle Fire Chiefs' Association expired in December 2014. The agreement with IBEW Local 77 Material Controllers expired in December 2015, and the IBEW Local 77 City Light and Transportation agreements expire in January 2017. The City is in negotiations for all expired contracts and a newly created IT Professional unit represented by IBEW Local 77.

A tentative agreement with the Coalition of City Unions (comprising bargaining units representing the majority of City employees) and other non-Coalition unions was reached in December 2015. Nearly all of the agreements with the Coalition of City Unions and other non-Coalition unions have been ratified and implemented, or are in the process of ratification and implementation. All of these agreements contain a provision for implementation of a SCERS II Retirement System beginning January 1, 2017. The City is in the process of preparing legislation that will be necessary for implementation. See "Pension Plans—Update on SCERS Pension Benefit Agreement with Coalition and Non-Coalition City Unions." There is no expected date by which other 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.

Considerations Related to Alaskan Way Viaduct and Seawall Replacement Program

The Alaskan Way Viaduct and Seawall Replacement 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 "State's Project") and 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 PDA's MarketFront Project.

Status of State's Project. The State's Project has been delayed by more than two years due to the malfunctioning of a deep bore tunneling machine (the "TBM") and is currently scheduled for completion in 2018. Tunneling was suspended for approximately two years following the malfunction in December 2013, resumed in late December 2015, and was suspended again by the State for approximately two weeks to investigate soil loss management issues. The contractor resumed tunneling in February 2016 under a new quality and safety plan. Tunneling could be suspended again at any time, resulting in additional delays.

In addition, for so long as the tunneling component of the State's Project to replace the Alaskan Way Viaduct is underway, Seattle Tunnel Partners is expected to be one of the ten largest customers of the Wastewater System, producing approximately $2.3 million in revenue to the Wastewater System in 2015. Upon completion of the State's Project to replace the Alaskan Way Viaduct, Seattle Tunnel Partners will no longer be a customer of the Wastewater System.

Direct Cost Overruns. The State's Project is being undertaken pursuant to a contract between the Washington State Department of Transportation ("WSDOT") and a joint venture named Seattle Tunnel Partners. The City is not a party to that contract. Responsibility for direct cost overruns resulting from the repair of the TBM will be governed by that contract; the City has no direct contractual liability.

Indirect Cost Overruns. The City has a series of agreements with WSDOT relating to the coordination of projects within the AWVSR Program, covering various issues including the protection, repair, and relocation of the City's utility infrastructure impacted by or constructed as part of the State's Project, including infrastructure owned by the Drainage and Wastewater System. In general, these agreements provide that the City is responsible for relocating certain 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. It is the City's position that any increase in these indirect costs resulting from the TBM's malfunction or delays are governed by these agreements, and the City's utilities have budgeted according to the agreed-upon City obligations, plus necessary contingencies. The City and the State are currently in negotiations regarding this indirect cost responsibility as well as direct and indirect costs related to other AWVSR projects affected by the delays.

Status of City's Seawall Project and Other Waterfront Seattle Projects. The majority of the City's Seawall Project is currently scheduled for completion in 2017. In addition to the Seawall Project, a number of other public and private projects comprise the AWVSR Program. The final component of the Seawall Project will be constructed in conjunction with these Waterfront Seattle projects on a timeline that is yet to be determined. As with the State's Project, the Seawall Project and Waterfront Seattle Projects will involve the relocation and construction of various components of the City's utility infrastructure, including infrastructure that is or will be owned by the Drainage and Wastewater System. The budgeted CIP for each City utility, including that of the Drainage and Wastewater System, incorporates the estimated cost and timing of expenditures associated with its respective utility infrastructure projects. Any revision in the scope or timing of the Seawall Project and Other Waterfront Projects may lead to an increase in the ultimate cost of these various utility infrastructure projects.

INITIATIVE AND REFERENDUM

State-Wide Measures

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

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

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

Local Measures

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

LEGAL AND TAX INFORMATION

No Litigation Relating to the Bonds

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

Other Litigation

In addition to the matters described in "Drainage and Wastewater System—Environmental Liabilities" and Appendix C—2015 Audited Financial Statements of the Drainage and Wastewater System—Note 10, various lawsuits and claims are pending against the City involving claims for money damages. Based on its past experience, the City has concluded that its ability to pay principal of and interest on the Bonds on a timely basis will not be impaired by the aggregate amount of uninsured liabilities of the City and the timing of any anticipated payments of judgments that might result from suits and claims.

Approval of Counsel

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

Limitations on Remedies and Municipal Bankruptcies

Any remedies available to the owners of the Bonds are in many respects dependent upon judicial actions which are in turn often subject to discretion and delay and could be both expensive and time-consuming to obtain. If the City fails to comply with its covenants under the Bond 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 1898 federal bankruptcy statute that was superseded by the current Bankruptcy Code. The State Legislature has not amended the 1935 State statute to update the cross-reference to the current Bankruptcy Code, but Washington municipal corporations have nonetheless been permitted to seek relief under the Bankruptcy Code. A creditor cannot bring an involuntary bankruptcy proceeding under the Bankruptcy Code against a municipality, including the City. The federal bankruptcy courts have broad discretionary powers under the Bankruptcy Code.

The opinion to be delivered by Stradling Yocca Carlson & Rauth, a Professional Corporation, as Bond Counsel, concurrently with the issuance of the Bonds, will be subject to limitations regarding bankruptcy, reorganization, insolvency, fraudulent conveyance, moratorium, and other similar laws relating to or affecting creditors' rights. A copy of the proposed form of opinion of Bond Counsel is set forth in Appendix B.

Tax Exemption

In the opinion of Bond Counsel, under existing statutes, regulations, rulings, and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements described herein, interest (and original issue discount) on the Bonds is excluded from gross income for federal income tax purposes, and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. Bond Counsel notes that, with respect to corporations, interest on the Bonds may be included as an adjustment in the calculation of alternative minimum taxable income of corporations, which may affect the alternative minimum tax liability of such corporations.

In the further opinion of Bond Counsel, the excess of the stated redemption price at maturity of a Bond over the issue price of such Bond (the first price at which a substantial amount of the Bonds of a maturity is to be sold to the public) constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to an owner of a Bond before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by an owner of a Bond will increase the owner's basis in the applicable Bond. The amount of original issue discount that accrues to an owner of the Bonds is excluded from the gross income of such owner for federal income tax purposes, and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. Such original issue discount may be included as an adjustment in the calculation of alternative minimum taxable income of corporations, which may affect the alternative minimum tax liability of such corporations.

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

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

The accrual or receipt of interest on the Bonds may otherwise affect the federal income tax liability of the owners of the Bonds. The extent of these other tax consequences will depend upon such owner's particular tax status and other items of income or deduction. Bond Counsel has expressed no opinion regarding any such consequences. Purchasers of the Bonds, particularly purchasers that are corporations (including S corporations and foreign corporations operating branches in the United States), property or casualty insurance companies, banks, thrifts, or other financial institutions, certain recipients of social security or railroad retirement benefits, taxpayers otherwise entitled to claim the earned income credit, taxpayers otherwise entitled to claim the refundable credit for coverage under a qualified health plan, or taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, should consult their tax advisors as to the tax consequences of purchasing or owning the Bonds.

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

SUBSEQUENT TO THE ISSUANCE OF THE BONDS, THERE MIGHT BE FEDERAL, STATE, OR LOCAL STATUTORY CHANGES (OR JUDICIAL OR REGULATORY INTERPRETATIONS OF FEDERAL, STATE, OR LOCAL LAW) THAT AFFECT THE FEDERAL, STATE, OR LOCAL TAX TREATMENT OF THE INTEREST ON THE BONDS OR THE MARKET VALUE OF THE BONDS. LEGISLATIVE CHANGES HAVE BEEN PROPOSED IN CONGRESS, WHICH, IF ENACTED, WOULD RESULT IN ADDITIONAL FEDERAL INCOME TAX BEING IMPOSED ON CERTAIN OWNERS OF TAX-EXEMPT STATE OR LOCAL OBLIGATIONS, SUCH AS THE BONDS. THE INTRODUCTION OR ENACTMENT OF ANY OF SUCH CHANGES COULD ADVERSELY AFFECT THE MARKET VALUE OR LIQUIDITY OF THE BONDS. NO ASSURANCE CAN BE GIVEN THAT, SUBSEQUENT TO THE ISSUANCE OF THE BONDS, SUCH CHANGES (OR OTHER CHANGES) WILL NOT BE INTRODUCED OR ENACTED OR INTERPRETATIONS WILL NOT OCCUR. BEFORE PURCHASING ANY OF THE BONDS, ALL POTENTIAL PURCHASERS SHOULD CONSULT THEIR TAX ADVISORS REGARDING POSSIBLE STATUTORY CHANGES OR JUDICIAL OR REGULATORY CHANGES OR INTERPRETATIONS, AND THEIR COLLATERAL TAX CONSEQUENCES RELATING TO THE BONDS.

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

Continuing Disclosure Undertaking

Basic Undertaking to Provide Annual Financial Information and Notice of Listed Events. To meet the requirements of United States Securities and Exchange Commission ("SEC") Rule 15c2-12(b)(5) ("Rule 15c2-12")), as applicable to a participating underwriter for the Bonds, the 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 under "Type of Annual Information Undertaken to be Provided"; and

(ii) Timely notice (not in excess of ten business days after the occurrence of the event) of the occurrence of any of the following listed events with respect to the Bonds:

(a) principal and interest payment delinquencies;

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

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

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

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

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

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

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

(i) defeasances;

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

(k) rating changes;

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

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

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

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 Drainage and Wastewater System, prepared in accordance with generally accepted accounting principles applicable to governmental units (except as otherwise noted therein), as such principles may be changed from time to time and as permitted by State law, which 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 authorized, issued and outstanding bond debt secured by revenues of the Drainage and Wastewater System;

(iii) debt service coverage ratios;

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

(v) current drainage rates and wastewater rates.

Annual financial information, as described above, will be provided to the MSRB not later than the last day of the ninth month after the end of each fiscal year of the City (currently, a fiscal year ending December 31), as such fiscal year may be changed as required or permitted by State law, commencing with the City's fiscal year ending December 31, 2016. The annual information may be provided in a single or multiple documents, and may be incorporated by specific reference to documents available to the public on the Internet website of the MSRB or filed with the SEC.

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

OTHER BOND INFORMATION

Ratings on the Bonds

The Bonds have been rated "Aa1" and "AA+" by Moody's Investors Service, Inc. and Standard & Poor's Ratings Services, respectively. In general, rating agencies base their ratings on rating materials furnished to them (which may include information provided by the City that is not included in this Official Statement) and on the rating agency's own investigations, studies, and assumptions. The ratings reflect only the views of the rating agencies, and an explanation of the significance of the ratings may be obtained from each rating agency. No application was made to any other rating agency for the purpose of obtaining an additional rating on the Bonds. There is no assurance that the ratings will be retained for any given period of time or that the ratings will not be revised downward, suspended, or withdrawn entirely by the rating agencies if, in their judgment, circumstances so warrant. Any such downward revision, suspension, or withdrawal of the ratings will be likely to have an adverse effect on the market price of the Bonds.

Financial Advisor

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

Underwriting

The Bonds are being purchased by _____________ (the "Underwriter") at a price of $______________ and will be reoffered at a price of $___________. The Underwriter may offer and sell the Bonds to certain dealers (including dealers depositing Bonds into investment trusts) and others at prices lower than the initial offering prices set forth on page i hereof, and such initial offering prices may be changed from time to time by the Underwriter. After the initial public offering, the public offering prices may be varied from time to time.

Conflicts of Interest

Some of the fees of the Financial Advisor and Bond Counsel are contingent upon the sale of the Bonds. From time to time Bond Counsel serves as counsel to the Financial Advisor and the Underwriter 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

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APPENDIX A

BOND ORDINANCE

Ordinance 124914, passed by the City Council on November 23, 2015, which is set forth in this appendix, authorized the issuance of the new money portion of the Bonds. Ordinance 121938, as amended by Ordinance 122209 and Ordinance 122637 and amended and restated by Ordinance 124338, authorized the issuance of the refunding portion of the Bonds and is substantially similar to Ordinance 124914.

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CITY OF SEATTLE

ORDINANCE 124914

COUNCIL BILL 118543

AN ORDINANCE relating to the drainage and wastewater system of The City of Seattle; adopting a system or plan of additions and betterments to and extensions of the existing drainage and wastewater system; authorizing the issuance and sale of drainage and wastewater revenue bonds, in one or more series, for the purposes of paying part of the cost of carrying out that system or plan, providing for the reserve requirement, and paying the costs of issuance of the bonds; providing for certain terms, conditions, covenants and the manner of sale of the bonds; describing the lien of the bonds; creating certain accounts of the City relating to the bonds; ratifying and confirming certain prior acts; and amending certain definitions set forth in the Omnibus Refunding Bond Ordinance relating to drainage and wastewater refunding revenue bonds.

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

WHEREAS, the City needs to acquire and construct certain additions and betterments to and extensions of the Drainage and Wastewater System as set forth in this ordinance (the "Plan of Additions"); and

WHEREAS, pursuant to the bond legislation described in Exhibit A, the City issued its drainage and wastewater revenue bonds described in Exhibit A, and provided for the issuance of additional bonds having a charge and lien on the net revenue of the Drainage and Wastewater System on a parity of lien with those bonds ("Parity Bonds") upon compliance with certain conditions; and

WHEREAS, the pursuant to the Omnibus Refunding Bond Ordinance (defined below), the City has provided for the refunding of certain Parity Bonds designated as Refundable Bonds, and the City has determined to amend the Omnibus Refunding Bond Ordinance to make certain clarifications to conform definitions that are used in this ordinance; and

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

BE IT ORDAINED BY THE CITY OF SEATTLE AS FOLLOWS:

Section 1. **Definitions.** As used in this ordinance the following capitalized terms shall have the following meanings.

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

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

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

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

"Annual Debt Service" for any calendar year means the sum of the amounts required in such calendar year to pay the interest due in such calendar year on all Parity Bonds outstanding, excluding interest to be paid from the proceeds of the sale of Parity Bonds or other bonds; the principal of all outstanding Serial Bonds due in such calendar year; and the Sinking Fund Requirement, if any, for such calendar year.

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

(b) For purposes of calculating and determining compliance with the Coverage Requirement, the Reserve Requirement and the conditions for the issuance of Future Parity Bonds and/or entering into Parity Payment Agreements, the following shall apply:

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

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

(iii) **Interest on Parity Bonds With Respect to Which a Payment Agreement is in Force.** Debt service on Parity Bonds with respect to which a Payment Agreement is in force shall be based on the net economic effect on the City expected to be produced by the terms of the Parity Bonds and the terms of the Payment Agreement, including but not limited to the effects produced by the following: (A) Parity Bonds that would, but for a Payment Agreement, be treated as obligations bearing interest at a Variable Interest Rate instead shall be treated as obligations bearing interest at a fixed interest rate, and (B) Parity Bonds that would, but for a Payment Agreement, be treated as obligations bearing interest at a fixed interest rate instead shall be treated as obligations bearing interest at a Variable Interest Rate. Accordingly, the amount of interest deemed to be payable on any Parity Bonds with respect to which a Payment Agreement is in force shall be an amount equal to the amount of interest that would be payable at the rate or rates stated in those Parity Bonds plus Payment Agreement Payments minus Payment Agreement Receipts. For the purposes of calculating as nearly as practicable Payment Agreement Receipts and Payment Agreement Payments under a Payment Agreement that includes a variable rate component determined by reference to a pricing mechanism or index that is not the same as the pricing mechanism or index used to determine the variable rate interest component on the Parity Bonds to which the Payment Agreement is related, it shall be assumed that the fixed rate used in calculating Payment Agreement Payments will be equal to 105% of the fixed rate specified by the Payment Agreement and that the pricing mechanism or index specified by the Payment Agreement is the same as the pricing mechanism or index specified by the Parity Bonds. Notwithstanding the other provisions of this subparagraph, the City shall not be required to (but may in its discretion) take into account in determining Annual Debt Service the effects of any Payment Agreement that has a term of ten years or less.

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

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

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

"Authorized Denomination" means $5,000 or any integral multiple thereof within a maturity of a Series.

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

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

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

"Bond Insurance" means any bond insurance, guaranty, surety bond or similar credit enhancement device providing for or securing the payment of all or part of the principal of and interest on any Parity Bonds.

"Bond Purchase Contract" means a written offer to purchase a Series of the Bonds, which offer has been accepted by the City in accordance with this ordinance. In the case of a competitive sale, the official notice of sale, the Purchaser's bid and the award by the City shall comprise the offer and the award by the City in accordance with this ordinance shall be deemed the acceptance of that offer for purposes of this ordinance.

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

"Bond Registrar" means the Fiscal Agent (unless the Bond Resolution provides for a different Bond Registrar with respect to a particular Series), or any successor bond registrar selected in accordance with the Registration Ordinance.

"Bond Resolution" means a resolution of the City Council adopted pursuant to this ordinance approving the Bond Sale Terms and taking other actions consistent with this ordinance.

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

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

"Capital Appreciation Bond" means any Parity Bond, all or a portion of the interest on which is compounded and accumulated at the rates or in the manner, and on the dates, set forth in the applicable Parity Bond Legislation and is payable only upon redemption or on the maturity date of such Parity Bond. A Parity Bond that is issued as a Capital Appreciation Bond, but which later converts to an obligation on which interest is paid periodically, shall be a Capital Appreciation Bond until the conversion date and thereafter shall no longer be a Capital

Appreciation Bond, but shall be treated as having a principal amount equal to its Accreted Value on the conversion date.

"CIP" means those portions of the City's "2015-2020 Capital Improvement Program" relating to the Drainage and Wastewater System, adopted by the City in Ordinance 124648, together with any previously adopted Capital Improvement Program of the City. For purposes of this ordinance, the CIP includes all amendments, updates, supplements or replacements that may be adopted from time to time by ordinance.

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

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

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

"Construction Account" means the Drainage and Wastewater Construction Account, 2014, created in the Drainage and Wastewater Fund by this ordinance.

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

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

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

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

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

"Drainage and Wastewater System" means the drainage and wastewater system of the City, including the sanitary sewerage and storm drainage systems, as it now exists (except properties, interests, and rights under the jurisdiction of the City's Parks and Recreation Department, Seattle Center Department, Seattle Public Utilities Water System, City Light Department and Fleets and Facilities Department), and all additions thereto and betterments and extensions thereof at any time made, together with any utility systems of the City hereafter combined with the Drainage and Wastewater System. The Drainage and Wastewater System shall not include any separate utility system that may be created, acquired or constructed by the City as provided in Section 19.

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

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

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

"Future Parity Bonds" means, with reference to any Series, all revenue bonds and obligations of the Drainage and Wastewater System (other than that Series and any other Parity Bonds then outstanding) issued or entered into after the Issue Date of such Series, the payment of which constitutes a charge and lien on Net Revenue equal in rank with the charge and lien upon such revenue required to be paid into the Parity Bond Account in accordance with Section 15. Future Parity Bonds may include Parity Payment Agreements and any other obligations issued in compliance with Section 17.

"Government Obligations" has the meaning given in RCW 39.53.010, as now in effect or as may hereafter be amended.

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

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

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

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

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

"MSRB" means the Municipal Securities Rulemaking Board.

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

"**Omnibus Refunding Bond Ordinance**" means Ordinance 124338 (which amended and restated Ordinance 121938, as previously amended by Ordinance 122209 and Ordinance 122637), as amended by Section 26 and as it may be amended from time to time in the future.

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

"Outstanding Parity Bonds" means the outstanding series of Parity Bonds described in Exhibit A and any other Parity Bonds outstanding as of the Issue Date of a Series of the Bonds.

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

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

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

"Parity Bonds" means the Outstanding Parity Bonds, the Bonds and any outstanding Future Parity Bonds and Parity Payment Agreements.

"Parity Conditions" means the conditions for issuing Future Parity Bonds under the Parity Bond Legislation.

"Parity Payment Agreement" means a Payment Agreement under which the City's payment obligations are expressly stated to constitute a charge and lien on Net Revenue equal in rank with the charge and lien upon such revenue required to be paid into the Parity Bond Account to pay interest on Parity Bonds.

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

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

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

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

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

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

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

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

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

"Qualified Letter of Credit" means any letter of credit issued by a financial institution for the account of the City on behalf of the Beneficial Owner of any Parity Bond, which institution maintains an office, agency or branch in the United States and, as of the time of issuance of such letter of credit, is rated in one of the two highest rating categories by at least two nationally recognized rating agencies.

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

"Rate Stabilization Account" means the account of that name previously established by Section 25 of Ordinance 118974.

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

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

"Registered Owner" means, with regard to a Bond, the person in whose name that Bond is registered on the Bond Register. For so long as the City uses a book-entry only system under the Letter of Representations, the Registered Owner shall mean the Securities Depository.

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

"Reserve Requirement" means the least of (a) Maximum Annual Debt Service on all Parity Bonds outstanding at the time of calculation, (b) 1.25 times Average Annual Debt Service on all Parity Bonds outstanding at the time of calculation, or (c) 10% of the proceeds of each series of Parity Bonds then outstanding, as of the delivery of each such series.

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

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

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

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

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

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

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

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

"State" means the State of Washington.

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

"Tax Credit Subsidy Bond" means any bond that is designated by the City as a tax credit bond pursuant to the Code, and which is further designated as a "qualified bond" under

Section 6431 or similar provision of the Code, and with respect to which the City is eligible to claim a Tax Credit Subsidy Payment.

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

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

"Term Bond" means any Bond that is issued subject to mandatory redemption prior to its maturity in periodic mandatory redemption payments.

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

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

"Undertaking" means the undertaking to provide continuing disclosure entered into pursuant to Section 23, in substantially the form attached as Exhibit B.

"Valuation Date" means, with respect to any Capital Appreciation Bond, the date or dates set forth in the relevant Parity Bond Legislation or Bond Purchase Contract on which specific Accreted Values are assigned to that Capital Appreciation Bond.

"Variable Interest Rate" means any variable interest rate or rates to be borne by any Parity Bonds. The method of computing such a variable interest rate shall be set in accordance with the applicable Parity Bond Legislation, which shall specify either (a) the particular period or periods of time or manner of determining such period or periods of time for which each value of such variable interest rate shall remain in effect or (b) the time or times upon which any change in such variable interest rate shall become effective.

"Variable Interest Rate Bond" means, for any period of time, any Parity Bond that bears a Variable Interest Rate during that period, except that a Parity Bond shall not be treated as a Variable Interest Rate Bond if the net economic effect of interest rates on particular Parity Bonds of a series and interest rates on other Parity Bonds of the same series, as set forth in the applicable Parity Bond Legislation, or the net economic effect of a Payment Agreement with respect to a particular Parity Bond, in either case is to produce obligations that bear interest at a fixed interest rate; and a Parity Bond with respect to which a Payment Agreement is in force shall be treated as a Variable Interest Rate Bond if the net economic effect of the Payment Agreement is to produce an obligation that bears interest at a Variable Interest Rate.

Section 2. **Adoption of Plan of Additions**. The City specifies, adopts and orders the Plan of Additions to be carried out as generally provided for in the documents comprising the Plan of Additions. The estimated cost of the Plan of Additions, as near as may be determined, is declared to be $667,998,000, of which approximately $140,000,000 is expected to be financed from the proceeds of the Bonds and investment earnings thereon.

Section 3. **Authorization of Bonds**. The City is authorized to borrow money and issue Drainage and Wastewater System revenue bonds, payable from the sources described in Section 13, in the maximum principal amount stated in Section 5 to (a) pay part of the cost of carrying out the Plan of Additions; (b) provide for the Reserve Requirement; (c) capitalize interest on, if necessary, and pay the costs of issuance of the Bonds; and (d) for other Drainage and Wastewater System purposes approved by ordinance. The Bonds may be issued in one or more Series and may be combined with other Drainage and Wastewater System revenue bonds (including refunding bonds) authorized separately. The Bonds shall be designated Drainage and Wastewater System Revenue Bonds and shall be numbered separately and shall have any name, year and series or other label as deemed necessary or appropriate by the Director of Finance.

Section 4. **__Manner of Sale of Bonds__**. The Director of Finance may provide for the sale of each Series (or any portion thereof) by public sale, negotiated sale, limited offering or private placement with a Purchaser chosen through a selection process acceptable to the Director of Finance. The Director of Finance is authorized to specify a date and time of sale of and a date and time for delivery of each Series; to give notice of that sale; to determine any bid parameters or other bid requirements and criteria for determining the award of the bid; to provide for the use of an electronic bidding mechanism; and to specify other matters in his or her determination necessary, appropriate, or desirable in order to carry out the sale of each Series. Each Series must be sold on Bond Sale Terms in accordance with Section 5.

Section 5. **__Bond Sale Terms; Bond Resolution__.** The Director of Finance is appointed to serve as the City's designated representative in connection with the issuance and sale of the Bonds in accordance with RCW 39.46.040(2) and this ordinance. The Director of Finance is authorized to accept, on behalf of the City, an offer to purchase the Bonds on Bond Sale Terms consistent with the parameters set forth in this section. No such acceptance shall be effective until adoption of a Bond Resolution approving the Bond Sale Terms. Once adopted, the Bond Resolution shall be deemed a part of this ordinance as if set forth herein.

(a) **Maximum Principal Amount.** The Bonds may be issued in one or more Series and shall not exceed the aggregate principal amount of $140,000,000.

(b) Date or Dates. Each Bond shall be dated its Issue Date, as determined by the Director of Finance, which Issue Date may not be later than December 31, 2018.

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

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

(e) Final Maturity. The Bonds shall mature no later than 40 years after the Issue Date.

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

(i) Optional Redemption. Any Bond may be designated as being (A) subject to redemption at the option of the City prior to its maturity date on the dates and at the redemption prices set forth in the Bond Purchase Contract; or (B) not subject 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.

(ii) Mandatory Redemption. Any Bond may be designated as a Term Bond, subject to mandatory redemption prior to its maturity on the dates and in Sinking Fund Requirements consistent with Section 8(b).

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

(h) Other Terms and Conditions.

(i) As of the Issue Date of each Series, the average expected life of the capital facilities to be financed with the proceeds (or allocable share of proceeds) of that Series must exceed the weighted average maturity of the Series (or share thereof) allocated to financing those capital facilities.

(ii) As of the Issue Date of each Series, (A) the Finance Director must determine that the Parity Conditions have been met or satisfied, so that such Series may be issued as Parity Bonds, and (B) the City Council must find in the Bond Resolution that, in creating the Parity Bond Account and in fixing the amounts to be paid into it in accordance with this ordinance, the City Council has had due regard for the cost of maintenance and operation of the Drainage and Wastewater System, and is not setting aside into the Parity Bond Account a greater amount than in the judgment of the City Council, based on the rates to be established from time to time consistent with Section 16(b), will be available over and above such cost of maintenance and operation.

(iii) The Bond Sale Terms for any Series may provide for Bond Insurance, a Reserve Security or other credit enhancement, or a Parity Payment Agreement. To that end, the Bond Sale Terms may include such additional terms, conditions and covenants as may be necessary or desirable, including but not limited to restrictions on investment of Bond proceeds and pledged funds, and requirements to give notice to or obtain the consent of a credit enhancement provider or a Qualified Counterparty.

(iv) The Bond Sale Terms must establish the method of providing for the Reserve Requirement, consistent with Section 15(a)(ii).

(iv) Any Series may be designated or qualified as Tax-Exempt Bonds, taxable bonds, or as Tax Credit Subsidy Bonds, and may include such additional terms and covenants relating to federal tax matters as the Director of Finance deems necessary or appropriate, consistent with Section 22.

Section 6. **<u>Bond Registrar; Registration and Transfer of Bonds</u>.**

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

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

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

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

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

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

Upon the resignation of the Securities Depository from its functions as depository, or upon a determination by the City to discontinue services of the Securities Depository, the City may appoint a substitute Securities Depository. 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, then ownership of Bonds may be transferred to any person as provided herein and the Bonds no longer shall be held in book-entry form.

Section 7. **Payment of Bonds.** Principal of and interest on each Bond shall be payable solely out of the Parity Bond Account, in lawful money of the United States. Principal of and interest on each Bond registered in the name of the Securities Depository is payable in the manner set forth in the Letter of Representations. 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. However, the City 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 Bonds are not subject to acceleration under any circumstances.

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

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

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

(c) Selection of Bonds for Redemption; Partial Redemption. If fewer than all of the outstanding Bonds are to be redeemed at the option of the City, the Director of Finance shall select the Series and maturity or maturities to be redeemed. If fewer than all of the outstanding Bonds of a maturity of a Series are to be redeemed, the Securities Depository shall select Bonds registered in the name of the Securities Depository to be redeemed in accordance with the Letter of Representations, and the Bond Registrar shall select all other Bonds to be redeemed randomly in such manner as the Bond Registrar shall determine. All or a portion of the principal amount of any Bond that is to be redeemed may be redeemed in any Authorized Denomination. If less than all of the outstanding principal amount of any Bond is redeemed, upon surrender of that Bond to the Bond Registrar there shall be issued to the Registered Owner, without charge, a new Bond (or Bonds, at the option of the Registered Owner) of the same Series, maturity and interest rate in any Authorized Denomination in the aggregate principal amount to remain outstanding.

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

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

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

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

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

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

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

Section 12. **Construction Account; Deposit of Proceeds.** An account to be known as the Drainage and Wastewater Construction Account, 2016 is created in the Drainage and Wastewater Fund. The principal proceeds of the sale of the Bonds remaining after the deposit of accrued interest on the Bonds, if any, into the Principal and Interest Subaccount and the deposit of any proceeds as determined by the Bond Resolution into the Reserve Subaccount, shall be deposited into the Construction Account, unless otherwise specified in the Bond Resolution or directed by the Director of Finance, to be used for the purpose of paying part of the costs of carrying out the Plan of Additions and to pay capitalized interest on, if necessary, and the costs of issuance of the Bonds. Until needed to pay such costs, the City may invest principal proceeds and interest thereon temporarily in any Permitted Investments, and the investment earnings may, as determined by the Director of Finance, be retained in the Construction Account and be spent for the purposes of that account or deposited in the Parity Bond Account.

Section 13. **Security for the Bonds; Parity with other Bonds.** The Bonds shall be special limited obligations of the City payable from and secured solely by the Net Revenue (including all ULID Assessments, if any) and by money in the Parity Bond Account and subaccounts therein (including the Reserve Subaccount). Net Revenue is pledged to make the payments into the Bond Account and the Reserve Subaccount required by subsections (b) and (c) of Section 14, which pledge shall constitute a charge and lien upon such Net Revenue prior and superior to all other liens and charges whatsoever. The City covenants that for as long as any Bond is outstanding that it will not issue any other revenue obligations (or create any special fund or account therefor), which will have any priority over or which will rank on a parity with the payments required in respect of the Parity Bonds, and that it will issue Future Parity Bonds only accordance with Section 17.

The Bonds shall be on a parity with the Outstanding Parity Bonds and all Future Parity Bonds, without regard to date of issuance or authorization and without preference or priority of right or lien. Nothing in this ordinance prevents the City from issuing revenue bonds or other obligations which are a charge or lien upon Net Revenue subordinate to the payments required to be made from Net Revenue into the Parity Bond Account and the subaccounts therein.

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

Section 14. **<u>Priority Expenditure of Gross Revenue; Flow of Funds</u>.** Gross Revenue shall be used for the following purposes only and shall be applied in the following order of priority:

(a) To pay the Operating and Maintenance Expense;

(b) To make the required payments into the Principal and Interest Subaccount for all Parity Bonds;

(c) To make the required payments into the Reserve Subaccount for all Parity Bonds;

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

(e) To retire by redemption and purchase any outstanding revenue bonds or revenue obligations of the Drainage and Wastewater System; to make necessary additions, betterments, repairs, extensions and replacements of the Drainage and Wastewater System; to pay City taxes or other payments in lieu of taxes payable from Gross Revenue; to make deposits to the Rate Stabilization Account; or for any other lawful Drainage and Wastewater System purpose.

Section 15. Parity Bond Account. The Parity Bond Account is divided into two subaccounts: the Principal and Interest Subaccount and the Reserve Subaccount. The Director of Finance may create sinking fund subaccounts or other subaccounts in the Parity Bond Account for the payment or securing the payment of Parity Bonds as long as the maintenance of such subaccounts does not conflict with the rights of the owners of Parity Bonds.

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

(i) Into the Principal and Interest Subaccount (A) upon receipt thereof, the accrued interest, if any, received by the City from the Purchaser, and (B) on or before each interest or principal and interest payment date of any Parity Bonds an amount which, together with other money on deposit therein, will be sufficient to pay the interest, or principal and interest and Sinking Fund Requirements, to become due and payable on the Parity Bonds on that payment date, and net payments due on Parity Payment Agreements; and

(ii) Into the Reserve Subaccount an amount necessary to provide for the Reserve Requirement for the Parity Bonds within the time and in the manner required by this ordinance and the Parity Bond Legislation. The amount necessary to satisfy the Reserve

Requirement upon the issuance of a Series may be funded (i) on the Issue Date, by a deposit of bond sale proceeds or a Reserve Security, or (ii) in annual installments from Net Revenue so that the Reserve Requirement is fully funded by the fifth anniversary of the Issue Date. The manner of funding the Reserve Requirement for the Bonds shall be set forth in the Bond Resolution.

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

(b) Reserve Subaccount. The City covenants that it will at all times so long as any Parity Bonds are outstanding, maintain the Reserve Subaccount at the Reserve Requirement (taking into account scheduled payments to fund the Reserve Requirement over time), as it is adjusted from time to time, except for withdrawals as authorized by this ordinance. The Director of Finance may make withdrawals of cash from the Reserve Subaccount in the event of a deficiency in the Principal and Interest Subaccount to meet current installments of either principal (or Sinking Fund Requirements) or interest. Any deficiency created in the Reserve Subaccount by reason of any such withdrawal will then be made up from the ULID Assessments and Net Revenue first available after making necessary provisions for the required payments into the Principal and Interest Subaccount. The money in the Reserve Subaccount may be applied to the payment of the last outstanding Parity Bonds, and when the total amount in the Parity Bond Account (including investment earnings) equals the total amount of principal and interest for all then-outstanding Parity Bonds to the last maturity thereof, no further payment need be made into the Parity Bond Account. Money in the Reserve Subaccount (including investment earnings) in excess of the Reserve Requirement may be withdrawn and deposited in the Principal and Interest Subaccount and spent for the purpose of retiring Parity Bonds or may be deposited in any other fund or account and spent for any other lawful Drainage and Wastewater System purpose.

(c) Investment of Money in Parity Bond Account. All money in the Parity Bond Account may be kept in cash or invested in Permitted Investments maturing not later than the date when needed (for investments in the Principal and Interest Subaccount) or the last maturity of any outstanding Parity Bonds (for investments in the Reserve Subaccount). In no event shall any money in the Parity Bond Account or any other money reasonably expected to be used to pay principal and/or interest on the Parity Bonds be invested at a yield which would cause any Series issued as Tax-Exempt Bonds or Tax Credit Subsidy Bonds to be arbitrage bonds within the meaning of Section 148 of the Code. Income from investments in the Principal and Interest Subaccount shall be deposited in that subaccount. Income from investments in the Reserve Subaccount shall be deposited in that subaccount until the amount therein is equal to the Reserve Requirement for all Parity Bonds, and thereafter shall be deposited in the Principal and Interest Subaccount. Notwithstanding the provisions for deposit or retention of earnings in the Parity Bond Account, any earnings which are subject to a federal tax or rebate requirement may be withdrawn from the Parity Bond Account for deposit in a separate fund or account for that purpose. If no longer required for such rebate, money in that separate fund or account shall be returned to the Parity Bond Account.

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

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

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

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

(c) **Sale or Disposition of Drainage and Wastewater System.** It will not sell, lease, mortgage, or in any manner encumber or dispose of all of the property of the Drainage and

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

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

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

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

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

Section 17. <u>Future Parity Bonds</u>.

(a) The City reserves the right to issue Future Parity Bonds and to enter into Parity Payment Agreements for purposes of the Drainage and Wastewater System or to refund a portion of the Parity Bonds if the following conditions are met and complied with at the time of the issuance of those Future Parity Bonds or entering into the Parity Payment Agreement:

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

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

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

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

(v) The Future Parity Bond Legislation must provide for the deposit into the Reserve Subaccount of (A) an amount, if any, necessary to fund the Reserve Requirement upon the issuance of those Future Parity Bonds from Future Parity Bond proceeds or other money legally available; (B) one or more Reserve Securities or an amount plus Reserve Securities necessary to fund the Reserve Requirement upon the issuance of those Future Parity Bonds, or (C) amounts necessary to fund the Reserve Requirement from ULID Assessments and Net Revenue within five years from the date of issuance of those Future Parity Bonds, in five approximately equal annual payments. Immediately prior to the issuance of Future Parity Bonds, amounts then deposited in the Reserve Subaccount shall be valued as determined on the most recent annual financial report of the City applicable to the Drainage and Wastewater System, and the additional amounts, if any, needed to be deposited into the Reserve Subaccount to satisfy the Reserve Requirement shall be based on that valuation.

(vi) There shall be on file with the City either:

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

(B) A certificate of the Director of Finance and the Director of Seattle Public Utilities (or any officer who succeeds to substantially all of the responsibilities of that office) that in their opinion, Adjusted Net Revenue for the five fiscal years next following the earlier of (1) the end of the period during which interest on those Future Parity Bonds is to be capitalized or, if no interest is capitalized, the fiscal year in which the Future Parity Bonds are issued, or (2) the date on which substantially all new facilities financed with those Future Parity Bonds are expected to commence operations, such Adjusted Net Revenue further adjusted as provided in paragraphs (1) through (4) below, will be at least equal to the Coverage Requirement. That certificate may take into account the following adjustments:

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

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

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

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

If the Future Parity Bonds proposed to be issued are for the sole purpose of refunding Parity Bonds, no such coverage certification shall be required if the Adjusted Annual Debt Service on the Parity Bonds after the issuance of the Future Parity Bonds is not, for any year in which the Parity Bonds being refunded were outstanding, more than $5,000 over the Adjusted Annual Debt Service on the Parity Bonds prior to the issuance of those Future Parity Bonds.

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

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

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

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

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

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

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

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

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

Section 21. Refunding and Defeasance of the Bonds. The Bonds are hereby designated "Refundable Bonds" for purposes of the Omnibus Refunding Bond Ordinance. 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, premium, if any, and interest on any Bond, or 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 maturing at a time or times and in an amount sufficient, together with known earned income from the investment thereof, to redeem and retire, release, refund or defease the defeased Bonds in accordance with their terms, are set aside in a special trust fund or escrow account irrevocably pledged to such redemption, retirement or defeasance (the "trust account"), then all right and interest of the Owners of the defeased Bonds in the covenants of this ordinance and in Net Revenue and the funds and accounts pledged to the payment of such defeased Bonds, other than the right to receive the funds so set aside and pledged, thereafter shall cease and become void. Such Owners thereafter shall have the right to receive payment of the principal of and interest or redemption price on the defeased Bonds from the trust account. After establishing and fully funding such a trust account, the defeased Bonds shall be deemed to be no longer outstanding, and the Director of Finance then may apply any money in any other fund or account established for the payment or redemption of the defeased Bonds to any lawful purposes. Notice of refunding or defeasance shall be given, and selection of Bonds for any partial refunding or defeasance shall be conducted, in the manner set forth in this ordinance for the redemption of Bonds.

If the refunding or defeasance plan provides that the defeased Bonds or the refunding bonds to be issued be secured by money and/or Government Obligations pending the prior redemption of the defeased Bonds and if such refunding or defeasance plan also provides that certain money and/or Government Obligations are pledged irrevocably for the prior redemption of the defeased Bonds included in that refunding or defeasance plan, then only the debt service on the Bonds which are not defeased Bonds and the refunding bonds, the payment of which is not so secured by the refunding plan, shall be included in the computation of the Coverage Requirement for the issuance of Future Parity Bonds and the annual computation of the Coverage Requirement for determining compliance with the rate covenants.

Section 22. <u>Provisions Relating to Certain Federal Tax Consequences of the Bonds</u>.

(a) Tax-Exempt Bonds. The City covenants that it will take all actions, consistent with 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 gross proceeds of that Series or other funds of the City treated as gross proceeds of that Series at any time during the term of such Series that will cause interest on such Series to be included in gross income for federal income tax purposes. The City also covenants that 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 having complied) with that requirement in connection with that Series, including the calculation and payment of any penalties that the City has elected to pay as an alternative to calculating rebatable arbitrage, and the payment of any other penalties if required under Section 148 of the Code to prevent interest on such Series from being included in gross income for federal income tax purposes.

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

Section 23. Official Statement; Continuing Disclosure.

(a) Preliminary Official Statement. The Director of Finance and other appropriate City officials are directed to cause the preparation of and review the form of a preliminary official statement in connection with each sale of one or more Series to the public. For the sole purpose of the Purchaser's compliance with paragraph (b)(1) of Rule 15c2-12, the Director of

Finance is authorized to deem that preliminary official statement final as of its date, except for the omission of information permitted to be omitted by Rule 15c2-12. The City approves the distribution to potential purchasers of the Bonds of a preliminary official statement that has been deemed final in accordance with this subsection.

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

(c) **Undertaking to Provide Continuing Disclosure**. To meet the requirements of paragraph (b)(5) of Rule 15c2-12, as applicable to a Purchaser of a Series, the Director of Finance is authorized to execute the Undertaking in substantially the form attached as Exhibit B.

Section 24. <u>Supplemental or Amendatory Ordinances</u>.

(a) This ordinance shall not be supplemented or amended in any respect subsequent to the Issue Date, except as provided in and in accordance with and subject to the provisions of this section.

(b) The City may, from time to time and at any time, without the consent of or notice to the owners of the Parity Bonds, pass supplemental or amendatory ordinances for any of the following purposes:

(i) To cure any formal defect, omission, inconsistency or ambiguity in this ordinance in a manner not adverse to the owners of any Parity Bonds;

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

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

(iv) To confirm, as further assurance, any pledge under, and the subjection to any claim, lien or pledge created or to be created by this ordinance of any other money, securities or funds;

(v) To authorize different denominations of the Bonds and to make correlative amendments and modifications to this ordinance regarding exchangeability of Bonds of different authorized denominations, redemptions of portions of Bonds of particular authorized denominations and similar amendments and modifications of a technical nature;

(vi) To comply with any future federal law or interpretation to preserve the exclusion of the interest on the Tax-Exempt Bonds from gross income for federal income tax purposes and the entitlement of the City to receive from the United States Treasury the applicable Tax Credit Subsidy Payments in respect of any Series sold and issued as Tax Credit Subsidy Bonds;

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

(viii) To add to the covenants and agreements of, and limitations and restrictions upon, the City in this ordinance, other covenants, agreements, limitations and restrictions to be observed by the City which are requested by a provider of Bond Insurance or provider of a Reserve Security and which are not materially adverse to the owners of the Parity Bonds.

Before the City may pass any such supplemental or amendatory ordinance pursuant to this subsection, there must be delivered to the City an opinion of Bond Counsel, stating that such supplemental or amendatory ordinance is authorized or permitted by this ordinance and will, upon the effective date thereof, be valid and binding upon the City in accordance with its terms, and will not adversely affect the exclusion from gross income for federal income tax purposes of interest on any Tax-Exempt Bonds.

(c) Except for any supplemental or amendatory ordinance passed pursuant to subsection (b) of this section, the City may pass supplemental or amendatory ordinances subject to the terms and provisions contained in this subsection (c) and not otherwise:

(i) With the consent of registered owners of not less than 60% in aggregate principal amount of the Parity Bonds then outstanding, the City Council may pass any supplemental or amendatory ordinance deemed necessary or desirable by the City for the purpose of modifying, altering, amending, supplementing or rescinding, in any particular, any of the terms or provisions contained in this ordinance. However, unless approved in writing by the registered owner of each Parity Bond then outstanding, nothing contained in this section shall permit, or be construed as permitting (A) a change in the times, amounts or currency of payment of the principal of or interest on any outstanding Parity Bond, or a reduction in the principal amount or redemption price of any outstanding Parity Bond or a change in the method of determining the rate of interest thereon, (B) a preference or priority of any Parity Bond over any other Parity Bond, or (C) a reduction in the aggregate principal amount of Parity Bonds.

(ii) If at any time the City Council passes a supplemental or amendatory ordinance for any of the purposes of this subsection (c), the Bond Registrar shall cause notice of the proposed supplemental or amendatory ordinance to be given by first class United States mail to all registered owners of the then outstanding Parity Bonds, to each provider of Bond Insurance or a Reserve Security, and to each Rating Agency. Such notice shall briefly set forth the nature of the proposed supplemental or amendatory ordinance and shall state that a copy is on file at the office of the City Clerk for inspection by all owners of the outstanding Parity Bonds.

(iii) Within two years after the date of the mailing of such notice, such supplemental or amendatory ordinance, substantially as described in such notice, may go into effect, but only if there shall have first been delivered to the Bond Registrar (A) the required consents, in writing, of registered owners of the Parity Bonds, and (B) an opinion of Bond Counsel stating that such supplemental or amendatory ordinance is authorized or permitted by this ordinance and, upon the effective date thereof, will be valid and binding upon the City in accordance with its terms and will not adversely affect the exclusion from gross income for federal income tax purposes of interest on any Tax-Exempt Bonds.

(iv) If registered owners of not less than the percentage of Parity Bonds required by this subsection (c) shall have consented to and approved the passage of such a supplemental or amendatory ordinance, no owner of a Parity Bond shall have any right to object to the passage of such supplemental ordinance, or to object to any of the terms and provisions contained therein or the operation thereof, or in any manner to question the propriety of the passage thereof, or to enjoin or restrain the City from passing the same or the City, any authorized official thereof, or the Bond Registrar from taking any action pursuant to the provisions thereof.

(d) The Registered Owners from time to time of the outstanding Bonds, by taking and holding the same, shall be deemed to have consented to the adoption by the City of any supplemental or amendatory ordinance or resolution passed pursuant to the provisions of this section for any one or more of the following purposes:

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

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

(e) Upon the effective date of any supplemental or amendatory ordinance pursuant to the provisions of this section, this ordinance shall be, and be deemed to be, modified and amended in accordance therewith, and the respective rights, duties and obligations under this ordinance of the City, the Bond Registrar and all owners of Parity Bonds then outstanding shall thereafter be determined, exercised and enforced under this ordinance subject in all respects to such modifications and amendments.

Section 25. Defaults and Remedies.

(a) Events of Default. The following shall constitute Events of Default with respect to the Bonds:

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

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

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

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

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

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

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

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

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

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

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

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

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

(e) Duties and Obligations of Bond Owners' Trustee. The Bond Owners' Trustee shall not be liable except for the performance of such duties as are specifically set forth herein.

During an Event of Default, the Bond Owners' Trustee shall exercise such of the rights and powers vested in it hereby, and shall use the same degree of care and skill in its exercise, as a prudent person would exercise or use under the circumstances in the conduct of his or her own affairs. The Bond Owners' Trustee shall have no liability for any act or omission to act hereunder except for the Bond Owners' Trustee's own negligent action, its own negligent failure to act or its own willful misconduct. The duties and obligations of the Bond Owners' Trustee shall be determined solely by the express provisions of this ordinance, and no implied powers, duties or obligations of the Bond Owners' Trustee shall be read into this ordinance.

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

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

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

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

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

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

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

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

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

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

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

Section 26. Amendment of Omnibus Refunding Bond Ordinance. The following definitions set forth in the Omnibus Refunding Bond Ordinance are amended to read as set forth in this section. Revisions are shown to the clean amended and restated version of the Omnibus Refunding Bond Ordinance, which was attached to Ordinance 124338 as Exhibit C, with additions shown in double underlining and deletions enclosed in double parentheses and struck through. References to section numbers and defined terms used in the amended text set forth below refer to the sections and definitions contained within the amended Omnibus Refunding Bond Ordinance. With respect to any bonds authorized by the Omnibus Refunding Bond Ordinance, which are outstanding as of the effective date of this amendatory ordinance, the intent of these amendments is to effect clarifications of ambiguities. Any amendment contained herein that is found by a court of competent jurisdiction to adversely affect owners of such outstanding bonds shall be of no force or effect, except to the extent that such amendments clarify ambiguities, and the provisions of the Omnibus Refunding Bond Ordinance prior to the effective date of this amendatory ordinance shall continue in effect as to such outstanding bonds.

(a) Amendments to Section 1. The following definitions are amended as follows:

"**Gross Revenue**" means (a) all income, revenues, receipts and profits derived by the City through the ownership and operation of the Drainage and Wastewater System; (b) the proceeds received by the City directly or indirectly from the sale, lease or other disposition of any of the properties, rights or facilities of the Drainage and Wastewater System; (c) Payment Agreement Receipts, to the extent that such receipts are not offset by Payment Agreement Payments; and (d) the investment income earned on money held in any fund or account of the City, including any bond redemption funds and the accounts therein, in connection with the ownership and operation of the Drainage and Wastewater System. Gross Revenue does not include: (a) ((~~insurance proceeds compensating the City for the loss of a capital asset; (b)~~))income derived from investments irrevocably pledged to the payment of any defeased bonds payable from Gross Revenue; (((~~c~~))b) investment income set aside for or earned on money in any fund or account created or maintained solely for the purpose of complying with the arbitrage rebate provisions of the Code; (((~~d~~))c) any gifts, grants, donations or other funds received by the City from any State or federal agency or other person if such gifts, grants, donations or other funds are the subject of any limitation or reservation imposed by the donor or grantor or imposed by law or administrative regulation to which the donor or grantor is subject, limiting the application of such funds in a manner inconsistent with the application of Gross Revenue hereunder; (((~~e~~))d) the proceeds of any borrowing for capital improvements (or the refinancing thereof); (((~~f~~))e) the proceeds of any liability or other insurance((~~(~~)), including but not limited to insurance proceeds compensating the City for the loss of a capital asset, but excluding business interruption insurance or other insurance of like nature insuring against the loss of revenues((~~)~~));(((~~g~~))f) general ad valorem taxes, excise taxes and special assessments (other than ULID Assessments), including interest and penalties thereon; and (((~~h~~))g) earnings of any separate utility system that may be created, acquired, or constructed by the City pursuant to Section 20.

"**Operating and Maintenance Expense**" means all((~~ reasonable~~)) expenses incurred by the City in causing the Drainage and Wastewater System to be operated and maintained in good repair, working order and condition, including without limitation((~~ payments (other than payments out of proceeds of Parity Bonds or other obligations not issued to pay current expenses of the Drainage and Wastewater System) into reasonable reserves for items of operating or maintenance expense the payment of which is not immediately required,~~)): (a) deposits, premiums, assessments or other payments ((~~of premiums~~)) for insurance, if any, on the Drainage and Wastewater System((~~, any~~)); (b) payments into pension funds; (c) State-imposed taxes((~~, and also including all payments made to another municipal corporation or other agency for treatment or disposal of sewage, and~~)); (d) amounts due under ((~~any~~)) Contract Resource Obligations (but only at the times described in Section 21)((~~,~~)); (e) payments made to another person or entity for treatment or disposal of sewage or other commodity or service; and (f) payments with respect to any other expenses of the Drainage and Wastewater System that are properly treated as Operating and Maintenance Expense under generally accepted accounting principles applicable to municipal corporations, including payments (other than payments out of proceeds of Parity Bonds or other obligations not issued to pay current expenses of the Drainage and Wastewater System) into reasonable reserves for items of operating or maintenance expense the payment of which is not immediately required. Operating and Maintenance Expense does not include:((~~but excluding~~)) depreciation, ((~~and~~))amortization or other similar recognitions of non-cash expense items made for accounting purposes only;((~~, and any City~~)) taxes levied or imposed ((~~or levied on the Drainage and Wastewater System or Gross Revenue~~))by the City, or payments in lieu of City taxes((~~ payable from the Gross Revenue, and~~)); payments of claims or judgments; or capital additions or capital replacements of the Drainage and Wastewater System.((~~ Accounting for those expenses shall be in accordance with generally accepted accounting principles.~~))

"**Reserve Requirement**" means the least of ((~~the~~))(a) Maximum Annual Debt Service on all Parity Bonds outstanding at the time of calculation, (b) 1.25 times Average Annual Debt Service on all Parity Bonds outstanding at the time of calculation, or (c) 10% of the proceeds of each series of Parity Bonds then outstanding((~~Parity Bonds~~)), as of the ((~~date of~~))delivery of each such series.

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

(b) Other Sections Unaffected; Effect of Springing Provisions. All other provisions of the Omnibus Refunding Bond Ordinance remain in full force and effect, except as amended by previously adopted springing amendments to sections of the Omnibus Refunding Ordinance which by their terms provided that they were to go into effect upon the redemption or defeasance of the outstanding 2004 Bonds. The City hereby confirms that the 2004 Bonds have been redeemed or defeased in full, and that those prior amendments have become effective in accordance with their terms.

Section 27. General Authorization. In addition to the specific authorizations in this ordinance, the Mayor and the Director of Finance and each of the other appropriate officers of the City are each authorized and directed to do everything as in his or her judgment may be necessary, appropriate, or desirable in order to carry out the terms and provisions of, and complete the transactions contemplated by, this ordinance. In particular and without limiting the foregoing:

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

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

Section 28. **Severability.** The provisions of this ordinance are declared to be separate and severable. If a court of competent jurisdiction, all appeals having been exhausted or all appeal periods having run, finds any provision of this ordinance to be invalid or unenforceable as to any person or circumstance, such offending provision shall, if feasible, be deemed to be modified to be within the limits of enforceability or validity. However, if the offending provision cannot be so modified, it shall be null and void with respect to the particular person or circumstance, and all other provisions of this ordinance in all other respects, and the offending provision with respect to all other persons and all other circumstances, shall remain valid and enforceable.

Section 29. **Ratification of Prior Acts.** Any action taken consistent with the authority of this ordinance, after its passage but prior to the effective date, is ratified, approved and confirmed.

Section 30. **Section Headings.** Section headings in this ordinance are used for convenience only and shall not constitute a substantive portion of this ordinance.

Section 31. **Effective Date.** This ordinance shall take effect and be in force 30 days after its approval by the Mayor, but if not approved and returned by the Mayor within ten days after presentation, it shall take effect as provided by Municipal Code Section 1.04.020.

Passed by the City Council the 23rd day of Nov., 2015, and signed by me in open session in authentication of its passage this 23rd day of Nov., 2015.

President __________ of the City Council

Approved by me this 1st day of December, 2015.

Edward B. Murray, Mayor

Filed by me this 1 day of December, 2015.

Monica Martinez Simmons, City Clerk

(Seal)

Exhibits:

Exhibit A – List of Outstanding Parity Bonds

Exhibit B – Form of Undertaking to Provide Continuing Disclosure

EXHIBIT A

OUTSTANDING DRAINAGE AND WASTEWATER PARITY BONDS

Issue Name	Dated Date	Original Par Amount	Bond Legislation		
			New Money Ord.	Refunding Ord.	Bond Sale Res.
Drainage and Wastewater Revenue and Refunding Bonds, 2006	11/01/2006	$121,765,000	Ord. 122209	Ord. 121938 (as amended by Ord. 122209)	Res. 30927
Drainage and Wastewater Revenue Bonds, 2008	04/16/2008	$84,645,000	Ord. 122637	- -	Res. 31050
Drainage and Wastewater Revenue Bonds, Series 2009A (Taxable Build America Bonds – Direct Payment)	12/17/2009	$102,535,000	Ord. 123055	- -	Res. 31177
Drainage and Wastewater Improvement and Refunding Revenue Bonds, Series 2009B	12/17/2009	$36,680,000	Ord. 123055	Ord. 121938 (as amended by Ord. 122209 and Ord. 122637)	Res. 31177
Drainage and Wastewater Improvement and Refunding Revenue Bonds, 2012	06/27/2012	$222,090,000	Ord. 123753	Ord. 121938 (as amended by Ord. 122209 and Ord. 122637)	Res. 31387
Drainage and Wastewater Improvement and Refunding Revenue Bonds, 2014	07/10/2014	$133,180,000	Ord. 124337	Ord. 124338 (amending and restating Ord. 121938)	Res. 31531

EXHIBIT B

FORM OF UNDERTAKING TO PROVIDE CONTINUING DISCLOSURE

The City of Seattle, Washington (the "City"), makes the following written undertaking (the "Undertaking") for the benefit of the holders of the City's Drainage and Wastewater Revenue Bonds, 2016 (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 Municipal Securities Rulemaking Board (the "MSRB"), in an electronic format as prescribed by the MSRB, accompanied by identifying information as prescribed by the MSRB, the following information:

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

(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; and

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

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

(i) Shall consist of: (1) annual financial statements of the Drainage and Wastewater System prepared in accordance with 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 of Washington (the "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; (2) a statement of outstanding bonded debt secured by revenues of the Drainage and Wastewater System; (3) debt service coverage ratios; (4) general customer statistics, such as number and type of customers and revenues by customer class; and (5) current drainage rate and wastewater rates;

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

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

(c) 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 of any broker, dealer, municipal securities dealer, participating underwriter, rating agency or the MSRB, under the circumstances and in the manner permitted by Rule 15c2-12. 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 financial information will include a narrative explanation of the effect of that change on the type of information to be provided.

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

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

(f) Remedy for Failure to Comply with Undertaking. As soon as practicable after the City learns of any failure to comply with the Undertaking, the City will proceed with due diligence to cause such noncompliance to be corrected. No failure by the City or other obligated person to comply with the Undertaking shall constitute a default in respect of the Bonds. The sole remedy of any Beneficial Owner of a Bond shall be to take such actions as that Beneficial

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

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

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

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

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

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

(v) Effecting any necessary amendment of the Undertaking.

APPENDIX B

FORM OF BOND COUNSEL OPINION

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STRADLING YOCCA CARLSON & RAUTH

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SAN FRANCISCO
SANTA BARBARA
SANTA MONICA
COLORADO
DENVER
NEVADA
RENO
WASHINGTON
SEATTLE

[Date]

The City of Seattle, Washington

Re: The City of Seattle, Washington
$________ Drainage and Wastewater Improvement and Refunding Revenue Bonds, 2016

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

The Bonds are issued by the City pursuant to Ordinance 124914, Ordinance 121938 (as amended by Ordinance 122209 and Ordinance 122637 and amended and restated by Ordinance 124338, as further amended by Ordinance 124914), and Resolution ________ (together, the "Bond Legislation") to provide the funds (i) to pay for part of the costs of various projects of the Drainage and Wastewater System, (ii) to make a deposit into the Reserve Subaccount, (iii) to refund certain of the City's outstanding Drainage and Wastewater Revenue Bonds, 2008, and (iv) to pay the costs of issuance of the Bonds and administering the Refunding Plan, 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.

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 are issued in full compliance with the provisions of the Constitution and laws of the State of Washington, the Bond Legislation and the ordinances of the City relating thereto.

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

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

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

2015 AUDITED FINANCIAL STATEMENTS OF THE DRAINAGE AND WASTEWATER FUND

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Report of Independent Auditors and Financial Statements with Required Supplementary Information and Other Information for

Seattle Public Utilities - Drainage and Wastewater Fund
(An Enterprise Fund of the City of Seattle)

December 31, 2015 and 2014

MOSS ADAMS LLP

Certified Public Accountants | Business Consultants

CONTENTS

MOSS-ADAMS LLP
Certified Public Accountants | Business Consultants

REPORT OF INDEPENDENT AUDITORS

To the Director of Seattle Public Utilities
Drainage and Wastewater Fund
Seattle, Washington

Report on Financial Statements

We have audited the accompanying financial statements of Seattle Public Utilities – Drainage and Wastewater Fund (the "Fund"), which comprise the statements of net position as of December 31, 2015 and 2014, and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Seattle Public Utilities – Drainage and Wastewater Fund as of December 31, 2015 and 2014, and the results of its operations and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 14 of the financial statements, the Fund adopted the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*. 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, the schedule of Seattle Public Utilities' proportionate share of the net pension liability and schedule of Seattle Public Utilities' contributions, listed in the table of contents, be presented to supplement the financial statements. This 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 taken as a whole. The other information on pages 47 – 50 is presented for purposes of additional analysis and is 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.

Moss Adams LLP

Seattle, Washington
April 28, 2016

As management of Seattle Public Utilities ("SPU"), a department of the City of Seattle (the "City"), we offer readers of SPU's financial statements this narrative overview and analysis of the financial activities of the Drainage and Wastewater Fund (the "Fund") for the fiscal years ended December 31, 2015 and 2014. The revenues, expenses, assets, deferred outflows of resources, and liabilities of the City of Seattle's drainage and wastewater system are recorded in the Drainage and Wastewater Fund, the functions of which are primarily supported by user fees and charges to customers. The financial situation of other aspects of Seattle City government, including other utility services and general government operations, are reported elsewhere.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Fund's financial statements. The financial statements include Management's Discussion and Analysis and basic financial statements with accompanying notes.

Basic Financial Statements – The basic financial statements of the Fund report information similar to the presentation used by private sector companies. These statements offer short-term and long-term financial information about its activities. The basic financial statements begin on page 14 of this report and are comprised of three components: (1) Statements of Net Position, (2) Statements of Revenues, Expenses, and Changes in Net Position, and (3) Statements of Cash Flows.

The Statements of Net Position present information, as of December 31, 2015 and 2014, on all of the Fund's assets, deferred outflows of resources, and liabilities. The difference between assets combined with deferred outflows of resources and liabilities is reported as net position. They also provide information about the nature and amounts of investments in resources (assets and deferred outflows of resources), obligations to the Fund's creditors (liabilities), and provide the basis for assessing the liquidity and financial flexibility of the Fund.

The Statements of Revenues, Expenses, and Changes in Net Position present changes in the Fund's net position for the years ended December 31, 2015 and 2014. All changes in net position are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. These statements reflect the results of the Fund's operations for the years identified to provide information about the Fund's credit worthiness and its ability to successfully recover all its costs through service fees and other charges.

The Statements of Cash Flows are required to provide information about the Fund's cash receipts and cash payments during the years ended December 31, 2015 and 2014. To provide answers to questions about sources, uses, and impacts to cash, these statements report cash receipts, cash payments, and net changes in cash resulting from operations, investing and financing activities for the reporting period.

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Notes to the Financial Statements – The notes are an integral part of the financial statements. They provide additional disclosures that are essential to a full understanding of the data provided in the financial statements, such as for certain estimates and financing details. The notes to the financial statements begin on page 19 of this report.

FINANCIAL ANALYSIS

Increases or decreases in net position may serve over time as a useful indicator of whether the Fund's financial position is improving or deteriorating. At December 31, 2015 and 2014, the Fund's assets and deferred outflows of resources exceeded liabilities, resulting in a net position of $329.9 million and $344.1 million, respectively. In 2015, the Fund's overall position changed, with a decrease in net position of $14.2 million (4.1%) as compared to an increase in net position of $48.5 million (16.4%) in 2014. The following summary statements of net position present the assets and deferred outflows of resources of the Fund and show the mix of liabilities and net position used to acquire these assets and deferred outflows of resources:

STATEMENTS OF NET POSITION

	2015	2014	2013
ASSETS			
Current assets	$ 149,034,252	$ 142,586,093	$ 118,469,314
Capital assets, net	947,910,106	843,837,995	765,496,217
Other	90,597,273	163,283,878	111,118,802
Total assets	1,187,541,631	1,149,707,966	995,084,333
DEFERRED OUTFLOWS OF RESOURCES	15,269,200	6,478,895	6,054,354
Total assets and deferred outflows of resources	$ 1,202,810,831	$ 1,156,186,861	$ 1,001,138,687
LIABILITIES			
Current liabilities	$ 72,687,751	$ 67,827,554	$ 63,638,332
Revenue bonds	625,904,638	646,693,450	547,321,148
Other	174,316,453	97,568,020	94,545,484
Total liabilities	872,908,842	812,089,024	705,504,964
NET POSITION			
Net investment in capital assets	353,149,704	301,792,748	271,755,951
Restricted	21,666,747	21,201,195	20,523,523
Unrestricted	(44,914,462)	21,103,894	3,354,249
Total net position	329,901,989	344,097,837	295,633,723
Total liabilities and net position	$ 1,202,810,831	$ 1,156,186,861	$ 1,001,138,687

FINANCIAL ANALYSIS (CONTINUED)

2015 Compared to 2014

Assets – Current assets increased $6.4 million (4.5%) over the prior year primarily due to increases of $4.0 million in due from other governments, $1.8 million in accounts receivable, net of allowance for doubtful accounts, $0.5 million in notes and other contracts, $0.4 million in unbilled revenues and $0.2 million in materials and supplies inventory. These increases were offset by decreases of $0.4 million in operating cash and $0.1 million in due from other funds.

Other assets decreased $72.7 million (-44.5%) from 2014. This is mostly attributable to decreases of $71.9 million in restricted cash and equity in pooled investments, $0.4 million in other charges, $0.3 million for external infrastruction costs and $0.2 million in regulatory assets. The decreases were offset by an increase of $0.1 million in environmental costs and recoveries.

Deferred Outflows of Resources – Deferred outflow of resources increased by $8.8 million (135.7%) from 2014. This increase is attributed to a $9.2 increase for pension contributions and changes in assumptions related to the implementation of GASB Statement No. 68 and 71, offset by $0.4 million reduction in unamortized loss on refunded debt.

Liabilities – Current liabilities increased $4.9 million (7.2%) from 2014. This is attributable to increase of $2.6 million in salaries, benefits and payroll taxes payable, $1.1 in due to other governments, $0.9 million in revenue bonds due within one year, $0.9 million in claims payable, $0.5 million increase in accounts payable and a $0.4 million increase in environmental liabilities. These increases were offset by decreases of $1.0 million in due to other funds, $0.3 million in credits and other payables and $0.2 million for interest payable.

Other liabilities increased $76.7 million (78.7%). The most significant factor affecting this change is the $77.0 million increase to record the net pension liability (Note 9). Additional increases include $3.0 million in environmental liabilities (Note 10), and $0.7 million in vendor and other deposits. These increases were offset by decreases of $2.8 million in claims payable and $1.2 million in loans payable.

Net Position – The largest portion of the Fund's net position ($353.1 million or 107.0%) reflects the Fund's investment in capital assets such as land, buildings, and equipment, less any related outstanding debt used to acquire those assets. The Fund uses these assets to provide services to customers; consequently, these assets are not available for future spending. Although the Fund's investment in its capital assets is reported net of related debt, the resources needed to repay the debt are provided by fees paid by customers for services provided by these assets. In 2015, net investment in capital assets increased $51.4 million from 2014 due to an increase in capital assets placed in service, net of depreciation offset by the related debt.

The Fund's restricted net position ($21.7 million or 6.6%) represent resources that are subject to restrictions on how they may be used. This portion of net position decreased $0.5 million from 2014.

FINANCIAL ANALYSIS (CONTINUED)

The remaining portion of the Fund's net position (a negative $44.9 million) represents resources that are unrestricted. The unrestricted portion of net position decreased $66.0 million from the prior year primarily due to the recording of the net pension liability as required by Governmental Accounting Standards Board Statement No. 68 for reporting pensions, which was adopted during the year (Note 9).

2014 Compared to 2013

Assets – Current assets increased $24.1 million (20.4%) over the prior year primarily due to increases totaling $27.2 million in operating cash and equity in pooled investments, unbilled revenues, due from other governments and materials and supplies inventory. These increases were offset by a decrease of $3.1 million in accounts receivable, net.

Other assets increased $52.2 million (46.9%) from 2013. This is mostly attributable to an increase in restricted cash and equity in pooled investments of $51.6 million resulting from new debt issued in 2014 and spending on construction projects. Regulatory assets and other charges also increased $1.9 million mainly due to capitalization of 2014 bond issue costs, Long Term Control Plan, and Rainwise program. The projects identified in the Long Term Control Plan will ultimately enhance the water quality of Ballard, North Union Bay, Interbay, Fremont/Wallingford, Duwamish, West Seattle, Montlake, Leschi, Union Bay, East Waterway, and Lake Union/Portage Bay. These increases were offset by a decrease of $1.3 million in environmental costs and recoveries and external infrastructure costs.

Liabilities – Current liabilities increased $4.2 million (6.6%) from 2013. This is mostly attributable to increases in due to other funds and revenue bonds due within one year, totaling $6.0 million, offset by a decrease of $1.8 million in accounts payable.

Other liabilities increased $3.0 million (3.2%). This is due to increases totaling $3.7 million in compensated absences payable, claims payable, environmental liabilities, vendor and other deposits payable, and unfunded other post employment benefits. These increases were offset by a decrease in loans of $0.7 million.

Net Position – The largest portion of the Fund's net position ($301.8 million or 87.7%) reflects the Fund's investment in capital assets such as land, buildings, and equipment, less any related outstanding debt used to acquire those assets. The Fund uses these assets to provide services to customers; consequently, these assets are not available for future spending. Although the Fund's investment in its capital assets is reported net of related debt, the resources needed to repay the debt are provided by fees paid by customers for services provided by these assets. In 2014, net investment in capital assets increased $30.0 million from 2013 due to an increase in capital assets placed in service, net of depreciation offset by the related debt.

FINANCIAL ANALYSIS (CONTINUED)

The Fund's restricted net position ($21.2 million or 6.2%) represent resources that are subject to restrictions on how they may be used. This portion of net position increased $0.7 million from 2013. This change was primarily due to the increase in other charges.

The remaining portion of the Fund's net position ($21.1 million or 6.1%) represent resources that are unrestricted and may be used to meet the Fund's obligations to creditors. Unrestricted net position increased $17.7 million from 2013 in part due to a lower percentage of capital projects funded with operating cash as compared to the prior year and increase in revenues.

The following summary statements of revenues, expenses, and changes in net position present the annual surplus of revenues over expenses (the change in net position):

SUMMARY STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

	2015	2014	2013
Operating revenues	$ 363,778,513	$ 341,999,940	$ 333,760,233
Operating expenses	(302,120,829)	(284,220,570)	(275,112,916)
Net operating income	61,657,684	57,779,370	58,647,317
Other income (expenses)	(14,938,228)	(15,118,084)	(16,401,438)
Fees, contributions, grants, special items and environmental remediation	5,370,884	5,802,828	(17,622,902)
Change in net position	$ 52,090,340	$ 48,464,114	$ 24,622,977

2015 Compared to 2014

Current year operating revenues increased approximately $21.8 million (6.4%) from 2014. This is due to a $12.9 million increase in wastewater revenues from an average rate increase of 5.2% and an increase in consumption of 3.7%. Drainage revenues increased $9.3 million due to an average rate increase of 10%. Other operating revenues decreased by $0.4 million.

Operating expenses increased $17.9 million (6.3%) from 2014. The largest operating expense increase was related to Wastewater treatment costs, which increased by $10.0 million due to a 5.6% increase in King County's treatment rate and a 3.7% increase in consumption. The overall branch operations experienced a net increase in costs of $3.8 million. The increases included $3.2 million in field operations, $2.1 million in customer service, and $1.7 million in project delivery. These increases were offset by decreases, which included, $3.0 in general and administrative and $0.2 million in utility systems management, and planning and development. City and state business occupation tax increased by $2.6 million as a result of the overall increase in taxable revenues. Depreciation and other amortization also increased $1.3 million as a result of an increase in depreciable assets.

FINANCIAL ANALYSIS (CONTINUED)

Nonoperating revenues (expenses) decreased by $0.2 million (1.2%) as compared to 2014. This is primarily due to increases in interest expense, operating grants, and insurance recoveries offset by decreases in gain on sale of assets and environmental recoveries.

Capital contributions and grants decreased $0.4 million (3.8%) mainly due to an $2.9 million increase in capital grant revenue, offset by decreases of $2.7 million in donated assets and $0.6 million in other contributions.

2014 Compared to 2013

Current year operating revenues increased approximately $8.2 million (2.5%) from 2013. This is primarily due to an $8.7 million increase in drainage revenues resulting from an average increase in rates of 10.3%. Wastewater revenues, however, remained steady as the increase in wastewater rates mostly offset a decrease in wastewater volume. Other operating revenues decreased by $0.5 million due to a decrease in engineering services.

Operating expenses increased $9.1 million (3.3%) from 2013. Notable factors affecting this change include a decrease of $2.2 million in allocated fringe and benefit costs offset by an increase of $4.2 million in allocated general and administrative overhead costs. In addition, the cost of living adjustment caused labor costs to increase by $2.5 million. City business and occupation taxes increased $1.4 million as a result of overall increase in revenues. Watewater treatment costs increased $0.9 million due to an increase in King Country's treatment rate by 5.6%. Depreciation and other amortization also increased $0.9 million as a result of increase in depreciable assets. Additional increases to expenses include $2.5 million in claims as actual payments incurred while risk financing liability remained steady, $1.2 million in other operational expenses mainly impacted by an increase in drainage and wastewater conveyance expense, $0.9 million in expensed projects primarily Thornton Confluence Improvement project, $0.7 million in bad debt expense, $0.4 million in compensated absences, and $0.4 million for Consent Decree penalty. These expenses were offset by decrease in services for others of $0.7 million.

Nonoperating revenues (expenses) decreased by $1.3 million (7.8%) as compared to 2013. This is primarily due to an increase in investment and interest income, which is mostly due to the increase in the fair market value adjustment as value of the bond investments increase and investment of bond proceeds.

Capital contributions and grants increased $4.2 million (64.2%) mainly due to increases of $2.7 million in donated assets, $1.1 million in capital grant revenue, and $0.4 million in other contributions. The Fund had a decrease in environmental remediation expenses of $19.2 million.

CAPITAL ASSETS

The following table summarizes capital assets, net of accumulated depreciation, by major asset category:

SUMMARY OF CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION

	2015	2014	2013
Land and land rights	$ 22,490,142	$ 19,766,808	$ 19,474,903
Buildings	11,500,696	6,979,156	7,181,503
Structures	179,016,967	122,355,093	117,454,430
Machinery and equipment	584,855,750	502,706,765	479,418,707
Computer systems	10,096,112	12,106,000	12,444,964
Construction in progress	138,237,726	178,365,927	128,551,817
Other property	1,712,713	1,558,246	969,893
Capital assets, net of accumulated depreciation	$ 947,910,106	$ 843,837,995	$ 765,496,217

Additional information about the Fund's capital assets can be found in Note 3 of this report.

2015 Compared to 2014

The Fund's investment in capital assets, net of accumulated depreciation, for the year ended December 31, 2015 was $947.9 million. This represented an increase of approximately $104.0 million (12.3%) compared to 2014. Highlights of the Fund's major capital assets placed in service during 2015 included the following:

- $59.4 million for construction of 2 million gallons of storage for the combined sewer system in the Windermere drainage basin.
- $45.2 million for construction of two combined sewer overflow ("CSO") facilities in the South Genesee area.
- $9.0 million to replace sewer pipelines throughout several locations within the City.
- $6.1 million to develop a natural drainage system at Venema Creek.
- $2.6 million to implement a permanent solution to storm water flooding and side sewer backups in the Madison Valley area.

CAPITAL ASSETS (CONTINUED)

Highlights of the Fund's major construction projects in progress at the end of 2015 include the following:

- $40.1 million for construction of combined sewer overflow storage facilities in Henderson North basins.
- $23.2 million for construction of a CSO storage facility for the Ballard, Fremont, and Wallingford CSO basins as part of the Ship Canal Water Quality Project.
- $11.2 million to construct new side sewers, collector sewers and connections as a result of the Seawall Replacement project.
- $8.8 million to replace the customer service billing system.
- $6.3 million to build a pump station and a water quality facility near 7th Street and Riverside in South Park.
- $4.2 million for the bored tunnel portion of the Alaskan Way Viaduct and Seawall Replacement projects.
- $3.2 million for implementation of the Ballard Natural Drainage System.
- $3.1 million for improvements to the Delridge combined sewer overflow facilities.
- $3.1 million to reduce combined sewer overflows in the Leschi basin.
- $3.1 million to construct a permanent drainage system in the area of Dallas Avenue South and 17th Avenue South.
- $2.8 million to upgrade the mains from Alder St. to Yesler then along 8th Avenue and connecting with the I-5 combined sewer crossing.
- $2.5 million to construct improvements to the sewer and storm water systems in the 12th Avenue NW and Broadview neighborhood.
- $2.5 million for 1% for art.
- $2.1 million for construction of South Park sewer improvements.
- $2.1 million to construct sewer and storm water system improvements in the Dayton Avenue area.

CAPITAL ASSETS (CONTINUED)

2014 Compared to 2013

The Fund's investment in capital assets, net of accumulated depreciation, for the year ended December 31, 2014 was $843.8 million. This represented an increase of approximately $78.3 million (10.2%) compared to 2013. Highlights of the Fund's major capital assets placed in service during 2014 included the following:

- $8.3 million to replace sewer pipelines throughout several locations within the city.
- $6.5 million to replace damaged culvert at 35th Avenue Northeast and restore floodplain area at the confluence of Thornton Creek.
- $3.6 million for construction of new pipeline in the 52nd Avenue South.
- $2.9 million to relocate several hundred feet of the Thornton Creek and create a 1.5 acre vegetated Knickerbocker floodplain to increase storage capacity.
- $2.7 million to divert a portion of the creek flow to create a natural creek mouth for Mapes Creek in Beer Sheva Park.
- $2.5 million of drainage improvement at Portland Avenue South constructed in coordination with Duwamish Bike Trail project.
- $2.2 million in emergency rehabilitation work on sewer mainlines.

Highlights of the Fund's major construction projects in progress at the end of 2014 include the following:

- $58.0 million for construction of 2 million gallons of storage for the combined sewer system in the Windermere drainage basin.
- $39.5 million for construction of two combined sewer overflow facilities in the South Genesee area.
- $20.4 million for construction of combined sewer overflow storage facilities in Henderson North basins.
- $5.7 million to construct new side sewers, collector sewers and connections as a result of Seawall Replacement project.
- $5.3 million to build a pump station and a water quality facility near 7th and Riverside in South Park.
- $4.6 million for improvements to the Delridge combined sewer overflow facilities.

CAPITAL ASSETS (CONTINUED)

- $4.1 million to develop natural drainage system at Venema Creek.
- $3.8 million to replace the customer service billing system.
- $3.4 million for the bored tunnel portion of the Alaskan Way Viaduct and Seawall Replacement projects.
- $2.7 million for construction of a CSO storage facility for the Ballard, Fremont, and Wallingford CSO Basins.
- $2.4 million for implementation of the Ballard Natural Drainage System.

DEBT ADMINISTRATION

The Fund's debt primarily consists of bonded debt and loans. Bonded debt is secured solely by drainage and wastewater system revenues and provides financing for capital improvements. Loans issued by various Washington State agencies for certain capital improvements are unsecured. The Fund's credit ratings on its bonds were AA+ by Standard and Poor's Rating Service and Aa1 by Moody's Investor Service.

2015 Compared to 2014

At the end of 2015, the Fund had $600.7 million in bonded debt, as compared to $618.9 million in 2014, all of which was secured solely by drainage and wastewater system revenues. This decrease of $18.2 million was the payment of debt principal.

At the end of 2015, the Fund had an outstanding loan balance of $16.6 million compared to $17.8 million in 2014. This decrease of $1.2 million was the payment of loan principal.

2014 Compared to 2013

At the end of 2014, the Fund had $618.9 million in bonded debt, as compared to $525.3 million in 2013, all of which was secured solely by drainage and wastewater system revenues. The key factor in this increase of $93.6 million was the issuance of $133.2 million new debt, offset by refunding $23.8 million of 2004 bonds, and partially refunding the 2006 bonds and payments of $15.8 million of debt principal.

At the end of 2014, the Fund had an outstanding loan balance of $17.8 million compared to $18.4 million in 2013. During 2014, the Fund borrowed an additional $0.5 million from the Washington State Department of Ecology for the Capitol Hill Water Quality project.

REQUESTS FOR INFORMATION

The Fund's financial statements are designed to provide a general overview of the Fund's finances, as well as to demonstrate the Fund's accountability to its customers, investors, creditors, and other interested parties. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Seattle Public Utilities, Finance and Administration Branch, Finance Division, PO Box 34018, Seattle, Washington 98124-4018, telephone: (206) 684-3000.

SEATTLE PUBLIC UTILITIES -
DRAINAGE AND WASTEWATER FUND
(An Enterprise Fund of the City of Seattle)
STATEMENTS OF NET POSITION

	December 31, 2015	December 31, 2014
ASSETS		
CURRENT ASSETS		
Operating cash and equity in pooled investments	$ 100,900,821	$ 101,300,976
Receivables		
Accounts, net of allowance	19,878,760	18,042,262
Interest and dividends	426,619	460,223
Unbilled revenues	18,712,213	18,272,010
Notes, and other contracts	579,287	76,378
Due from other funds	864,687	983,559
Due from other governments	6,430,582	2,373,576
Materials and supplies inventory	1,206,768	1,042,594
Prepayments and other current assets	34,515	34,515
Total current assets	149,034,252	142,586,093
NONCURRENT ASSETS		
Restricted cash and equity in pooled investments	27,579,338	99,431,825
Prepayments long-term	656,591	691,106
Notes and contracts receivable	1,105,262	1,159,089
Environmental costs and recoveries	4,115,437	3,969,706
External infrastructure costs	19,035,204	19,328,054
Regulatory assets - bond issue costs	4,048,259	4,236,099
Other charges	34,057,182	34,467,999
Capital assets		
Land and land rights	22,490,142	19,766,808
Plant in service, excluding land	1,102,623,792	941,062,422
Less accumulated depreciation	(317,154,267)	(296,915,408)
Construction in progress	138,237,726	178,365,927
Other property, net	1,712,713	1,558,246
Total noncurrent assets	1,038,507,379	1,007,121,873
Total assets	1,187,541,631	1,149,707,966
DEFERRED OUTFLOWS OF RESOURCES		
Unamortized loss on refunded debt	6,085,257	6,478,895
Pension contributions and changes in assumptions	9,183,943	-
Total deferred outflows of resources	15,269,200	6,478,895
Total assets and deferred outflow of resources	$ 1,202,810,831	$ 1,156,186,861

See accompanying notes.

	December 31, 2015	December 31, 2014
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	$ 10,696,478	$ 10,178,298
Salaries, benefits, and payroll taxes payable	5,009,848	2,417,105
Compensated absences payable	431,606	446,114
Due to other funds	8,249,919	9,220,920
Due to other governments	12,732,412	11,588,823
Interest payable	6,993,881	7,226,127
Taxes payable	309,586	298,726
Revenue bonds due within one year	19,080,000	18,215,000
Claims payable	2,811,856	1,928,051
Environmental liabilities	2,000,688	1,637,670
Loans payable, due within one year	1,212,401	1,201,646
Other	3,159,076	3,469,074
Total current liabilities	72,687,751	67,827,554
NONCURRENT LIABILITIES		
Compensated absences payable	4,566,723	4,625,243
Claims payable	3,908,906	6,752,164
Environmental liabilities	69,009,873	66,042,731
Loans	15,353,386	16,565,787
Vendor and other deposits payable	1,748,670	1,017,751
Unfunded other post employment benefits	2,580,253	2,505,202
Net pension liability	77,047,177	-
Other noncurrent liabilities	101,465	59,142
Revenue bonds	600,680,000	618,895,000
Less bonds due within one year	(19,080,000)	(18,215,000)
Bond discount and premium, net	44,304,638	46,013,450
Total noncurrent liabilities	800,221,091	744,261,470
Total liabilities	872,908,842	812,089,024
NET POSITION		
Net investment in capital assets	353,149,704	301,792,748
Restricted for		
External infrastructure costs	7,217,821	7,061,221
Other charges	14,448,926	14,139,974
Unrestricted	(44,914,462)	21,103,894
Total net position	329,901,989	344,097,837
Total liabilities and net position	$ 1,202,810,831	$ 1,156,186,861

SEATTLE PUBLIC UTILITIES - DRAINAGE AND WASTEWATER FUND
(An Enterprise Fund of the City of Seattle)
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	Years Ended December 31, 2015	2014
OPERATING REVENUES		
Charges for services and other revenues	$ 363,778,513	$ 341,999,940
OPERATING EXPENSES		
Planning and development	1,749,701	1,786,810
Utility systems management	11,249,162	11,373,723
Field operations	29,592,633	26,430,927
Project delivery	9,789,617	8,099,883
Customer services	6,472,109	4,402,663
Wastewater treatment	150,325,985	140,307,103
General and administrative	22,064,168	25,034,314
City business and occupation taxes	42,876,271	40,265,835
Other taxes	4,548,906	4,329,268
Depreciation and other amortization	23,452,277	22,190,044
Total operating expenses	302,120,829	284,220,570
OPERATING INCOME	61,657,684	57,779,370
NONOPERATING REVENUES (EXPENSES)		
Investment and interest income	3,646,385	4,008,812
Interest expense	(22,156,241)	(20,616,518)
Amortization of bonds premiums and discounts, net	1,708,812	1,542,213
Amortization of refunding loss	(393,638)	(383,813)
Loss on sale of capital assets	(228,647)	(817,345)
Contributions and grants	1,481,900	978,178
Other, net	1,003,201	170,389
Total nonoperating revenues (expenses)	(14,938,228)	(15,118,084)
INCOME BEFORE CAPITAL CONTRIBUTIONS AND GRANTS, AND SPECIAL ITEMS	46,719,456	42,661,286
CAPITAL CONTRIBUTIONS AND GRANTS	10,346,199	10,751,537
ENVIRONMENTAL REMEDIATION	(4,975,315)	(4,948,709)
CHANGE IN NET POSITION	52,090,340	48,464,114
NET POSITION		
Beginning of year	344,097,837	295,633,723
Cumulative effect of change in accounting principle	(66,286,188)	-
Net position	277,811,649	295,633,723
End of year	$ 329,901,989	$ 344,097,837

See accompanying notes.

SEATTLE PUBLIC UTILITIES -
DRAINAGE AND WASTEWATER FUND
(An Enterprise Fund of the City of Seattle)
STATEMENTS OF CASH FLOWS

	Years Ended December 31, 2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	$ 358,745,844	$ 346,022,044
Cash paid to suppliers	(169,893,579)	(155,800,652)
Cash paid to employees	(57,018,604)	(57,034,170)
Cash paid for taxes	(47,181,031)	(44,634,545)
Net cash provided by operating activities	84,652,630	88,552,677
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Noncapital grants received	799,214	1,028,715
Payments for environmental liabilities	(1,790,886)	(1,849,607)
Net cash used in noncapital financing activities	(991,672)	(820,892)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from sale of bonds and other long-term debt	-	144,425,158
Principal payments on long-term debt and refunding	(19,228,806)	(42,524,376)
Capital expenditures and other charges paid	(117,457,492)	(89,352,766)
Interest paid on long-term debt	(29,367,055)	(27,163,850)
Build America Bonds federal interest subsidy	1,752,707	1,734,794
Capital fees and grants received	5,772,780	1,887,187
Debt issuance costs	-	(865,214)
Proceeds from sale of capital assets	686,984	222,371
Net cash used in capital and related financing activities	(157,840,882)	(11,636,696)
CASH FLOWS FROM INVESTING ACTIVITIES		
Gain on investments	1,927,282	2,261,772
NET INCREASE (DECREASE) IN CASH AND EQUITY IN POOLED INVESTMENTS	(72,252,642)	78,356,861
CASH AND EQUITY IN POOLED INVESTMENTS		
Beginning of year	200,732,801	122,375,940
End of year	$ 128,480,159	$ 200,732,801
CASH AT THE END OF THE YEAR CONSISTS OF		
Operating cash and equity in pooled investments	$ 100,900,821	$ 101,300,976
Noncurrent restricted cash and equity in pooled investments	27,579,338	99,431,825
Total cash at the end of the year	$ 128,480,159	$ 200,732,801

See accompanying notes.

SEATTLE PUBLIC UTILITIES - DRAINAGE AND WASTEWATER FUND
(An Enterprise Fund of the City of Seattle)
STATEMENTS OF CASH FLOWS (CONTINUED)

	Years Ended December 31,	
	2015	2014
RECONCILIATION OF NET OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES		
Operating income	$ 61,657,684	$ 57,779,370
Adjustments to reconcile net operating income to net cash from operating activities		
Amortization of pension assumptions	1,577,046	-
Depreciation and amortization	23,452,277	22,190,044
Other receipts and payments	2,285,554	1,384,355
Changes in operating assets and liabilities		
Accounts receivable	(1,836,498)	3,129,017
Unbilled revenues	(440,203)	(228,531)
Due from other funds	118,872	31,763
Due from other governments	(3,855,793)	268,250
Materials and supplies inventory	(164,174)	(104,040)
Other assets	(414,567)	24,042
Accounts payable	518,180	(1,766,511)
Salaries, benefits, and payroll taxes payable	2,592,743	229,139
Compensated absences payable	(73,028)	547,791
Due to other funds	(971,001)	3,684,481
Due to other governments	1,143,590	(35,523)
Claims payable	(1,959,453)	255,510
Taxes payable	10,860	(35,312)
Other liabilities	1,010,541	1,198,832
Total adjustments	22,994,946	30,773,307
Net cash from operating activities	$ 84,652,630	$ 88,552,677
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES		
Contributed infrastructure	$ 4,582,644	$ 7,262,611

See accompanying notes.

Note 1 – Operations and Summary of Significant Accounting Policies

Operations – The City of Seattle, Seattle Public Utilities – Drainage and Wastewater Fund (the "Fund") is a public utility enterprise fund of the City of Seattle (the "City"). The Fund was established to account for the drainage and wastewater activities of Seattle Public Utilities ("SPU"). Drainage activities include regulating storm water runoff, alleviating flooding, mitigating water pollution caused by runoff, and responding to federal storm water regulations, in addition to managing drainage utility assets. Wastewater activities consist of managing the City's sewer system, including the operation of sewer utility facilities and pumping stations necessary to collect the sewage of the City and discharge it into the King County Department of Natural Resources Wastewater Treatment System for treatment and disposal.

On January 1, 1997, the City created SPU, which brought together under one administrative umbrella the water, solid waste, and drainage and wastewater functions of the City. The Fund (as well as SPU's other funds) remains separate for accounting purposes.

SPU receives certain services from other departments and agencies of the City, including some that are normally considered to be general and administrative. The Fund is charged a share of these costs and additionally pays a business and occupation tax to the City's General Fund. During 2015 and 2014, the Fund paid $11,890,086 and $10,428,019, respectively, to the City for its share of general and administrative services. Additionally, the Fund paid $42,876,271 and $40,265,835 to the City for business and occupation utility taxes in 2015 and 2014, respectively.

Wastewater disposal and drainage services provided to other City departments and agencies are billed at rates prescribed by City ordinances. The Fund collected $3,158,159 in 2015 and $3,153,242 in 2014 from the City for wastewater services provided. The Fund also collected $6,359,998 in 2015 and $5,662,105 in 2014 from the City for drainage services.

The utility billing function is co-managed by both SPU and Seattle City Light ("SCL"). SPU provides customer service through the call center and walk-in center. SCL operates and manages the billing system, Combined Customer Services System ("CCSS"). SPU and SCL bills and reimburses each other for these services. Within SPU, the costs and reimbursements were shared among its three utility funds (Water, Drainage and Wastewater, and Solid Waste). The Fund received reimbursements related to the call center and walk-in center of $1,950,713 and $1,742,130 in 2015 and 2014, respectively. The Fund paid $151,918 and $158,550 for CCSS services in 2015 and 2014, respectively, which does not include reimbursements to SCL for the Fund's share of capital costs to upgrade the CCSS system.

The Fund is subject to regulation by the City and the State of Washington. Service rates are authorized by ordinances passed by the City Council. Financial reporting is reviewed by the Washington State Auditor's Office and conforms to accounting principles generally accepted in the United States of America as applied to governmental units. The Governmental Accounting Standards Board ("GASB") is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Note 1 – Operations and Summary of Significant Accounting Policies (Continued)

Basis of Accounting – The Fund is accounted for on a flow of economic resources measurement focus. Its financial statements are prepared in accordance with accounting principles generally accepted in the United States of America as applied to governmental units using the accrual basis of accounting. With the flow of economic resources measurement focus, all assets, deferred outflows of resources, and liabilities associated with the Fund's operations are included on the Statements of Net Position. The operating statements present increases (revenues) and decreases (expenses) in total net position.

Cash and Equity in Pooled Investments – Cash resources of the Fund are combined with cash resources of the City to form a pool of cash that is managed by the City's Finance and Administration Services Department. Under the City's investment policy, the Finance and Administration Services Department invests all temporary cash surpluses either directly or through a "sweep account." Interest earned on the pooled investments is prorated to individual funds at the end of each month on the basis of their average daily cash balances during the month when interest was earned. The Fund's share of the pool is included in the accompanying Statements of Net Position under the caption "cash and equity in pooled investments." The pool operates like a demand deposit account in that all City departments may deposit cash at any time and can also withdraw cash out of the pool without prior notice or penalty. Accordingly, the Statements of Cash Flows reconcile to cash and equity in pooled investments. Cash and equity in pooled investments are reported at fair value. The restricted cash and equity in pooled investments are comprised of unexpended bond proceeds, the balance of which is scheduled to be spent in 2015, bond reserve funds and vendor's escrow deposits.

Receivables and Unbilled Revenues – Customer accounts receivable consist of amounts owed by private individuals and organizations for goods delivered or services rendered in the regular course of business operations. Receivables are shown net of allowances for doubtful accounts. The Fund also accrues an estimated amount for services that have been provided but not billed.

Due From/To Other Funds and Governments – Activity between other funds and governments that is outstanding at the end of the year, not related to the provision of utility services, is reported as due from or due to other funds and governments.

Allowance for Doubtful Accounts – A reserve has been established for uncollectible accounts receivable based on actual historical write-off trends and knowledge of specific circumstances that indicate collection of an account may be unlikely. As of December 31, 2015 and 2014, the Fund's allowance for doubtful accounts was $472,402 and $393,166, respectively.

Materials and Supplies Inventory – The Fund values its inventory based on a moving average method. The most recent total cost of an inventory item is divided by the total units of the item that remain in inventory to determine the moving average cost of the item. The moving average cost is then applied to all the units of the inventory item.

Note 1 – Operations and Summary of Significant Accounting Policies (Continued)

Environmental Costs and Recoveries – The Fund is involved in several remediation efforts around the City (Note 10). When estimated remediation costs are approved to be recovered through rates, the costs, net of recoveries, associated with these efforts are deferred when accrued as a regulatory asset and are amortized over the rate recovery period. Certain environmental remediation costs that are infrequent in occurrence are treated as a special item in the Statements of Revenues, Expenses, and Changes in Net Position.

External Infrastructure Costs – The Fund has contributed $21,963,686 to a joint project with King County to expand one of their transmission lines to help alleviate sewer overflows in the area. These costs represent the portion of the project that did not result in a capital asset for the Fund. The project was completed in 2005. The Fund has deferred these costs and began amortizing them in 2006 over a 75 year period.

Regulatory Assets – Bond Issue Costs – GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, allows for certain costs to be capitalized as a regulatory asset instead of charged to expense. A regulatory asset is recorded when it is probable that future revenue in an amount at least equal to the capitalized costs will be recovered through customer rates over some future period. The Fund uses regulatory accounting for debt issuance costs because these costs are included in the rate structure and, as such, will continue to be amortized over the life of the associated bond issues. GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, would have required these costs to be expensed in the period incurred if the Fund had not utilized regulatory accounting for these costs.

Other Charges – Other charges primarily include costs related to leasehold improvements and plans, such as the Combined Sewer Overflow Update plan and the Comprehensive Ditch and Culvert plan. The Fund amortizes these charges over a 5 to 30 year period.

Capital Assets – Capital assets are stated at cost or, if contributed, at fair value at the date of contribution. Costs include direct material, labor, and indirect costs such as engineering, supervision, payroll taxes, pension benefits, and interest relating to the financing of projects under construction. The cost of current repairs and maintenance is charged to expense, while the cost of additions and improvements is capitalized. SPU's policy is to generally capitalize assets with a cost of $5,000 or more. The Fund received donated assets, such as sewer and drainage pipes, from developers and other government agencies. These donated assets are treated as a special item under Capital Contributions and Grants in the Statements of Revenues, Expenses, and Changes in Net Position.

Construction in Progress – Capitalizable costs incurred on projects which are not in use or ready for use are held in construction in progress. When the asset is ready for use, related costs are transferred to capital assets. Upon determining that a project will be abandoned, the related costs are charged to expense.

Note 1 – Operations and Summary of Significant Accounting Policies (Continued)

Other Property – Other property is stated at cost, or if contributed, the fair value at the date of contribution. Other property includes artwork and property held for future use. The artwork is acquired through the City's "One Percent for Art" program, which supports the City ordinance established to direct the inclusion of works of art in public spaces within the City.

Depreciation – Capital assets in service are depreciated on the straight-line method over estimated useful lives as follows:

Buildings and fixtures	10 – 50 years
Laterals, mains, and outfalls	75 years
Detention structures	75 years
Pumping stations, equipment, and overflow structures	10 to 50 years
Machinery and equipment	3 to 20 years
Computer systems	3 to 11 years

Composite rates based on year of addition are used for depreciating the laterals, mains, and outfalls asset group. For most assets, it is SPU's policy to begin depreciation in the year following acquisition and to record a full year's depreciation in the year of disposition. This does not apply to heavy equipment, for which depreciation begins in the month following the equipment's in-service date to more accurately allocate equipment costs to various activities.

Deferred Outflows/Inflows of Resources – In addition to assets, the Statement of Net Position, when applicable, will report a separate section for deferred outflows of resources. It represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The Fund has deferred loss on refunding debt which qualifies for reporting in this category. A deferred loss on refunding bonds results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. As a result of implementing GASB Statement No. 68 and No. 71, the Fund has also recorded deferred outflows of resources for pension contributions made subsequent to the measurement date and for the difference between projected and actual earnings on investments (Note 9).

In addition to liabilities, the Statement of Net Position, when applicable, will report a separate section for deferred inflows of resources. It represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until then. The Fund does not have any deferred inflows of resources as of December 31, 2015 and 2014.

Note 1 – Operations and Summary of Significant Accounting Policies (Continued)

Environmental Liabilities – The Fund has accrued a liability for pollution remediation activities in accordance with GASB Statement No. 49 ("GASB 49"), *Accounting and Financial Reporting for Pollution Remediation Obligations*. GASB 49 outlines five specific obligating events that give rise to estimating expected pollution remediation outlays. These outlays may be accrued as a liability and expensed, or if appropriate, capitalized.

The Fund will accrue a liability if any of the following obligating events occurs:

- The Fund is compelled to take pollution remediation action because of an imminent endangerment.
- The Fund violates a pollution prevention-related permit or license.
- The Fund is named, or evidence indicates it will be named, by a regulator as a potentially responsible party ("PRP") for remediation.
- The Fund is named, or evidence indicates that it will be named, in a lawsuit to compel participation in pollution remediation.
- The Fund commences or legally obligates itself to commence pollution remediation.

Most pollution remediation outlays do not qualify for capitalization and the Fund does not anticipate significant capitalized costs in the future. See Note 10 for site descriptions.

Pensions – For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Seattle City Employees' Retirement System ("SCERS") are reported on the same basis as reported by SCERS. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Compensated Absences – Employees earn vacation based upon their date of hire and years of service, and may accumulate earned vacation up to a maximum of 480 hours. Unused vacation at retirement or normal termination is considered vested and payable to the employee. Earned but unused vacation is accrued as a liability of the Fund. Employees also earn up to 12 days of sick leave per year and may accumulate sick leave balances without limit.

Employees who submit the required documentation to be represented by the Coalition of City Unions are paid 35% of the value of unused sick leave upon retirement as part of the Health Reimbursement Arrangement – Voluntary Employees' Beneficiary Association ("HRA-VEBA") program. If the employee fails to submit the required documentation by their last working day of employment, their sick leave balance is forfeited.

Note 1 – Operations and Summary of Significant Accounting Policies (Continued)

Retiring employees who are not eligible to participate in the HRA-VEBA program may elect to receive 25% of the value of unused sick leave upon retirement or defer receipt of 35% of the value of their sick leave balance to the City's 457 Plan and Trust, subject to the year-to-date or life-to-date limitations on deferrals and contributions. If the 35% value of the sick leave balance exceeds the maximum amount deferred to the City's 457 Plan and Trust, the employee shall receive a taxable cash payment equal to the amount by which the 25% value of the sick leave balance exceeds the 35% that was allowed to be deferred. The Fund records a liability for estimated sick leave payments.

Operating Revenues – Wastewater service revenues are recorded through cycle billings rendered to customers monthly or bimonthly. The Fund accrues and records unbilled wastewater service revenues in the financial statements for services provided from the date of the last billing to year end.

Drainage service charges are billed to the City's drainage residential and nonresidential customers twice a year through the service of King County's property tax billing system. These charges fund operations and maintenance of, and improvements to, the City's system of storm and drainage facilities.

Other operating revenues include revenues generated from wastewater and sewer permits, and engineering services provided to other City funds.

Operating Expenses – Certain expenses of the Fund are reported on the Statement of Revenue, Expenses and Change in Net Position by functional category. The types of work performed within each category are as follows:

- **Planning and development** – Provides planning services and other related costs prior to the start of capital projects.
- **Utility systems management** – Accounts for the overall management of the Fund's infrastructure assets, assuring they are properly designed, constructed, operated, and protected.
- **Field operations** – Operates and maintains the Fund's drainage and wastewater systems.
- **Project delivery** – Provides project management and engineering services to the Fund and executes the Fund's capital projects from start to completion.
- **Customer services** – Invoices the Fund's customers for services provided and is the primary point of contact for customers.

Note 1 – Operations and Summary of Significant Accounting Policies (Continued)

Taxes – The Fund is charged a public utility tax by the City at a rate of 12.0% for Wastewater revenues and 11.5% for Drainage revenues, net of certain credits. In addition, the Fund paid a 3.85% public utility tax to the State on a certain portion of revenues identified as sewer collection revenues. The Fund also paid business and occupation tax to the State on certain drainage and other non-utility revenues at the rate of 1.5%.

Nonoperating Revenues and Expenses – This includes the non-operating revenues and expenses that arise from transactions not related directly to the major income-earning operations of the Fund and are of a recurring nature. Major items are investment and interest income, interest expense, amortization of debt expenses, and sale of capital assets.

Net Position – The Statement of Net Position reports all financial and capital resources. Assets and deferred outflows of resources minus liabilities and deferred inflows of resources is net position. There are three components of net position: net investment in capital assets, restricted, and unrestricted.

Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Net position is restricted when constraints placed on net position use are either: (1) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or (2) imposed by law through constitutional provisions or enabling legislation. The Fund's restricted net position as of December 31, 2015 and 2014 are related to external infrastructure costs and certain other charges.

Unrestricted net position is the portion that is not "net investment in capital assets" or "restricted."

Arbitrage Rebate Requirement – The Fund is subject to the Internal Revenue Code ("IRC"), Section 148(f), related to its tax-exempt revenue bonds. The IRC requires that earnings on gross proceeds of any revenue bonds that are in excess of the amount prescribed be surrendered to the Internal Revenue Service. As such, the Fund would record such a rebate as a liability. The Fund had no liability for arbitrage as of December 31, 2015 and 2014.

Accounting Standard Changes – GASB has issued Statement No. 68, *Accounting and Financial Reporting for Pensions*. This Statement was required to be adopted for reported periods beginning after June 15, 2014. For employers such as SPU and the Fund who provide certain employees pension benefits under a group pension plan such as SCERS, this Statement requires the individual employers contributing to such group plans to report a pro-rata share of the net plan liability. The Fund has adopted and recorded these changes in its financial statements for the year ended December 31, 2015. The cumulative effect of prior year amounts has been reflected as a cumulative adjustment to net position in the Statement of Revenues, Expenses and Changes in Net Position in 2015.

Note 1 – Operations and Summary of Significant Accounting Policies (Continued)

GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. The effective date for this Statement was simultaneous with the required adoption of Statement No. 68. This Statement specifically addressed the recording and reporting of pension plan contributions made subsequent to the measurement date of plan liabilities and changed thereto in any given fiscal year. The fund adopted the provision of this Statement, as it did for Statement No. 68, in the year ended December 31, 2015.

GASB has issued Statement No. 72, *Fair Value Measurement and Application*, to provide guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The Statement is effective for periods beginning after June 15, 2015. The Fund will evaluate the impact of this standard and will include required disclosures beginning in its fiscal year ending December 31, 2016.

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. Estimates and assumptions are used to record unbilled revenues, allowance for doubtful accounts, accrued sick leave, capitalized interest, depreciation, environmental liabilities, risk liabilities, pension liability, and other contingencies. Changes in these estimates and assumptions may have a material impact on the financial statements.

Significant Risks and Uncertainties – The Fund is subject to certain business risks that could have a material impact on future operations and financial performance. These risks include, but are not limited to, weather and natural disaster-related disruptions, collective bargaining labor disputes, Environmental Protection Agency regulations, and federal government regulations or orders concerning the operation, maintenance, and licensing of facilities.

Note 2 – Cash and Investments

Custodial Credit Risk – Deposits – As of December 31, 2015 and 2014, the City's pool contained cash on deposit with the City's custodial banks in the amounts of $20,023,332 and $18,026,085, respectively. The deposits in excess of $250,000 in 2015 and 2014 were uninsured and uncollateralized. As such, these deposits were exposed to custodial credit risk, which is the risk that the deposits may not be returned to the City in the event of a bank failure. The City attempts to minimize exposure to custodial credit risk for deposits by requiring the depository bank to have sufficient capital to support the activity of the City. In addition, banks having a deposit relationship with the City are required to provide financial statements for the City's use in reviewing the bank's financial condition.

Note 2 – Cash and Investments (Continued)

All deposits not covered by FDIC insurance are under the regulation of the Washington State Public Deposit Protection Commission (the "Commission") established in RCW 39.58 for public depository financial institutions. The Commission requires a pledge agreement and a trustee for each public depository financial institution. The trustee ensures eligible collateral defined as securities and designated for the benefit of public depositors, as described in RCW 39.58.050 (5) and (6), are segregated from all other assets. Eligible collateral is utilized by the trustee when the Commission has determined a loss, net of deposit insurance, has been incurred by a public depository financial institution.

Investments – As of December 31, the City's pooled investments were as follows:

	2015		2014	
	City Pool	Weighted Average Maturity (Days)	City Pool	Weighted Average Maturity (Days)
U.S. Government Agencies	$ 702,525,759	1427	$ 721,680,286	1408
U.S. Government Obligations	455,757,612	487	252,188,265	800
State and Local Governments	277,612,818	1084	227,247,608	976
Commercial Paper	219,945,269	25	349,418,008	43
Repurchase Agreements	55,062,648	4	73,811,651	2
Bank Note	49,379,096	879	-	
Total	$ 1,760,283,202		$ 1,624,345,818	
Portfolio Weighted Average Maturity		895		896

As of December 31, the Fund's share of the City pool was as follows:

	2015	2014
Operating cash and equity in pooled investments	$ 100,900,821	$ 101,300,976
Restricted cash and equity in pooled investments	27,579,338	99,431,825
Total	$ 128,480,159	$ 200,732,801
Balance as a percentage of City pool cash and investments	7.3%	12.4%

Interest Rate Risk – Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. In general, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The City manages this risk by limiting the average maturity of investments to five years. However, the Fund's investments are selected for greater liquidity in order to support the Fund's cash flow needs and therefore typically have much shorter average maturities.

Note 2 – Cash and Investments (Continued)

Credit Risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. In accordance with the City's investment policy, investments in commercial paper purchased on the secondary market are limited to those with maturities not longer than 180 days from purchase and with the highest rating by at least two nationally recognized statistical rating organizations ("NRSROs"). As of December 31, 2015 and 2014, the City's investments in commercial paper were rated P-1 or Aaa by Moody's Investors Service and AA+, A-1 or A-1+ by Standard & Poor's Rating Service.

The City also purchases obligations of government-sponsored enterprises which are eligible as collateral for advances to member banks as determined by the Board of Governors of the Federal Reserve System. These include, but are not limited to, debt securities of Federal Home Loan Bank, Federal National Mortgage Association, Wells Fargo, and Federal Home Loan Mortgage Corporation. As of December 31, 2015, these investments were rated Aaa by Moody's Investors Service and AA+ by Standard & Poor's Rating Service. As of December 31, 2014, these investments were rated Aaa by Moody's Investors Service and AAA or AA+ by Standard & Poor's Rating Service.

Concentration of Credit Risk – The City's investment policy limits concentration of credit risk for the City's investments as a whole, inclusive of the Fund's investments. These policy limits vary for each investment category.

The City's investments in which five percent or more is invested in any single issuer, as of December 31, are as follows:

	2015		2014	
Issuer	Fair Value	Percent of Total Investments	Fair Value	Percent of Total Investments
United States Government	$ 455,757,612	26%	$ 252,188,265	16%
Federal National Mortgage Association	243,748,956	14%	249,771,922	15%
Federal Home Loan Bank	133,886,466	8%	81,656,795	5%
Freddie Mac Multifamily Securities	126,196,052	7%	108,129,281	7%
Federal Farm Credit Bank	104,276,118	6%	121,677,087	7%
Federal Home Loan Mortgage Corp	94,418,168	5%	160,445,200	10%
Wells Fargo	**	**	73,811,651	5%

** Investment did not represent 5% or more of total investments at December 31, 2015

Note 3 – Capital Assets

Capital asset activity consisted of the following for the year ended December 31, 2015:

	Beginning Balance	Additions and Transfers In	Retirements and Transfers Out	Ending Balance
Buildings	$ 14,242,650	$ 4,827,714	$ -	$ 19,070,364
Structures	170,434,617	61,586,536	-	232,021,153
Machinery and equipment	702,595,763	95,868,692	(2,334,160)	796,130,295
Computer systems	53,789,392	2,002,235	(389,647)	55,401,980
Total capital assets, excluding land	941,062,422	164,285,177	(2,723,807)	1,102,623,792
Less accumulated depreciation	(296,915,408)	(22,512,687)	2,273,828	(317,154,267)
	644,147,014	141,772,490	(449,979)	785,469,525
Construction in progress	178,365,927	119,092,417	(159,220,618)	138,237,726
Land and land rights	19,766,808	3,191,421	(468,087)	22,490,142
Other property	1,558,246	154,467	-	1,712,713
Capital assets, net	$ 843,837,995	$ 264,210,795	$ (160,138,684)	$ 947,910,106

Capital asset activity consisted of the following for the year ended December 31, 2014:

	Beginning Balance	Additions and Transfers In	Retirements and Transfers Out	Ending Balance
Buildings	$ 14,139,381	$ 103,269	$ -	$ 14,242,650
Structures	161,246,619	9,310,558	(122,560)	170,434,617
Machinery and equipment	671,159,243	37,149,911	(5,713,391)	702,595,763
Computer systems	56,125,960	3,336,000	(5,672,568)	53,789,392
Total capital assets, excluding land	902,671,203	49,899,738	(11,508,519)	941,062,422
Less accumulated depreciation	(286,171,599)	(21,193,248)	10,449,439	(296,915,408)
	616,499,604	28,706,490	(1,059,080)	644,147,014
Construction in progress	128,551,817	95,329,506	(45,515,396)	178,365,927
Land and land rights	19,474,903	291,905	-	19,766,808
Other property	969,893	588,353	-	1,558,246
Capital assets, net	$ 765,496,217	$ 124,916,254	$ (46,574,476)	$ 843,837,995

During 2015 and 2014, the Fund capitalized interest costs relating to construction of $6,978,568 and $6,842,037, respectively.

Note 4 – Revenue Bonds

The Fund issues bonds to provide financing for capital improvements. Payment of debt service on the bonds is derived solely from the revenues generated by the Fund. The Fund has $18,637,643 in a debt service reserve fund and has obtained reserve insurance policies to meet the remainder of its reserve requirements. The total bonds outstanding as of December 31, 2015 and 2014 were $600,680,000 and $618,895,000, respectively. Revenue bonds outstanding as of December 31, 2015 and 2014 consisted of the following Municipal Drainage and Wastewater bonds:

Name of Issue	Issuance Date	Maturity Years	Interest Rates	Original Issue Amount	Bonds Outstanding 2015	Bonds Outstanding 2014
2006 parity refunding bonds	11/1/06	2007-2037	4.0-5.0%	$ 121,765,000	$ 74,965,000	$ 79,485,000
2008 parity bonds	4/16/08	2009-2038	4.0-5.0%	84,645,000	74,015,000	75,720,000
2009A parity bonds	12/17/09	2017-2039	4.2-5.5%	102,535,000	102,535,000	102,535,000
2009B parity refunding bonds	12/17/09	2010-2027	2.0-4.0%	36,680,000	16,145,000	19,745,000
2012 parity refunding bonds	6/27/12	2012-2042	2.0-5.0%	222,090,000	201,640,000	208,230,000
2014 parity refunding bonds	7/10/14	2015-2044	3.0-5.0%	133,180,000	131,380,000	133,180,000
				$ 700,895,000	$ 600,680,000	$ 618,895,000

Minimum debt service requirements to maturity on revenue bonds are as follows:

Years Ending December 31,	Principal	Interest	Total
2016	$ 19,080,000	$ 28,370,953	$ 47,450,953
2017	20,000,000	27,529,553	47,529,553
2018	20,910,000	26,578,765	47,488,765
2019	21,905,000	25,550,146	47,455,146
2020	22,825,000	24,479,528	47,304,528
2021 - 2025	118,680,000	105,652,860	224,332,860
2026 - 2030	132,790,000	74,595,709	207,385,709
2031 - 2035	119,310,000	42,654,335	161,964,335
2036 - 2040	91,475,000	16,821,630	108,296,630
2041 - 2044	33,705,000	2,549,200	36,254,200
	$ 600,680,000	$ 374,782,679	$ 975,462,679

Note 4 – Revenue Bonds (Continued)

The following table shows the revenue bond activity during the year ended December 31, 2015:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable					
Revenue bonds	$ 618,895,000	$ -	$ (18,215,000)	$ 600,680,000	$ 19,080,000
Add (deduct) deferred amounts:					
Issuance premiums	46,583,701	-	(1,732,572)	44,851,129	-
Issuance discounts	(570,251)	-	23,760	(546,491)	-
Total bonds payable	$ 664,908,450	$ -	$ (19,923,812)	$ 644,984,638	$ 19,080,000

The following table shows the revenue bond activity during the year ended December 31, 2014:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable					
Revenue bonds	$ 525,280,000	$ 133,180,000	$ (39,565,000)	$ 618,895,000	$ 18,215,000
Add (deduct) deferred amounts:					
Issuance premiums	38,460,159	10,702,403	(2,578,861)	46,583,701	-
Issuance discounts	(594,011)	-	23,760	(570,251)	-
Total bonds payable	$ 563,146,148	$ 143,882,403	$ (42,120,101)	$ 664,908,450	$ 18,215,000

Defeasance of Debt – The Fund defeases certain obligations by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. As a result, the old bonds are considered defeased, and the corresponding liabilities and trust account assets are not included in the Statement of Net Position. In 2015, no bonds were defeased and none were redeemed as shown below:

Name of Issue	Amount Outstanding at December 31, 2014	Additions	Redemptions	Amount Outstanding at December 31, 2015
2006 Parity	$ 16,330,000	$ -	$ -	$ 16,330,000

Note 4 – Revenue Bonds (Continued)

In 2014, $23,740,000 bonds were defeased and $49,950,000 were redeemed as shown below:

Name of Issue	Amount Outstanding at December 31, 2013	Additions	Redemptions	Amount Outstanding at December 31, 2014
2004 Parity	$ 42,540,000	$ 7,410,000	$ (49,950,000)	$ -
2006 Parity	-	16,330,000	-	16,330,000
	$ 42,540,000	$ 23,740,000	$ (49,950,000)	$ 16,330,000

In July 2014, the Fund issued $133,180,000 of Drainage and Wastewater Improvement and Refunding Revenue Bonds with varying annual principal payments due beginning 2015 and ending in 2044, at interest rates ranging from 3.0 percent and 5.0 percent. A portion of the proceeds were used to fully refund 2004 bond and partially refund 2006 bonds. As a result of the refunding, the Fund reduced total debt service requirements by $2.7 million resulting in an economic gain (difference between the present value of the debt service payments on the old and new debts) of $2.2 million.

Financial Covenants – The revenue bonds contain certain financial covenants, the most significant of which requires the Fund to maintain net revenue available for debt service of at least equal to 125% of annual debt service. For 2015, net revenue available for debt service, as defined by the bond covenants, 283% of annual debt service. Management believes the Fund was in compliance with all debt covenants as of December 31, 2015. For more information see Other Information (page 47).

Note 5 – Leases

The Fund has non-cancelable operating lease commitments for real and personal property, with payments of $106,557 and $100,237 in 2015 and 2014, respectively. Rents are paid as they become due and payable. Minimum lease payments under the leases for the years ending December 31, are as follows:

2016	$ 96,491
2017	44,335
2018	44,735
2019	45,147
2020	13,564
	$ 244,272

Note 6 – Postemployment Benefit Plans

Deferred Compensation – The City offers all of its employees a deferred compensation plan (the "Plan") created in accordance with Internal Revenue Code ("IRC") Section 457. The Plan permits employees to defer a portion of their salaries until future years. The deferred compensation is paid to employees upon termination, retirement, death, or unforeseen emergency.

The Plan is an eligible deferred compensation plan under Section 457 of the IRC of 1986, as amended, and a trust exempt from tax under IRC Sections 457(g) and 501(a). The Plan is operated for the exclusive benefit of participants and their beneficiaries. No part of the corpus or income of the Plan shall revert to the City or be used for, or diverted to, purposes other than the exclusive benefit of participants and their beneficiaries. The Plan is not reported in the financial statements of the City or the Fund.

It is the opinion of the City's legal counsel that the City has no liability for investment losses under the Plan. Under the Plan, participants select investments from alternatives offered by the Plan Administrator, who is under contract with the City to manage the Plan. Investment selection by a participant may be changed from time to time. The City does not manage any of the investment selections. By making the selection, participants accept and assume all risks inherent in the Plan and its administration.

Other Postemployment Benefits – Health care plans for active and retired employees are administered by the City as single-employer defined benefit public employee health care plans.

Eligible retirees (younger than age 65) may contribute to the medical plan and any additional health care programs contemplated or amended by ordinance of the Seattle City Council and as provided in Seattle Municipal Code 4.50.020.

The Seattle City Council authorizes the obligations of the plan members and the City as employer by passing ordinances and amendments regarding contributions to the plans. Eligible retirees self-pay 100% of the premiums based on blended rates which were established by including the experience of retirees with the experience of active employees for underwriting purposes. The plan is financed on a pay-as-you-go basis, and the City was required to contribute $1.1 million in 2015 and $1.0 million in 2014.

The table below summarizes the City's annual cost, expected contributions to the plan, and changes in the net other post employment benefit obligation ("OPEB") for fiscal years ended December 31, 2015 and 2014. These calculations are based on the most recent actuarial valuation data available, dated January 1, 2015.

Note 6 – Postemployment Benefit Plans (Continued)

	2015	2014
Annual required contribution	$ 4,605,000	$ 4,392,000
Interest on net OPEB obligation	1,630,000	1,542,000
Adjustment to annual required contribution	(2,540,000)	(2,403,000)
Annual OPEB cost (expense)	3,695,000	3,531,000
Contribution (employer-paid benefits)	(1,141,000)	(1,006,000)
Increase in net OPEB obligation	2,554,000	2,525,000
Net OPEB obligation, beginning of year	46,828,000	44,303,000
Net OPEB obligation, end of year	$ 49,382,000	$ 46,828,000
Fund's allocated share of city liability	$ 2,580,253	$ 2,505,202

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. Actuarial calculations are based on the types of benefits provided under the terms of the plan and on the pattern of shared costs between the employer and plan members, at the time of each valuation. 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.

Note 6 – Postemployment Benefit Plans (Continued)

Significant methods and assumptions are as follows:

Actuarial data and assumptions

Valuation date	January 1, 2014
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	30 years, open
Discount rate	3.48%
Health care cost trend rates – medical	Traditional and Preventive Plans: 8%, decreasing by 0.5% for each year for two years; 16% in year 2017 and decreasing to 7.2% in 2018 Group Health Standard and Deductible Plans: 7.5%, decreasing by 0.5% for the next three years
Participation	40% of Active Employees who retire participate.
Mortality	General Service Actives based on the RP-2000 Employees Tables for Males and Females, with ages set back six years and General Service Retirees based on the RP-2000 Combined Healthy Males with ages set back two years and Females, with ages set back one year.
Marital status	45% of members electing coverage are assumed to be married or to have a registered domestic partner. Male spouses are assumed to be two years older than their female spouses.
Other considerations	Active employees with current spousal and/or dependent coverage and are under Group Health Standard or Group Health Deductible are assumed to elect same plan and coverage after retirement. Of those under City of Seattle Traditional or City of Seattle Preventative, 50% are assumed to switch to the Group Health Standard Plan, while the other 50% will continue coverage under the same plan.

Note 6 – Postemployment Benefit Plans (Continued)

Schedules of funding progress are as follows (dollars in millions):

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liabilities (AAL) Entry Age[1] (b)	Unfunded AAL (UAAL)[2] (b-a)	Funded Ratio (a/b)	Covered Payroll[3] (c)	UAAL as a % of Covered Payroll ((b-a)/c)
January 1, 2013	$ -	$ 78.9	$ 78.9	0.0%	$ 942.0	8.4%
January 1, 2014	$ -	$ 41.8	$ 41.8	0.0%	$ 1,003.5	4.2%
January 1, 2015	$ -	$ 44.4	$ 44.4	0.0%	$ 1,037.9	4.3%

The Health Care Subfund of the General Fund is reported in the City's Comprehensive Annual Financial Report which can be obtained by writing the Department of Finance, City of Seattle, PO Box 94747, Seattle, WA 98124-4747 or www.seattle.gov/cafrs/.

Note 7 – Claims Payable

The City and the Fund are self-insured for certain losses arising from personal and property damage claims by third parties and for casualty losses to the Fund's property. Liabilities for identified claims and claims incurred, but not reported have been recorded by the Fund.

For 2015 and 2014, liabilities for workers' compensation claims, as well as other claims, are discounted over a 15-year period at the City's rate of return on investments, 1.135% and 0.931%, respectively. Claims expected to be paid within one year are $2,811,856 and $1,928,051 as of December 31, 2015 and 2014, respectively. The schedules below present the changes in the liability for workers' compensation claims and other claims (risk financing liabilities) as of December 31:

	2015	2014
Beginning liability, discounted	$ 8,680,215	$ 8,424,705
Payments	(1,716,325)	(1,085,110)
Incurred claims and change in estimate	(243,128)	1,340,620
Ending liability, discounted	$ 6,720,762	$ 8,680,215

The Fund is involved in litigation from time to time as a result of operations.

Note 8 – Compensated Absences

The Fund has recorded a liability for earned but unused compensatory, merit, and vacation leave, as well as estimated sick leave payments calculated based on the termination payment method. The schedules below show the compensated absences activity during the years ended December 31, 2015 and 2014:

	2015	2014
Beginning liability	$ 5,071,357	$ 4,523,566
Additions	4,000,509	5,122,248
Reductions	(4,073,537)	(4,574,457)
Ending liability	$ 4,998,329	$ 5,071,357

Note 9 – Pension Benefit Plan

Plan Description – The Seattle City Employees' Retirement System (the "System") is a cost-sharing multiple employer pension plan covering employees of the City of Seattle and is administered in accordance with Chapter 4.36 of the Seattle Municipal Code.

The System is governed by the Retirement System Board of Administration (the "Board"). The Board consists of seven members including the Chair of the Finance Committee of the Seattle City Council, the City of Seattle Finance Director, the City of Seattle Personnel Director, two active members and one retired member of the System who are elected by other System members, and one outside board member who is appointed by the other six board members. Elected and appointed board members serve for three-year terms.

System Benefits – The System 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. All permanent Fund employees are eligible to participate in the System. Members are eligible for retirement benefits after 30 years of service; at age 52 after 20 years of service; at age 57 after ten years of service; and at age 62 after five years of service.

Member and Employer Contributions – Employees are required to contribute 10.03% of their annual base salaries to the System. The employer's contribution rate for the years ended December 31, 2015 and 2014 was 15.73% and 14.31%, respectively. Employer rates are established by the City Council on a biannual basis. The Fund's contributions to the System for the years ended December 31, 2015 and 2014 were $6,783,980 and $6,257,468, respectively.

Note 9 – Pension Benefit Plan (Continued)

The System issues stand-alone financial statements, which may be obtained by writing to the Seattle City Employees' Retirement System, 720 Third Avenue, Suite 900, Seattle, Washington, 98104, and telephone: (206) 386-1293, or www.seattle.gov/retirement/annual_report.htm.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows Related to Pensions – At December 31, 2015, the Fund reported a liability of $77,047,177, its proportionate share of the Systems' net pension liability. The net pension liability was measured as of December 31, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of the date. The Fund's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating parties, actuarially determined. At December 31, 2015, the Fund's proportion was 7.46%.

For the year ended December 31, 2015, the Fund recognized pension expense of approximately $8,361,000. As of December 31, 2015, the Fund's deferred outflows and inflows of resources are as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings	$ 2,399,963	$ -
Contributions made subsequent to measurement date	6,783,980	-
Total	$ 9,183,943	$ -

The $6,783,980 reported as deferred outflows of resources relate to the Fund's contributions subsequent to the measurement date and will be recognized as a reduction of the net pension liability in the year ending December 31, 2016.

Other amounts currently reported as deferred outflows of resources relate to the difference in actual earnings on pension investments from projected earnings and pensions will be recognized in pension expense as follows for years ending December 31:

2015	$ 599,991
2016	$ 599,991
2017	$ 599,991
2018	$ 599,990

Note 9 – Pension Benefit Plan (Continued)

Actuarial Assumptions – The total pension liability as of December 31, 2015 was determined using the following actuarial assumptions:

Actuarial data and assumptions	
Valuation date	January 1, 2014
Measurement date	December 31, 2014
Actuarial cost method	Individual Entry Age Normal
Amortization method	Level Percent, Closed
Remaining amortization period	30 years as of January 1, 2013 valuation
Asset valuation method	5-Year Smoothing Method
Inflation	3.25%
Investment rate of return	7.5% compounded annually, net of expenses
Discount rate	7.5%
Projected general wage inflation	4.0%
Postretirement benefit increases	1.5%
Mortality	Various rates based on RP-2000 mortality tables and using generational projection of improvement using Projection Scale AA.

The actuarial assumptions that determined the total pension liability as of the measurement date were based on the results of an actuarial experience study for the period January 1, 2010 – December 31, 2013.

The discount rate used to measure the pension liability is based on a projection of cash flows assuming that plan member contributions will be made at the current contribution rate and that participating employers contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the System's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods on projected benefit payment to determine total pension liability.

The long-term expected rate of return assumption was based on the System's investments using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expect future real rates of return by the target asset allocation percentage and by adding expected inflation.

Note 9 – Pension Benefit Plan (Continued)

Best estimates of geometric real rates of return for each major asset class included in the System's target asset allocation as of December 31, 2014 are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return
Equity: Public	4.93%
Equity: Private	6.50%
Fixed Income: Broad	1.35%
Fixed Income: Inflation Linked	1.25%
Real Assets: Real Estate	3.25%
Diversifying Strategies	3.75%

Sensitivity Analysis – The following presents the Fund's proportionate share of the net pension liability calculated using the discounted rate of 7.5%, as well as what the employer's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.50%) or 1 percentage point higher (8.50%) than the current rate.

1% Decrease 6.50%	Current Discount Rate 7.50%	1% Increase 8.50%
$ 106,324,264	$ 77,047,177	$ 52,426,760

Note 10 – Environmental Liabilities

Following is a brief description of the significant sites that require environmental remediation:

Duwamish Sites – The U.S. Environmental Protection Agency ("EPA") has indicated that it will require the clean-up and remediation of certain Duwamish sites under its Superfund authority. In order to manage the liability, the City has worked with the EPA and other PRPs on a Remedial Investigation ("RI") and Feasibility Study ("FS") to evaluate the risk to human health and the environment within the six mile superfund area, identify the possible early action clean-up sites, and generally evaluate the feasibility of clean-up options for use in the ultimate remedial actions that the EPA will require. The RI and FS are complete. On November 2, 2012, the EPA and Ecology approved the Lower Duwamish Waterway Group's FS which provides sufficient information to support selection of a remedy for this Site. The EPA announced their proposed cleanup plan in February 2013 for public comment. The remaining scope of cleanup by potentially responsible parties ("PRPs") has been decided by the EPA in the 2014 Record of Decision. The Fund recorded an estimate of its share of the estimated total cost.

Note 10 – Environmental Liabilities (Continued)

Specific "early action sites" have been cleaned separately up under Administrative Orders on Consent ("AOC"). The Fund, together with other PRPs, has voluntarily agreed to clean-up two early action sites identified during the RI under EPA issued AOC: Slip 4 and T-117. Slip 4 cleanup is complete; T-117 will be completed by 2016.

East Waterway Site – In 2006 the EPA issued an AOC for a Supplemental RI and FS for the East Waterway, an operable unit of the Harbor Island Superfund Site. The Port of Seattle (the "Port") alone signed the AOC. Both the City and King County signed a Memorandum of Agreement with the Port to participate as cost share partners in the RI/FS work required by the EPA. No specific requirements for remediation by PRPs have been made by the EPA as of the date of this report. The RI is complete and the FS is anticipated to be completed by 2016 or early 2017.

Gas Works Park Sediment Site – In April 2002, the Department of Ecology ("DOE") named the City and another party, Puget Sound Energy, as PRPs for contamination at the Gas Works Sediments Site in North Lake Union. The City and Puget Sound Energy signed an Agreed Order with the DOE in 2005 to initiate two RIs and FSs for the sediment site – one in the western portion of the site led by the City, and another in the eastern portion of the site led by Puget Sound Energy. Subsequently, in fall of 2012, the City and Puget Sound Energy entered into a Settlement, Release, and Cost Allocation Agreement that puts Puget Sound Energy in the lead for all additional cleanup work at the site; the east-west split is no longer in place. Based on the 2012 Agreement, the City pays for 20% of the Shared Costs incurred by Puget Sound Energy for the cleanup work. The RI and FS include an evaluation of the nature and extent of contamination on the site, an evaluation of multiple alternatives for remediating the sediments and a recommended preferred alternative. Puget Sound Energy collected additional environmental data in 2013 and the RI/FS is expected to be completed in late 2016 or early 2017. A Clean-up Action Plan is expected from the Department of Ecology in about 2017.

North Boeing Field/Georgetown Steam Plant – The City, King County and Boeing have signed an Administrative Order with the DOE requiring them to investigate and possibly remove contamination in an area that encompasses North Boeing Field, the Georgetown Steam Plant, and the King County Airport.

7th Avenue South Pump Station – The City acquired land in the South Park area of Seattle to construct the 7th Ave South Pump Station. The land was determined to be contaminated subsequent to the purchase. The Fund has voluntarily agreed to clean up the contamination in order to continue with the planned construction of the pump station. The cleanup was completed in 2012; however, the Fund has ongoing monitoring activities it must perform.

Note 10 – Environmental Liabilities (Continued)

The Fund has included in its estimated liability those portions of the environmental remediation work that are currently deemed to be reasonably estimable. Cost estimates were developed using the expected cash flow technique in accordance with GASB 49. Estimated outlays were based on current cost and no adjustments were made for discounting or inflation. Cost scenarios were developed for a given site based on data available at the time of estimation and will be adjusted for changes in circumstance. Scenarios consider the relevant potential requirements and are adjusted when benchmarks are met or when new information revises estimated outlays, such as changes in the remediation plan or operating conditions. Costs 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; however, as new information becomes available, estimates may vary significantly due to price fluctuations, technological advances, or applicable laws or regulations.

The Fund is aggressively pursuing other third parties that may have contributed to the contamination of the sites noted. The Fund's estimate for not yet realized recoveries from other parties for their share of remediation work that offset the Fund's estimated environmental liability was $4.0 million as of December 31, 2015 and 2014. During 2014, the Fund received an environmental cost recovery of $0.7 million from Seattle City Light related to the T117 "early action site" along the Lower Duwamish Waterway.

The following changes in the provision for environmental liabilities at December 31 are:

	2015	2014
Beginning environmental liability, net of recovery	$ 67,680,401	$ 65,461,101
Payments or amortization	(1,845,089)	(2,514,388)
Incurred environmental liability	5,175,249	4,733,688
Ending environmental liability, net of recovery	$ 71,010,561	$ 67,680,401

The following table represents the current and long term portions for the environmental liabilities:

	2015	2014
Environmental liability, current	$ 2,000,688	$ 1,637,670
Environmental liability, noncurrent	69,009,873	66,042,731
Ending liability	$ 71,010,561	$ 67,680,401

Note 11 – Loans

The Fund has various construction projects that are financed by low interest loans issued by the State of Washington. The loan agreements require that the Fund finance a portion of these projects from other sources. These loans have been used to enhance the drainage system. There were no new loan borrowings in 2015.

Loans outstanding as of December 31, 2015 and 2014 are as follows:

Description	Maturity Years	Interest Rate	Amount Borrowed	Loans Outstanding 2015	Loans Outstanding 2014
Midvale	2013-2031	0.25%	$ 4,000,000	$ 3,388,332	$ 3,600,102
Thornton Creek Natural Drainage Systems	2006-2024	0.5%	3,700,000	1,762,941	1,958,824
High Point Natural Drainage Systems	2010-2029	1.5%	2,679,413	1,922,529	2,050,056
South Park Flood Control and Local Drainage Program	2007-2025	0.5%	3,400,000	1,971,228	2,168,351
Ballard Green Streets ARRA Project	2011-2020	2.9%	603,209	336,400	398,029
Thornton Creek Water Quality Project	2011-2030	1.5%	6,983,021	5,402,159	5,733,208
Capital Hill Water Quality Project	2014-2033	2.6%	1,880,598	1,782,198	1,858,863
			$ 23,246,241	$ 16,565,787	$ 17,767,433

Minimum debt service requirements to maturity on long term loans are as follows:

Years Ending December 31,	Principal	Interest	Total
2016	$ 1,212,401	$ 191,045	$ 1,403,446
2017	1,223,366	177,585	1,400,951
2018	1,234,547	163,909	1,398,456
2019	1,245,948	150,014	1,395,962
2020	1,257,574	135,894	1,393,468
2021-2025	5,885,768	484,294	6,370,062
2026-2030	3,936,676	181,544	4,118,220
2031-2033	569,507	17,072	586,579
	$ 16,565,787	$ 1,501,357	$ 18,067,144

Note 11 – Loans (Continued)

The following table shows the loan activity during the years ended December 31:

	2015	2014
Net loans, beginning of year	$ 17,767,433	$ 18,359,248
Loan proceeds	-	546,319
Principal payments	(1,201,646)	(1,138,134)
Net loans, end of year	$ 16,565,787	$ 17,767,433
Loans due within one year	$ 1,212,401	$ 1,201,646
Loans, noncurrent	$ 15,353,386	$ 16,565,787

Note 12 – Notes and Contracts Receivable

The Fund has an agreement with the Seattle Housing Authority for the recovery of the remaining unreimbursed cost of the Fund's contributions of public infrastructure to the New Holly redevelopment project. As of December 31, 2015, the Seattle Housing Authority receivable was $1,153,772.

In addition, the Fund has an agreement with private individuals for a sewer connection charge contract. The receivable was $5,317 at December 31, 2015.

Notes and contracts receivable are composed of the following as of December 31:

	2015	2014
Seattle Housing Authority receivable	$ 1,153,772	$ 1,204,147
Dalcerro receivable	5,317	6,320
Schneider Homes receivable	-	25,000
Total notes and contracts receivable	1,159,089	1,235,467
Due within one year	(53,827)	(76,378)
Total non-current notes and contracts receivable	$ 1,105,262	$ 1,159,089

Note 13 – Wastewater Disposal Agreement

The Fund has a wastewater disposal agreement with the King County Department of Natural Resources Wastewater Treatment Division (the "Division"), which expires in 2036. The monthly wastewater disposal charge paid to the Division is based on the Division's budgeted cost for providing the service. The charges are determined by water consumption and the number of single-family residences as reported by SPU and other component agencies. Payments made by the Fund were $148,573,210 and $139,728,735 for fiscal years 2015 and 2014, respectively.

Note 14 – Cumulative Effect of Change in Accounting Principle

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions,* is effective for financial statement periods beginning after June 15, 2014 with the effects of accounting changes to be applied retroactively by restating the financial statements. The Statement requires the Fund to record its proportionate share of the defined benefit pension obligation for active, inactive, and retired employees receiving retirement benefits under SCERS.

Restatement of the comparative financial data for the prior period presented is not practical due to the unavailability of information from the pension plan, therefore the provisions of GASB Statements No. 68 and 71 were not applied to prior period. The cumulative effects of applying the provisions of GASB Statements No. 68 and 71 have been reported as an adjustment to beginning net position for the year beginning January 1, 2015 in accordance with the Statements and totaled $66,286,188.

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Seattle Public Utilities' Proportionate Share of the Net Pension Liability

	2015
Employer's proportion of the net pension liability (asset)	16.96%
Employer's proportionate share of the net pension liability (asset)	$ 187,919,945
Employer's covered-employee payroll	$ 102,783,473
Employer's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	182.83%
Plan fiduciary net position as a percentage of the total pension liability	67.70%

Schedule of Seattle Public Utilities' Contributions

	2015
Contractually required employer contribution	$ 15,170,276
Contributions in relation to the contractually required employer contribution	15,170,276
Employer contribution deficiency (excess)	$ -
Employer's covered-employee payroll	$ 102,783,473
Employer contributions as a percental of covered-employee payroll	14.76%

OTHER INFORMATION (UNAUDITED)

Drainage Wastewater Debt Service Coverage Calculation 2015

Operating Revenues	
Wastewater	$ 257,092,493
Drainage	102,019,631
Other	4,666,390
Total Operating Revenue	363,778,514
Operating Expense	
Wastewater Treatment Contract	150,325,985
Other Operations & Maintenance	80,917,390
City Taxes	42,876,271
Other Taxes	4,548,906
Total Operating Expenses Before Debt Service	278,668,553
Net Operating Income	85,109,961
Adjustments	
Less: Claim Expense	243,128
Add: City Taxes	42,876,271
Add: Investment Interest	2,032,461
Less: DSRF Earnings	(209,107)
Add: BAB's Subsidy	1,754,279
Add (Less): Net Other Nonoperating Revenues/(Expenses)	994,847
Add: Proceeds from Sale of Assets	686,985
Total Adjustments	48,378,863
Net Revenue Available for Debt Service	$ 133,488,824
Net Revenue Available for Debt Service (w/o City Taxes)	$ 90,612,553
Annual Debt Service	
Annual Debt Service	$ 47,371,128
Less: DSRF Earnings	(209,107)
Adjusted Annual Debt Service	$ 47,162,020
Coverage	2.83
Coverage without taxes	1.92

Statistics Required for Revenue Bond Continuing Disclosure

Wastewater System Operating Statistics

	2011	2012	2013	2014	2015
Population Served	612,100	616,500	626,600	640,500	662,400
Billed Wastewater Revenues	$ 203,590	$ 236,935	$ 244,476	$ 242,844	$ 257,092
Billed Wastewater Volume (MG)					
Residential	7,400	7,707	7,594	7,408	7,546
Commercial	12,803	13,217	13,218	13,243	13,872
Total	20,203	20,924	20,812	20,651	21,418
Gallons Used per Day per Capita	90.4	93.0	91.0	88.3	88.6

Drainage and Wastewater – 2015 Accounts and Billed Revenues

	Drainage	Wastewater
Customer Accounts		
Residential	148,181	155,423
Commercial	65,938	21,452
Total	214,119	176,875

	Drainage	Wastewater
Billed Revenue		
Residential	$ 50,588,630	$ 90,498,394
Commercial	51,431,001	166,594,099
Total	$ 102,019,631	$ 257,092,493

Major Wastewater Customers - 2015 Annual Billed Revenues and Percentage of Revenue

Name	Revenue	% of Total Revenue
University of Washington	$ 7,798,728	3.1%
Seattle Housing Authority	$ 4,712,239	1.9%
City of Seattle	$ 3,158,159	1.3%
Seattle Tunnel Partners	$ 2,327,875	0.9%
Equity Residential Property	$ 1,673,147	0.7%
Starwood Hotel/Resort Group	$ 1,589,437	0.6%
King County	$ 1,433,434	0.6%
Port of Seattle	$ 1,233,421	0.5%
Darigold	$ 1,116,444	0.4%
Bellwether Housing	$ 998,326	0.4%

Major Drainage Customers - 2015 Annual Billed Revenues and Percentage of Revenue

Name	Revenue	% of Total Revenue
City of Seattle	$ 6,359,998	6.2%
King County	$ 2,044,639	2.0%
Seattle Public Schools	$ 2,026,646	2.0%
University of Washington	$ 1,644,229	1.6%
BNSF Rwy Co.	$ 1,545,224	1.5%
Seattle Housing Authority	$ 902,184	0.9%
United States Government	$ 869,156	0.8%
CCAS Property & Construction	$ 754,603	0.7%
Union Pacific Railroad Co.	$ 614,865	0.6%
Seattle Community College	$ 406,468	0.2%

Wastewater Rates

Note: 1 CCF equals 748 gallons. Wastewater rate increased .8% and 0.9% in 2015 and 2014, respectively.

Drainage Rates

	2011	2012	2013	2014	2015	2016
Volume rate per ccf	$ 10.28	$ 10.68	$ 11.65	$ 11.75	$ 11.84	$ 12.27

Flat Rate per Parcel	2012	2013	2014	2015	2016	% Impervious Space
Single Family Residential*						
0-1,999 sq. ft.					$ 123.81	
2,000 - 2,999 sq. ft.	$ 149.33	$ 164.05	$ 180.96	$ 198.83	$ 206.93	
3,000 - 4,999 sq. ft.	$ 192.79	$ 212.92	$ 234.87	$ 258.06	$ 286.63	
5,000 - 6,999 sq. ft.	$ 261.66	$ 289.11	$ 318.92	$ 350.40	$ 390.03	
7,000 - 9,999 sq. ft.	$ 332.23	$ 365.97	$ 403.70	$ 443.55	$ 491.40	
Rate per 1,000 sq. ft.						
Undeveloped						0 - 15%
Regular	$ 21.96	$ 23.31	$ 25.71	$ 28.25	$ 31.24	
Low Impact	$ 13.76	$ 13.65	$ 15.06	$ 16.54	$ 18.57	
Light						16 - 35%
Regular	$ 32.98	$ 36.05	$ 39.76	$ 43.69	$ 48.52	
Low Impact	$ 24.14	$ 28.35	$ 31.27	$ 34.36	$ 38.31	
Medium						36 - 65%
Regular	$ 47.76	$ 52.35	$ 57.75	$ 63.45	$ 70.67	
Low Impact	$ 38.35	$ 42.11	$ 46.45	$ 51.04	$ 57.21	
High	$ 63.01	$ 70.23	$ 77.48	$ 85.12	$ 93.56	66 - 85%
Very High	$ 74.49	$ 83.08	$ 91.65	$ 100.69	$ 112.38	86 - 100%

* SFR parcels more than 10,000 sq. ft. are billed under the commercial rate structure.

APPENDIX D

DEMOGRAPHIC AND ECONOMIC INFORMATION

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DEMOGRAPHIC AND ECONOMIC INFORMATION

Seattle is the largest city in the Pacific Northwest, serves as the County seat and is the center of the County's economic activity. King County is the largest county in the State in population, number of cities and employment, and the 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

Year	Washington	King County	Seattle
1980 (1)	4,130,163	1,269,749	493,846
1990 (1)	4,866,692	1,507,319	516,259
2000(1)	5,894,121	1,737,034	563,374
2010 (1)	6,724,540	1,931,249	608,660
2011 (2)	6,767,900	1,942,600	612,100
2012 (2)	6,817,770	1,957,000	616,500
2013 (2)	6,882,400	1,981,900	626,600
2014 (2)	6,968,170	2,017,250	640,500
2015 (2)	7,061,410	2,052,800	662,400

(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

	2010	2011	2012	2013	2014
Seattle MD	$ 51,370	$ 53,931	$ 56,267	$ 58,483	$ 62,481
King County	54,927	57,837	60,090	62,770	68,877
State of Washington	42,024	43,878	46,045	47,717	49,610
U.S.	39,791	41,560	43,735	44,765	46,049

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

	New Single Family Units		New Multifamily Units		
Year	**Number**	**Value($)**	**Number**	**Value($)**	**Total 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
2015	810	215,818,201	10,530	1,684,630,374	1,900,448,575
2015(1)	268	70,982,420	4,595	727,957,886	798,940,306
2016(1)	262	70,353,468	2,134	283,993,934	354,347,402

(1) Through April.

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	49,638,174,066	19,995,171,842
2015	54,890,159,770	22,407,443,037

Source: Washington State Department of Revenue and Quarterly Business Review

Industry and Employment

The following table presents major Puget Sound-area employers and their State-wide employment data in 2015.

PUGET SOUND AREA
MAJOR EMPLOYERS

Employer	Employees
The Boeing Company	80,100
Joint Base Lewis-McChord	60,000
Microsoft Corp.	41,700
Navy Region Northwest	37,700
University of Washington	34,700
Amazon.com Inc.	24,000
Wal-Mart Stores, Inc.	18,100(1)
Providence Health & Services	17,600
Fred Meyer Stores	15,900
Costco Wholesale Corp.	14,900
King County Government	14,500(2)
City of Seattle	13,300(3)
Starbucks Corp.	12,400(1)
Franciscan Health System	11,800
Swedish Health Services	11,600
MultiCare Health System	10,900

(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 November 2015. Figure includes temporary workers.

Source: Puget Sound Business Journal Book of Lists, 2016

KING COUNTY
RESIDENT CIVILIAN LABOR FORCE AND EMPLOYMENT
AND NONAGRICULTURAL WAGE AND SALARY EMPLOYMENT[1]

	Annual Average				
	2011	**2012**	**2013**	**2014**	**2015**
Civilian Labor Force	1,115,790	1,129,670	1,139,610	1,158,230	1,177,297
Total Employment	1,025,070	1,055,000	1,079,950	1,104,930	1,124,990
Total Unemployment	90,720	74,670	59,660	53,300	52,307
Percent of Labor Force	8.1%	6.6%	5.2%	4.6%	4.4%

NAICS INDUSTRY	**2011**	**2012**	**2013**	**2014**	**2015**
Total Nonfarm	1,168,100	1,196,042	1,237,217	1,278,033	1,313,475
Total Private	1,003,175	1,030,608	1,069,975	1,108,425	1,139,325
Goods Producing	148,942	154,283	162,508	168,283	174,042
Mining and Logging	525	425	458	425	567
Construction	48,258	50,625	55,883	60,792	66,308
Manufacturing	100,192	103,225	106,167	107,025	107,167
Service Providing	1,019,158	1,041,758	1,074,708	1,109,750	1,139,433
Trade, Transportation, and Utilities	210,850	216,167	225,167	235,758	244,667
Information	80,183	81,017	82,617	85,583	89,400
Financial Activities	68,175	68,850	70,892	72,000	69,025
Professional and Business Services	184,567	192,525	201,042	207,933	216,083
Educational and Health Services	157,008	159,275	162,633	167,983	169,950
Leisure and Hospitality	111,075	114,850	120,575	124,883	129,675
Other Services	42,375	43,642	44,542	46,000	46,483
Government	164,925	165,433	167,242	169,608	174,150
Workers in Labor/Management Disputes	0	0	0	0	0

	Apr. 2016
Civilian Labor Force	1,198,302
Total Employment	1,149,589
Total Unemployment	48,713
Percent of Labor Force	4.1%

(1) Columns may not add to totals due to rounding.

Source: Washington State Employment Security Department

APPENDIX E

BOOK-ENTRY TRANSFER SYSTEM

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BOOK-ENTRY TRANSFER SYSTEM

The following information has been provided by DTC. The City makes no representation as to the accuracy or completeness thereof. Purchasers of the Bonds (the "beneficial owners") should confirm the following with DTC or its participants (the "Participants").

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has 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 Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or Bond Registrar, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Bond Registrar, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) are the responsibility of the City or the Bond Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the City or the Bond Registrar. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

The following information has been provided by the City.

The City and the Bond Registrar may treat DTC (or its nominee) as the sole and exclusive Registered Owner of the Bonds registered in such name for the purposes of payment of the principal of and premium, if any, or interest with respect to those Bonds, selecting Bonds or portions thereof to be redeemed, giving any notice permitted or required to be given to Registered Owners of Bonds under the Bond Legislation, registering the transfer of Bonds, obtaining any consent or other action to be taken by Registered Owners of Bonds, and for all other purposes whatsoever; and the City and the Bond Registrar shall not be affected by any notice to the contrary. The City and the Bond Registrar shall not have any responsibility or obligation to any direct or indirect DTC participant, any person claiming a beneficial ownership interest in the Bonds under or through DTC or any such participant, or any other person which is not shown on the Bond Register as being a Registered Owner of Bonds, with respect to: (i) the Bonds; (ii) any records maintained by DTC or any such participant; (iii) the payment by DTC or such participant of any amount in respect of the principal of, premium, if any, or interest with respect to the Bonds; (iv) any notice which is permitted or required to be given to Registered Owners of Bonds under the Bond Legislation; (v) the selection by DTC or any such participant of any person to receive payment in the event of a partial redemption of the Bonds; or (vi) any consent given or other action taken by DTC as Registered Owner of the Bonds.