

## OFFICIAL STATEMENT

New Issue  
Book-Entry Only

Moody's Rating: Aa3  
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."*

**\$35,335,000**

**THE CITY OF SEATTLE, WASHINGTON**

**SOLID WASTE SYSTEM IMPROVEMENT AND REFUNDING REVENUE BONDS, 2016**

**DATED: DATE OF INITIAL DELIVERY**

**DUE: JUNE 1, AS SHOWN ON PAGE I**

The City of Seattle, Washington (the "City"), will issue its Solid Waste 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 June 1 and December 1, beginning December 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 Solid Waste System, to make a deposit into the Reserve Subaccount, to refund certain outstanding obligations of the Solid Waste 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 Solid Waste System and by money in the 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 lien and charge upon such Net Revenue prior and superior to all other liens and charges whatsoever. The Bonds are issued 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 Solid Waste 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 available for delivery at DTC's facilities in New York, New York, or delivered to the Bond Registrar on behalf of DTC for closing by Fast Automated Securities Transfer, on or about June 30, 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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**Dated: June 21, 2016**

*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 Solid Waste Fund’s Audited Financial Statements that are included in Appendix C speaks only as of the date of those statements and is subject to revision or restatement in accordance with applicable accounting principles and procedures. The City specifically disclaims any obligation to update this information except to the extent described under “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.*

## MATURITY SCHEDULE

**\$35,335,000**

**THE CITY OF SEATTLE, WASHINGTON**

**SOLID WASTE SYSTEM IMPROVEMENT AND REFUNDING REVENUE BONDS, 2016**

Due June 1	Amounts	Interest Rates	Yields	Prices	CUSIP Numbers
2017	\$ 380,000	5.00%	0.85%	103.792	812702 EE4
2018	395,000	5.00%	0.88%	107.823	812702 EF1
2019	420,000	5.00%	0.93%	111.694	812702 EG9
2020	440,000	5.00%	0.96%	115.503	812702 EH7
2021	460,000	5.00%	1.07%	118.783	812702 EJ3
2022	485,000	5.00%	1.19%	121.713	812702 EK0
2023	510,000	5.00%	1.31%	124.332	812702 EL8
2024	535,000	5.00%	1.43%	126.639	812702 EM6
2025	565,000	5.00%	1.55%	128.635	812702 EN4
2026	595,000	5.00%	1.67%	130.323	812702 EP9
2027	620,000	4.00%	1.87%	119.201 <sup>(1)</sup>	812702 EQ7
2028	645,000	4.00%	1.97%	118.208 <sup>(1)</sup>	812702 ER5
2029	670,000	4.00%	2.07%	117.225 <sup>(1)</sup>	812702 ES3
2030	4,950,000	4.00%	2.18%	116.154 <sup>(1)</sup>	812702 ET1
2031	5,150,000	4.00%	2.24%	115.575 <sup>(1)</sup>	812702 EU8
2032	5,360,000	4.00%	2.30%	114.999 <sup>(1)</sup>	812702 EV6
2033	5,580,000	4.00%	2.35%	114.522 <sup>(1)</sup>	812702 EW4
2034	820,000	4.00%	2.40%	114.047 <sup>(1)</sup>	812702 EX2
2035	855,000	4.00%	2.44%	113.668 <sup>(1)</sup>	812702 EY0
2036	890,000	4.00%	2.48%	113.291 <sup>(1)</sup>	812702 EZ7
2037	925,000	4.00%	2.51%	113.010 <sup>(1)</sup>	812702 FA1
2038	960,000	4.00%	2.54%	112.729 <sup>(1)</sup>	812702 FB9
2039	1,000,000	4.00%	2.56%	112.542 <sup>(1)</sup>	812702 FC7
2040	1,040,000	4.00%	2.57%	112.449 <sup>(1)</sup>	812702 FD5
2041	1,085,000	4.00%	2.58%	112.356 <sup>(1)</sup>	812702 FE3

(1) Priced to the June 1, 2026, par call date.

**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<sup>(1)</sup>

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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(1) On June 23, 2016, Mr. Hoffman announced his plans to step down as Director effective July 29, 2016. No plans have been announced for his replacement.

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## OFFICIAL STATEMENT

\$35,335,000

THE CITY OF SEATTLE, WASHINGTON

SOLID WASTE SYSTEM IMPROVEMENT AND REFUNDING REVENUE BONDS, 2016

### INTRODUCTION

The purpose of this Official Statement, which includes the cover, inside cover, and appendices, is to set forth certain information concerning The City of Seattle, Washington (the “City”), a municipal corporation duly organized and existing under and by virtue of the laws of the State of Washington (the “State”), in connection with the offering of \$35,335,000 aggregate principal amount of its Solid Waste 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 solid waste system (the “Solid Waste 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 the legal opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Seattle, Washington (“Bond Counsel”). Appendix C is the Solid Waste Fund’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 (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 124913, passed by the City Council on November 23, 2015 (the “New Money Ordinance”), Ordinance 124915, passed on November 23, 2015 (the “Refunding Bond Ordinance” and, together with the New Money Ordinance, the “Bond Ordinance”), and Resolution 31677, adopted by the City Council on June 21, 2016 (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 June 1 and December 1, beginning December 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.

#### **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 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 June 1, 2026, are not subject to redemption prior to maturity. The City reserves the right and option to redeem Bonds maturing on and after June 1, 2027, prior to their stated maturity dates at any time on and after June 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.

*Selection of Bonds for Redemption.* If fewer than all of the outstanding Bonds are selected to be redeemed at the option of the City, the Director of Finance will select the maturity or maturities to be redeemed. If fewer than all of the outstanding bonds of a maturity are to be redeemed 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 “—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 obligations 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 the 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, 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 the 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 Solid Waste System, to make a deposit to the Reserve Subaccount, to refund certain outstanding obligations of the Solid Waste System (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 are to be applied as follows:

SOURCES OF FUNDS	
Par Amount of Bonds	\$ 35,335,000
Premium	<u>5,512,904</u>
Total Sources of Funds	<u>\$ 40,847,904</u>
USES OF FUNDS	
Construction Account Deposit	\$ 19,233,000
Escrow Deposit	20,692,852
Reserve Subaccount Deposit	652,133
Costs of Issuance <sup>(1)</sup>	<u>269,919</u>
Total Uses of Funds	<u>\$ 40,847,904</u>

(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 Solid Waste Revenue and Refunding Bonds, 2007 (as refunded by the Bonds, the "Refunded Bonds"). The Refunded Bonds are identified in the table below. The refunding is being undertaken to achieve debt service savings.

#### REFUNDED BONDS

Bond	Maturity Date	Par Amount	Coupon	Call Price	Call Date	CUSIP Number
<i>Solid Waste Revenue and Refunding Bonds, 2007</i>						
Term	2/1/2031	\$ 9,480,000	4.50%	100%	2/1/2017	812702 AW8
Term	2/1/2033	<u>10,370,000</u>	4.50%	100%	2/1/2017	812702 AX6
Total		<u>\$ 19,850,000</u>				

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 of the Solid Waste System and by money in the Bond Account and subaccounts therein (including the Reserve Subaccount). Net Revenue is pledged to make the payments in respect of the Parity Bonds into the Bond Account and the Reserve Subaccount required by the Bond Legislation, which pledge constitutes a lien and charge upon such Net Revenue prior and superior to all other liens and charges whatsoever. The Bonds are issued on a parity with the Outstanding Parity Bonds and all Future Parity Bonds, without preference or priority of right or lien. The City has covenanted that for as long as any Bond is outstanding, it will issue Future Parity Bonds only in accordance with the Bond Legislation. See “—Additional Obligations” and Appendix A—Bond Ordinance—Section 13, Section 14, and Section 17. The City has reserved the right to combine the Solid Waste System, including its funds and accounts, with other City utility systems, funds, and accounts. See “Combined Utility Systems.”

*The Bonds do not constitute general obligations of the City, the State, or any political subdivision of the State, or a 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 Solid Waste System, are pledged to the payment of the Bonds.*

The Bond Account has been created and is maintained within the Solid Waste Fund for the sole purpose of paying the principal of and premium, if any, and interest on the Parity Bonds as they become due. The City has agreed to set aside and pay into the Bond Account on or prior to the respective dates on which the interest on or principal of and interest on the Parity Bonds becomes due and payable certain fixed amounts out of the Net Revenue sufficient to pay such interest or principal and interest as they become due. See Appendix A—Bond Ordinance—Section 15.

### **Reserve Subaccount**

The Reserve Subaccount has been created and maintained as a subaccount within the Bond Account for the purpose of securing the payment of the principal of and interest on all Parity Bonds outstanding. The City is required to provide for the deposit into the Reserve Subaccount out of Net Revenue (or any other funds of the City on hand and legally available therefor, including proceeds of the Bonds) of periodic payments so that by five years from the date of such Parity Bonds there will have been paid into the Reserve Subaccount an amount which, together with the money already on deposit therein, will be equal to the least of (i) Maximum Annual Debt Service on all Parity Bonds outstanding at the time of calculation, (ii) 1.25 times Average Annual Debt Service on all Parity Bonds outstanding at the time of calculation, and (iii) 10% of the proceeds of each series of Parity Bonds then outstanding as of the delivery of such series (the “Reserve Requirement”) for all Parity Bonds outstanding at the end of that five-year period.

If the amount in the Reserve Subaccount is less than the Reserve Requirement (taking into account the five-year period referred to above), the City is required to transfer to the Reserve Subaccount money from the Solid Waste Fund (after making provision for payment of Maintenance and Operation Expenses and for the required payments into the Bond Account) in an amount sufficient to restore the Reserve Subaccount to the Reserve Requirement

within 12 months after the date of such deficiency. If the amount in the Reserve Subaccount is greater than the Reserve Requirement, then the City may withdraw such excess from the Reserve Subaccount and deposit such excess in the Solid Waste Fund to be used for any lawful purpose.

Under the Bond Legislation, the City may obtain Qualified Insurance for specific amounts required to be paid into the Reserve Subaccount. “Qualified Insurance” is defined in the Bond Legislation as any municipal bond insurance policy or surety bond issued by an insurance company licensed to conduct an insurance business in any state of the United States that is rated in one of the two highest rating categories by Moody’s Investors Service Inc. (“Moody’s”) and Standard & Poor’s Ratings Services (“S&P”) or their comparably recognized business successors. The City currently has Qualified Insurance in the amount of \$5,853,000 provided by MBIA Insurance Corporation (and reinsured by National Public Finance Guarantee Corporation, a wholly-owned subsidiary of MBIA Inc. currently rated A3/AA by Moody’s and S&P, respectively), that expires on February 1, 2033. The City has \$9,179,178 on deposit in the Reserve Subaccount as of March 15, 2016, and will make an additional deposit to the Reserve Subaccount of \$652,133 in cash from proceeds of the Bonds to satisfy the Reserve Requirement after the issuance of the Bonds. This deposit, along with the existing surety bond and cash on hand, will fully satisfy the Reserve Requirement for the Bonds and the Outstanding Parity Bonds. See “Use of Proceeds” and Appendix A—Bond Ordinance—Section 1 and Section 13.

### Outstanding Parity Bonds

The outstanding 2007 Bonds, 2011 Bonds, 2014 Bonds, and 2015 Bonds issued by the City and payable from 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.

#### OUTSTANDING PARITY BONDS

<u>Bond Description</u>	<u>Original Par Amount</u>	<u>Outstanding Principal as of 6/21/2016</u>
2007 Bonds <sup>(1)</sup>	\$ 82,175,000	\$ 3,615,000
2011 Bonds	45,750,000	41,730,000
2014 Bonds	95,350,000	92,855,000
2015 Bonds	35,830,000	35,200,000
Total	<u>\$ 259,105,000</u>	<u>\$ 173,400,000</u>

(1) Excludes the Refunded Bonds.

### Additional Obligations

*Future Parity Bonds.* Future Parity Bonds may be issued 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 to the initial purchasers thereof:

- (i) a certificate of both the Director of Finance and the Director of SPU demonstrating that during any 12 consecutive months out of the immediately preceding 24 months, the Coverage Requirement has been met (see “Rate Covenant” for the definition of “Coverage Requirement”), taking into account those Future Parity Bonds by assuming that the debt service for those bonds for that 12-month period is equal to the Average Annual Debt Service for those proposed Future Parity Bonds;
- (ii) a certificate of both the Director of Finance and the Director of SPU that in their opinion the 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 Appendix A—Bond Ordinance—Section 17, will be at least equal to the Coverage Requirement.

The City may at any time and from time to time issue one or more series of refunding Parity Bonds, but only if a certificate of the Director of Finance has been filed with the City stating that, immediately after the issuance of such refunding Parity Bonds, the Annual Debt Service in any calendar year that Parity Bonds (other than such refunding Parity Bonds) are then outstanding will not be increased by more than \$5,000 by reason of the issuance of such refunding Parity Bonds.

*Future Subordinate Lien Bonds.* The City has reserved the right to issue revenue bonds or other obligations having a lien and charge on Net Revenue subordinate to the lien and charge of the Parity Bonds. The City has never issued any such obligations and currently has no intention of doing so.

*Parity Payment Agreements.* The City may enter into Parity Payment Agreements (such as interest rate swaps) secured by a pledge and lien on Net Revenue on a parity with the Bonds subject to the satisfaction of the requirements for the issuance of Future Parity Bonds. See Appendix A—Bond Ordinance—Section 1 and Section 17. The City has never entered into a Parity Payment Agreement 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 solid waste collection, transportation, treatment, or disposal or other commodity or service related to the Solid Waste System. The City may determine that all payments under those Contract Resource Obligations (including payments prior to the time that the solid waste collection, transportation, treatment, or disposal or other commodity or service is being provided, or during a suspension or after termination of such commodity or service) will be Maintenance and Operation Expenses, upon compliance with certain requirements of the Bond Legislation. The City has never entered into an obligation that it treats as a Contract Resource Obligation with respect to the Solid Waste System. See Appendix A—Bond Ordinance—Section 20.

### **Rate Covenant**

The City has covenanted to establish, maintain, and collect rates and charges for services and facilities provided by the Solid Waste System and will adjust those rates and charges from time to time so that (i) Gross Revenue will be sufficient to pay all Maintenance and Operation Expenses, to pay when due all amounts that the City is obligated to pay into the Bond Account and subaccounts therein, and to pay all taxes, assessments, and other governmental charges lawfully imposed on the Solid Waste System, and (ii) Adjusted Net Revenue of the Solid Waste System in each fiscal year will be at least equal to the Coverage Requirement. Calculations of historical coverage ratios for the Solid Waste Fund are provided below in Table 3—Solid Waste System Operating Results under “Solid Waste System—Financial Performance.”

“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 Net Revenue and Adjusted Gross Revenue in the Bond Legislation provide for adjustments for deposits to and withdrawals from the Rate Stabilization Account; Adjusted Annual Debt Service provides for adjustments for debt service paid from earnings on investments in the Reserve Subaccount and amounts paid with Parity Bond proceeds.

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

### **Rate Stabilization Account**

The Rate Stabilization Account has been created as a separate account in the Solid Waste Fund. The City may at any time, as determined by the City, deposit in the Rate Stabilization Account Gross Revenue and any other money received by the Solid Waste System and available to be used therefor and may withdraw any or all of the money from that account for inclusion in Adjusted Gross Revenue for any fiscal year of the City. Such deposits and withdrawals may be made up to and including the date 90 days after the end of the fiscal year for which the deposit or withdrawal will be included as Adjusted Gross Revenue. No deposit of Gross Revenue may be made into the Rate Stabilization Account to the extent that such deposit would prevent the City from meeting the Coverage Requirement. The balance in the Rate Stabilization Account as of December 31, 2015, was approximately \$18.5 million. The City plans to use the funds in this account to mitigate the need for Solid Waste System rate

increases in the future. See “Solid Waste System—Management Discussion and Analysis of Operating Results” and 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 Solid Waste System, sale of the Solid Waste System, and preservation of tax exemption of interest on the Bonds. See Appendix A—Bond Ordinance—Section 16 and Section 22.

### **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 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 may create, acquire, construct, finance, own, and operate one or more additional systems for solid waste collection, transportation, treatment, or disposal, or other commodity or service related to the Solid Waste System. The revenue of that separate utility system will not be included in Gross Revenue of the Solid Waste System 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 the Net Revenue of the Solid Waste System may be pledged to the payment of any obligations of a separate utility system, except as a Contract Resource Obligation in compliance with the Bond Legislation 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 solid waste service and currently has no intention of doing so.

### **Combined Utility Systems**

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

## Debt Service Requirements

The following table shows the debt service scheduled to be paid from the Net Revenue of the Solid Waste System.

### DEBT SERVICE REQUIREMENTS<sup>(1)</sup>

Year	Outstanding Parity Bonds <sup>(2)</sup>			The Bonds			Total Debt Service
	Principal	Interest	Total	Principal	Interest	Total	
2016	\$ 5,750,000	\$ 8,835,283	\$ 14,585,283	\$ -	\$ 612,913	\$ 612,913	\$ 15,198,197
2017	6,165,000	7,967,600	14,132,600	380,000	1,451,750	1,831,750	15,964,350
2018	6,380,000	7,670,250	14,050,250	395,000	1,432,375	1,827,375	15,877,625
2019	6,700,000	7,344,875	14,044,875	420,000	1,412,000	1,832,000	15,876,875
2020	6,605,000	7,014,000	13,619,000	440,000	1,390,500	1,830,500	15,449,500
2021	6,940,000	6,677,125	13,617,125	460,000	1,368,000	1,828,000	15,445,125
2022	7,290,000	6,323,250	13,613,250	485,000	1,344,375	1,829,375	15,442,625
2023	7,660,000	5,951,500	13,611,500	510,000	1,319,500	1,829,500	15,441,000
2024	8,055,000	5,560,750	13,615,750	535,000	1,293,375	1,828,375	15,444,125
2025	8,470,000	5,149,875	13,619,875	565,000	1,265,875	1,830,875	15,450,750
2026	8,895,000	4,718,000	13,613,000	595,000	1,236,875	1,831,875	15,444,875
2027	9,345,000	4,270,950	13,615,950	620,000	1,209,600	1,829,600	15,445,550
2028	9,790,000	3,826,713	13,616,713	645,000	1,184,300	1,829,300	15,446,013
2029	10,265,000	3,353,056	13,618,056	670,000	1,158,000	1,828,000	15,446,056
2030	6,285,000	2,966,300	9,251,300	4,950,000	1,045,600	5,995,600	15,246,900
2031	6,570,000	2,684,360	9,254,360	5,150,000	843,600	5,993,600	15,247,960
2032	6,855,000	2,398,963	9,253,963	5,360,000	633,400	5,993,400	15,247,363
2033	7,170,000	2,084,388	9,254,388	5,580,000	414,600	5,994,600	15,248,988
2034	7,500,000	1,754,138	9,254,138	820,000	286,600	1,106,600	10,360,738
2035	7,845,000	1,408,650	9,253,650	855,000	253,100	1,108,100	10,361,750
2036	8,205,000	1,047,088	9,252,088	890,000	218,200	1,108,200	10,360,288
2037	5,390,000	668,781	6,058,781	925,000	181,900	1,106,900	7,165,681
2038	5,625,000	440,700	6,065,700	960,000	144,200	1,104,200	7,169,900
2039	5,855,000	211,100	6,066,100	1,000,000	105,000	1,105,000	7,171,100
2040	2,350,000	47,000	2,397,000	1,040,000	64,200	1,104,200	3,501,200
2041	-	-	-	1,085,000	21,700	1,106,700	1,106,700
<b>Total</b>	<b>\$ 177,960,000</b>	<b>\$ 100,374,696</b>	<b>\$ 278,334,696</b>	<b>\$ 35,335,000</b>	<b>\$ 21,891,538</b>	<b>\$ 57,226,538</b>	<b>\$ 335,561,234</b>

(1) Totals may not add due to rounding.

(2) Excludes the Refunded 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 Solid Waste System, including the Solid Waste 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 Drainage and Wastewater System (including the Drainage and Wastewater 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 "Solid Waste 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<sup>(1)</sup>.* 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. Ms. Sánchez 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

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(1) On June 23, 2016, Mr. Hoffman announced his plans to step down as Director effective July 29, 2016. No plans have been announced for his replacement.



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."

## **SOLID WASTE SYSTEM**

### **General**

In 1961, the City organized its solid waste operations as a separate utility within the Engineering Department, and its funding changed from general taxes to fees for utility services provided. The City's solid waste system has been administered by SPU since 1997.

### **Solid Waste Operations**

*Collection.* The City has contracted with private companies for waste collection for almost a century. The City transferred commercial collection to State-regulated franchises during the period 1960-2000, and then returned the

services to City contracts in 2001. Residential collection has been continuously contracted. With limited exceptions, City ordinance prohibits collection of non-recyclable waste within the City by companies that are not under contract with the City. The City currently contracts for collection services with Waste Management of Washington (“Waste Management”), a subsidiary of Waste Management, Inc., and Recology/Cleanscapes, Inc. (“Cleanscapes”). Each contract covers designated areas in the City and includes garbage, co-mingled recycling, and food and yard waste (“organics”) collection from businesses and residents. SPU charges for garbage and organics collection based on volume and provides free co-mingled recycling pickup. The current collection contracts went into effect in 2009. The collection contract with Cleanscapes expires in 2017, with City options to extend the term to 2019 and 2021, and the collection contract with Waste Management expires in 2019, with a City option to extend the term to 2021. Independent private operations also provide commercial recycling collection in the City.

*Transfer.* The City has historically owned and operated two transfer stations, one in the south end of the City and one in the north end, that receive garbage and organics collected by the collection contractors or self-hauled by the public and small businesses. A new South Transfer Station was opened to the public in 2013 on a site adjacent to the old south-end transfer station. The old south-end transfer station is currently open for overflow traffic and is planned for demolition upon completion of the new North Transfer Station. The old north-end transfer station was demolished in 2014; the new North Transfer Station, currently under construction, is expected to be completed by the end of 2016. Each transfer station has a separate annual solid waste operating permit issued by Public Health—Seattle and King County. Both transfer stations are currently in compliance with the terms of their operating permits.

The City also contracts with Waste Management to use its private transfer station for some collected garbage and organics tonnage. The City and Waste Management deliver sealed containers of compacted garbage from the transfer stations to the railhead operated by the City’s disposal contractor, designated by ordinance as the receiving facility (the “Railhead”). Previously, SPU delivered organics to the City’s local organics processing contractor; under new contracts that began in 2014, one of the organics processing contractors picks up its portion of the organics from SPU transfer stations and SPU delivers the remainder to the other contractor. The City transfer stations also provide recycling drop-off services for self-haul customers. Household hazardous materials are collected at two facilities in the City for processing, disposal, or reuse. The County’s Local Hazardous Waste Management Program provides reimbursement for any costs incurred by SPU in the collection, processing, and disposal of hazardous materials.

*Processing.* The City contracts with Rabanco Ltd. (a subsidiary of Republic Services) for processing of contractor-collected recyclables. The current processing contract with Rabanco Ltd. expires in 2016 and a new contract with terms through 2021 was signed in 2015. Under the old contract, revenue from the sale of material recovered from the recycling stream was split with the processor. Under the new contract, SPU will retain the entirety of these revenues. As a result, both contract expense and commodity revenue (included in “Disposal and Other” on the Statement of Operating Results) will rise. The City’s contracts with Lenz Enterprises and PacifiClean Environmental for processing of organics started in 2014 and are effective until 2020.

*Disposal.* The City contracts with Waste Management to haul the City’s waste from the Railhead and to dispose of the waste at the Columbia Ridge landfill in Arlington, Oregon, owned by Waste Management Disposal Services of Oregon, Inc., a subsidiary of Waste Management, Inc. If Columbia Ridge were to close, Waste Management would be obligated to deliver the waste to an identified alternative landfill. The disposal contract expires in 2028, with City options to terminate in 2019 and 2021, depending on the termination date of Waste Management’s collections contract.

The following table shows the amounts of solid waste disposed of and recycled in the last five years.

**TABLE 1**  
**SOLID WASTE TONNAGE**  
**2011-2015**

	2011	2012	2013	2014	2015 <sup>(1)</sup>
Garbage-Tons Disposed					
Residential Collection <sup>(2)</sup>	112,772	111,402	110,838	112,245	101,972
Self-Haul Garbage <sup>(3)</sup>	71,033	70,474	74,019	57,844	60,938
Commercial Collection	135,536	134,089	132,401	139,475	139,557
<b>Total Tons Disposed</b>	<b>319,341</b>	<b>315,965</b>	<b>317,258</b>	<b>309,564</b>	<b>302,467</b>
Recycling					
Private Recycling	220,878	218,784	229,279	235,150	239,583
Residential Curbside Recycling	57,234	55,317	55,023	56,054	57,073
Apartment Recycling	18,544	20,599	20,886	22,212	24,028
Residential Curbside Yard and Food Waste	78,456	82,244	80,989	82,588	89,213
Self-Haul Yard Waste	6,794	6,593	6,290	4,199	4,009
Self-Haul Wood Waste	739	569	626	523	682
Self-Haul Recycling	3,949	3,501	3,413	2,086	2,209
Composting <sup>(4)</sup>	10,800	10,800	10,800	10,800	10,800
<b>Total Tons Recycled</b>	<b>397,394</b>	<b>398,406</b>	<b>407,306</b>	<b>413,613</b>	<b>427,597</b>
<b>Total Tons Generated</b>	<b>716,735</b>	<b>714,371</b>	<b>724,564</b>	<b>723,177</b>	<b>730,064</b>
Garbage as Percent of Total Tons Generated	45%	44%	44%	43%	42%
Recycling as Percent of Total Tons Generated <sup>(5)</sup>	55%	56%	56%	57%	59%

(1) Private Recycling and all subsequent calculations in 2015 are based on estimates.

(2) Drop in residential collection tonnage from 2014 to 2015 is likely the effect of a ban on food waste disposal implemented by the City in 2015.

(3) Declined in 2014 due to the closure of the old north-end transfer station. See "Solid Waste Operations—Transfer." 2015 is a preliminary estimate.

(4) Estimates based on surveys conducted in 2010; include backyard food waste and yard waste composting.

(5) 2015 estimated.

Source: SPU Economic Services

## Revenues

There are three primary sources of Solid Waste System revenues: residential collection charges, commercial collection charges, and disposal and other (including self-haul) charges.

The following table lists the Solid Waste System’s ten largest customers, combined self-haul and commercial, in 2015:

**TABLE 2  
TEN LARGEST CUSTOMERS IN 2015**

	2015 Revenue	% of Total Revenue
Starbucks	\$ 839,235	0.47%
Fred Meyer/QFC	764,091	0.43%
Goodwill Industries	672,432	0.38%
Swedish Medical Center	593,458	0.33%
City of Seattle-Parks	589,598	0.33%
Safeway	493,168	0.28%
Seattle Housing Authority	479,573	0.27%
Pike Place Market	437,922	0.25%
Vigor Marine	360,481	0.20%
Seattle Pacific University	350,652	0.20%
Total-Ten Largest Customers	\$ 5,580,610	3.14%

*Source: SPU Finance and Administration*

*Residential Collection.* All residents of the City are required by City ordinance to subscribe to garbage collection service. Residential households are charged directly by the City for solid waste services. This charge is part of a combined utility bill that also includes charges for water and wastewater services. In 2015, residential collection charges, including charges for organics service, generated approximately \$112.6 million, or 63% of total Solid Waste System revenue.

*Commercial Collection.* Commercial customers are charged by the haulers contracting with the City for commercial collection, which then remit those payments to the City. In 2015, commercial collection charges generated approximately \$54.0 million, or 30% of total Solid Waste System revenue.

*Disposal and Other.* The disposal and other category is comprised of self-haul revenues from the City’s two transfer stations, revenues from the sale of recycled materials, commercial disposal charges, and miscellaneous billing fees and charges. In 2015, these charges generated approximately \$10.6 million, or 6% of total Solid Waste System revenue.

### **Expenses**

*Solid Waste Contract Expense.* Payments under the City’s collection, processing, and disposal contracts are the single largest expense of the Solid Waste Fund. In 2015, \$71.9 million, or 41% of total Solid Waste System expenses, went to Cleanscapes and Waste Management for garbage, recycling, and organics collection from residential and commercial customers.

Payments to Rabanco Ltd. for recycling processing were \$2.6 million, or 2% of Solid Waste System expenses. Payments to Lenz Enterprises and PacifiClean Environmental for processing of organics materials were \$4.5 million, or 3% of Solid Waste System expenses. Payments to Waste Management Disposal Services of Oregon, Inc. for long-range hauling and disposal of garbage totaled \$12.8 million in 2015, or 7% of total Solid Waste System expenses. Payments to the County’s Local Hazardous Waste Management Program were \$4.0 million, or 2% of Solid Waste System expenses.

*Other Operations and Maintenance.* Expenses in this category include operation of City-owned transfer stations, customer service, billing, planning, conservation programs, finance and administration, and general overhead. In 2015, other operations and maintenance totaled \$45.6 million, or 26% of Solid Waste System expenses. In 2015, a one-time accrual of \$9.6 million for environmental liabilities related to the City’s South Park landfill site was recorded. This is an accounting expense which is reflected in the Statement of Operating Results, but is not included with cash expenses in this section. This liability will be reduced when remediation work begins in 2016.

*Taxes.* An 11.5% City utility tax, less deductions for certain environmental programs, is applied to Solid Waste System revenues and paid to the City's General Fund. A total of \$14.1 million, or 8% of Solid Waste System expenses, was paid in City taxes in 2015. The City also levies a tonnage tax of \$13.27 per ton of non-recycled waste. The tonnage tax levied on SPU totaled \$3.9 million in 2015, or 2% of Solid Waste System expenses. By ordinance, this tax revenue is transferred back to the Solid Waste Fund. See "Clean City and Tonnage Tax" below. Under the City Charter, City taxes are payable after payment of debt service on Parity Bonds.

In addition to City taxes, the State levies a 1.5% business and occupation tax on gross revenues and a 3.6% State refuse tax with deductions allowed for certain environmental-related programs. In 2015, SPU paid \$2.7 million in business and occupation taxes, or 2% of Solid Waste System expenses. The 3.6% State refuse tax is deducted from revenue and is not recorded as an expense. SPU paid \$4.6 million in State refuse taxes in 2015.

*Clean City and Tonnage Tax.* The tonnage tax is levied on all non-recycled waste transferred within the City. It is paid by SPU and all other public and private parties who transfer waste within City limits. All tonnage tax revenues, including those paid by others, are transferred to the Solid Waste Fund. These proceeds fund the City's Clean City program, which provides litter, public trash, and graffiti cleanup services. For garbage tons transferred by others, SPU received \$2.5 million in 2015. Revenues and expenses for this program are netted out under Nonoperating Revenue (Expenses) in the Solid Waste Fund's audited financial statements, attached as Appendix C. Revenues under this category include the portion paid by SPU, the expense of which is recorded under "City Taxes" in Table 3—Solid Waste System Operating Results.

## **Financial Performance**

Table 3—Solid Waste System Operating Results shows historical revenues and expenses of the Solid Waste System derived from audited financial statements for the years 2011 through 2015, and projected revenues and expenses for 2016 and 2017. Notes to Table 3 are provided on the following page.

*SPU does not as a matter of course make public projections as to future revenues, expenses, or other results. However, the management of SPU has prepared the prospective financial information set forth below under "Solid Waste System Operating Results" and "Future Capital Improvements" to provide readers of this Official Statement information related to projected revenues and expenses of the Solid Waste 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 Solid Waste 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 3**  
**SOLID WASTE SYSTEM**  
**OPERATING RESULTS**  
**(\$000)**

	<b>Audited</b>					<b>Projected<sup>(1)</sup></b>	
	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
<b>Operating Revenue</b>							
Residential Collection Services <sup>(2)</sup>	\$ 91,473	\$ 97,622	\$ 103,943	\$ 106,794	\$ 112,667	\$ 118,298	\$ 123,693
Commercial Collection Services <sup>(2)</sup>	46,693	46,084	47,776	50,843	54,046	54,161	56,314
Disposal and Other <sup>(3)</sup>	16,034	13,221	13,269	10,361	10,574	14,833	17,771
Rate Stabilization Account	-	-	(5,247)	(10,500)	(2,500)	2,500	-
<b>Total Operating Revenues</b>	<b>\$ 154,200</b>	<b>\$ 156,927</b>	<b>\$ 159,742</b>	<b>\$ 157,498</b>	<b>\$ 174,788</b>	<b>\$ 189,791</b>	<b>\$ 197,777</b>
<b>Operating Expenses</b>							
Solid Waste Contract Expense	\$ 90,248	\$ 91,786	\$ 95,325	\$ 96,867	\$ 100,042	\$ 105,805	\$ 110,522
Other Operations and Maintenance <sup>(4)</sup>	30,206	28,428	28,517	29,115	39,714	39,211	40,301
City Taxes	15,052	15,538	16,838	17,716	17,987	18,775	19,684
State B&O Tax	2,789	2,666	2,934	2,505	2,588	2,987	3,114
<b>Total Operating Expenses</b>	<b>\$ 138,294</b>	<b>\$ 138,418</b>	<b>\$ 143,614</b>	<b>\$ 146,203</b>	<b>\$ 160,331</b>	<b>\$ 166,778</b>	<b>\$ 173,621</b>
<b>Net Operating Income</b>	<b>\$ 15,906</b>	<b>\$ 18,509</b>	<b>\$ 16,127</b>	<b>\$ 11,295</b>	<b>\$ 14,457</b>	<b>\$ 23,013</b>	<b>\$ 24,156</b>
<b>Adjustments</b>							
Less: DSRF Earnings	\$ (19)	\$ (38)	\$ (33)	\$ (56)	\$ (91)	\$ -	\$ -
Plus: City Taxes <sup>(5)</sup>	15,052	15,538	16,838	17,716	17,987	18,775	19,684
Environmental Liability Costs <sup>(6)</sup>	-	-	-	-	9,345	-	-
Investment Interest	279	260	211	567	820	388	417
Net Proceeds from Sale of Assets	111	133	203	2,987	258	(50)	(50)
Net Other Nonoperating Revenues (Expenses) <sup>(7)</sup>	557	(283)	316	1,338	565	109	3
<b>Total Adjustments</b>	<b>\$ 15,980</b>	<b>\$ 15,609</b>	<b>\$ 17,535</b>	<b>\$ 22,552</b>	<b>\$ 28,884</b>	<b>\$ 19,222</b>	<b>\$ 20,054</b>
<b>Net Revenue Available for Debt Service</b>	<b>\$ 31,886</b>	<b>\$ 34,118</b>	<b>\$ 33,662</b>	<b>\$ 33,847</b>	<b>\$ 43,340</b>	<b>\$ 42,235</b>	<b>\$ 44,210</b>
Without Credit for City Taxes	16,835	18,581	16,824	16,131	25,353	23,460	24,526
<b>Annual Debt Service</b>							
Annual Debt Service	\$ 5,848	\$ 9,039	\$ 9,038	\$ 9,728	\$ 12,627	\$ 15,433	\$ 16,348
Less: DSRF Earnings	(19)	(38)	(33)	(56)	(91)	-	-
<b>Adjusted Annual Debt Service</b>	<b>\$ 5,830</b>	<b>\$ 9,001</b>	<b>\$ 9,005</b>	<b>\$ 9,672</b>	<b>\$ 12,536</b>	<b>\$ 15,433</b>	<b>\$ 16,348</b>
<b>Coverage (Financial Policy Target = 1.70)<sup>(8)</sup></b>	<b>5.47</b>	<b>3.79</b>	<b>3.74</b>	<b>3.50</b>	<b>3.46</b>	<b>2.74</b>	<b>2.70</b>
Without Credit for City Taxes (Financial Policy Target = 1.50)	2.89	2.06	1.87	1.67	2.02	1.52	1.50

## NOTES TO TABLE:

Totals may not add due to rounding.

- (1) Projections for 2016 and 2017 are based on 3.0% inflation on collections and processing contracts, compared to 1.3% historically. Projections include slight declines in single-family garbage demand, offset by increases in residential organics demand and an increase in residential dumpster volume. These trends are the result of infill development within the City and increased diversion away from garbage and towards organics reuse programs. Commercial demand is expected to fall by 1% to 2% per year. Transfer station tonnages are expected to increase 5% to 8% per year with the opening of the new North Transfer Station, expected by the end of 2016.
- (2) Projected revenues include a 3.4% rate increase that became effective April 1, 2016. 2017 projections assume a 6.0% rate increase effective in 2017. SPU has not yet proposed rates for 2017 through 2019, but expects to propose and have rates approved later in 2016.
- (3) Revenues from disposal declined in 2014 due to the closure of the old north-end transfer station. The projected increase in this category from 2015 to 2017 is due to the opening of the North Transfer Station in 2016 and a new recycling processing contract that provides SPU with more revenue from the sale of recycled materials. See “Solid Waste Operations—Transfer” and “—Processing.”
- (4) The increase from 2014 to 2015 reflects recognition of the South Park landfill environmental liability. See “Expenses—Other Operations and Maintenance.”
- (5) The City currently levies a tax on total gross income from the Solid Waste System of 11.5%. Under the City Charter, City taxes on the Solid Waste System may be paid to the General Fund only after provision has been made for debt service payable from Net Revenues and for necessary betterments and replacements for the current year.
- (6) For purposes of calculating debt service coverage ratios, non-cash Environmental Liability Costs are removed from Operating Expense. Those costs are included in “Other Operations and Maintenance” and under “Utility Systems Management” in the Statement of Changes in Net Position in the audited financial statements.
- (7) Includes Nonoperating Revenues, Rental Income, the net impact of the Clean City program, Services for Others, and Other Nonoperating Revenues/Expenses. Excludes non-cash accounting entries for depreciation and other amortization and excludes unfunded net pension expense resulting from the implementation of GASB 68.
- (8) Calculated in accordance with the Bond Legislation. Such calculations are derived from definitions of Adjusted Gross Revenue, Maintenance and Operation Expenses, Adjusted Net Revenue, and certain other terms which are defined in Appendix A—Bond Ordinance—Section 1. Coverage ratios from 2011 to 2014 presented here have been recalculated to reflect the City’s interpretation of the language of the ordinances that govern financial policies and may differ from those that appear in previous audited financial statements. Such calculations also reflect the application of generally accepted accounting principles as applied to financial results.

Note: Totals may not add due to rounding.

*Source: 2010-2015: SPU Audited Financial Statements; 2016-2017: SPU Finance and Administration*

## 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 Solid Waste Fund.

A recession-induced downward trend in demand for services started in 2009 and continued through mid-2013. Declining demand was counterbalanced by successive rate increases during that period. Starting in 2013, certain sectors began to show signs of improvement and by 2014, most sectors were experiencing improvement. Long-term declines in single-family demand were offset by increases in multi-family demand as apartment and condominium construction within the City replaced single-family homes. By 2015, demand across all sectors had returned to long-term trends: declining single family garbage demand, increasing organics demand, increasing multi-family demand, and flat to declining commercial demand.

The “Disposal and Other” category, which includes transfer stations, also includes recycling commodities revenues. Recycling commodities revenues, derived from the sale of recycled materials, were buoyed by high commodity prices in 2011 and resulted in \$4.7 million in revenue. Since then, declining prices for recycled materials, particularly paper, have reduced those revenues to \$0.3 million in 2015. SPU is not projecting any increase in commodity prices; however, the new recycling contract that goes into effect in 2016 will eliminate revenue sharing with the processor. Instead, SPU will retain all revenue, which is expected to lead to a rise in commodity revenue but will net out against higher contract expense. Transfer station revenues declined 25% from 2013 to 2014 due to the temporary closure of the old north-end transfer station. A small increase in tonnage occurred in 2015, but most transfer station revenues are expected to slowly return after the new North Transfer Station is opened in 2016.



Rate increases of 4.1% and 5.9% came into effect in April 2014 and April 2015, respectively. These rate increases, along with lower than expected inflation, have improved net income. A 3.4% rate increase took effect on April 1, 2016. Rate increases for 2017 through 2019 are expected to be proposed to and approved by City Council during the summer of 2016.

Financial projections are based on demand and expense forecasts from SPU’s Recycling Potential Assessment (“RPA”) model, long-term planning under SPU’s Solid Waste Comprehensive Plan and Strategic Business Plan, and time series forecasts for short term data sets. The RPA model projects tonnages using econometric forecasting equations that incorporate historical data, Puget Sound Regional Council forecasts of employment and household income, and assumptions about capture rates (the measurement of materials captured by recycling programs rather than going to the landfill) for current and planned programs based on the best data available. The RPA model includes sector-specific equations and also data on the composition of the waste stream from on-going composition studies done every four years for every sector. See “Solid Waste Comprehensive Plan” and “Strategic Business Plan.”

The Solid Waste Fund did not carry a balance in the Rate Stabilization Account prior to 2013. The balance in the account was \$18.5 million as of the end of 2015. These funds are expected to be withdrawn by 2020. See “Security for the Bonds—Rate Stabilization Account.”

**Rates**

*Establishment of Rates.* Solid waste rates are proposed by the Mayor, reviewed by the City Council, and adopted by ordinance after public hearings. The City Council has exclusive authority to set rates and charges for solid waste services. The City is not subject to the rate-making jurisdiction of the Washington Utilities and Transportation Commission or any other State or federal agency.

*Current Rates.* All City residents are required by ordinance to subscribe to garbage collection service. Both residential and commercial customers can choose the level of service. The rate structures encourage customers to recycle and minimize the amount of garbage collected.

The following table provides a summary of average rate increases for residential and commercial customers. Rates for self-haul customers have not increased since 2010. Rates are currently approved through 2016. A rate study for rates beyond 2016 is expected to be approved in summer 2016.

**TABLE 4  
RATE INCREASES**

2008	6.7%
2009	27.0
2010	8.0
2011	6.0
2012	3.5
2013	6.3
2014	4.1
2015	5.9
2016 (April 1)	3.4

*Source: SPU Finance and Administration*

The following tables show monthly rates for various levels of residential service, the number of customers subscribing to each level of service, representative solid waste bills for the City compared to other cities in the State, and City transfer station rates compared to the County’s rates. A typical commercial customer has three cubic yards of garbage collected once per week. As of April 1, 2016, the cost for this service is \$456.68 per month, including a monthly account fee of \$25.20.

**TABLE 5**  
**2016 MONTHLY RESIDENTIAL RATE SCHEDULE**

<b>Service Units</b>	<b>Rate <sup>(1)</sup></b>
No Can (minimum rate)	\$ 6.85
12-Gallon	21.30
20-Gallon	26.10
32-Gallon	34.00
64-Gallon	68.00
96-Gallon	102.00
Recycling	No charge
Non-Compacted Dumpster (one cubic yard, once/week, one container) <sup>(2)</sup>	252.17
Compacted Dumpster (three cubic yards, once/week, one container) <sup>(2)</sup>	727.82
Yard Waste Mini-Can	5.65
Yard Waste 32-Gallon Can	8.50
Yard Waste 96-Gallon Can	10.85

(1) Rates listed are for curb/alley service.

(2) Dumpster rates vary with size and number of containers as well as frequency of collection. Dumpster rates shown include a \$37.40 monthly account fee.

*Source: SPU Finance and Administration*

**TABLE 6**  
**NUMBER OF CUSTOMERS BY CLASS**

<b>Customer Class</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>
<b>Variable Cans</b>					
No Can/Vacancy	2,611	2,443	2,385	2,388	2,114
12-Gallon Can	16,761	17,974	18,613	19,215	19,893
20-Gallon Can	43,830	44,395	44,738	46,083	46,942
32-Gallon Can	94,393	91,783	90,499	86,956	86,675
64-Gallon Can	6,525	6,568	6,627	7,034	7,081
96-Gallon Can	1,461	1,606	1,677	1,891	2,008
<b>Total Variable Cans</b>	<b>165,581</b>	<b>164,769</b>	<b>164,539</b>	<b>163,567</b>	<b>164,713</b>
Residential Dumpster Accounts	5,245	5,206	5,185	5,203	5,261
Commercial Accounts	8,198	8,173	8,183	8,168	8,145

*Source: SPU Finance and Administration*

**TABLE 7**  
**REGIONAL COMPARISONS OF AVERAGE MONTHLY BILLS**  
**(Rates in Effect as of April 1, 2016)**

<u>City</u>	<u>Residential<sup>(1)</sup></u>	<u>Commercial<sup>(2)</sup></u>
Bellevue	\$23.32	\$ 234.33
Kirkland	24.81	205.09
Seattle	44.85	431.48
Shoreline	29.15	290.90
Spokane	31.58	260.05

- (1) Residential service assumes a 32-gallon garbage can picked up every week, a 96-gallon yard waste cart, and recycling service. Some yard waste or recycling service frequencies vary by jurisdiction.
- (2) Commercial service assumes a three-cubic-yard uncompacted container picked up one time per week or equivalent. Amounts shown include taxes.

*Source: SPU Finance and Administration*

**TABLE 8**  
**REGIONAL COMPARISON OF TRANSFER STATION RATES**

<u>Garbage</u>	<u>Seattle</u>	<u>King County</u>
Per Ton	\$145.00	\$129.40
Minimum Charge	30.00	22.00

*Source: SPU Finance and Administration*

## **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 Solid Waste Fund’s allocated share of the cost of this project is included in the Solid Waste System’s capital improvement plan and this increased cost will result in a reallocation between components of the adopted capital improvement plan. See “Future Capital Improvements.”

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.

Commercial customers are billed directly by the companies under contract with the City to collect commercial solid waste. Customers who self-haul garbage, yard waste, and wood waste to the City’s two transfer stations either pay with cash or by credit card at the time they deliver their waste, or are billed directly by SPU on a monthly basis. If a credit customer fails to pay its bill on a timely basis, SPU terminates that customer’s line of credit at the City-owned

transfer stations, sends repeated notices to the customer demanding payment, and, if these measures fail to produce payment, transmits the matter to the City Attorney's Office for collection.

### **Financial Policies**

The Mayor and City Council have established financial policies by resolution for SPU, including the Solid Waste System. In accordance with these policies, solid waste rates are set to achieve generally positive net income, cash balances of 20 days of contract payments, a minimum \$3.2 million (in 2014 dollars) cash contribution to capital spending, and two minimum debt service coverage ratio policies. The first sets a minimum of 1.70 times annual debt service and the second removes credit for grant revenue and taxes paid to the City and establishes a minimum of 1.50 times annual debt service.

### **Interfund Loans**

The City's Director of Finance is authorized to provide additional liquidity to the Solid Waste Fund through the use of interfund loans from the City common investment portfolio (the "Investment Pool"). See "The City of Seattle—Financial Management—Interfund Loans." The Solid Waste Fund does not have any outstanding interfund loans.

### **Future Capital Improvements**

Development of the facilities needed for the rehabilitation, enhancement, and expansion of the Solid Waste System are guided by the Solid Waste Comprehensive Plan and the multi-year capital improvement plan ("CIP"), which is developed within the framework of the Comprehensive Solid Waste Management Plan and included in the multi-year capital improvement plan of the City as a whole. The City's capital improvement plan is reviewed, revised, and adopted annually by the Mayor and City Council as part of the City's budget process.

The Solid Waste System's largest CIP projects through 2021, the replacement of the City's transfer stations, and the redevelopment of the City's historic landfill site in the South Park neighborhood, will require higher than historic levels of CIP funding. Transfer station improvements started in 2011 and are expected to be completed in 2016. These improvements are being made in three phases to allow continuity of operations. The new South Transfer Station opened in 2013. The new North Transfer Station is currently under construction on the site of the demolished old north-end transfer station and is expected to open by the end of 2016. Demolition of the old south-end transfer station and its replacement with recycling facilities is scheduled to begin once the new North Transfer Station is open, and is expected to be completed in 2019.

SPU expects to finance the CIP with a combination of internally generated funds, proceeds of the Bonds, and remaining proceeds of prior bond issues. At this time, SPU does not anticipate the need to issue additional bonds in order to fund the current CIP projects. Based on the current CIP and projected capital requirements, annual debt service on Parity Bonds is expected to increase from \$12.7 million in 2015 to \$16.3 million in 2017, at which time it will stabilize for the foreseeable future.

The CIP is organized into four program areas designed to reflect current CIP priorities and promote better fiscal management: (i) New Facilities (including the replacement of the two City-owned transfer stations), (ii) Rehabilitation and Heavy Equipment, (iii) Shared Cost Projects, and (iv) Technology, as shown in the table below. The information provided in the table below displays projections prepared for planning purposes only.

**TABLE 9**  
**2016-2021 CAPITAL IMPROVEMENT PROGRAM**  
**(\$000)**

PROGRAM AREA	2016	2017	2018	2019	2020	2021	Total
New Facilities	\$30,552	\$15,560	\$ 4,807	\$ 1,589	\$ 2,024	\$ 913	\$55,445
Rehabilitation and Heavy Equipment	430	30	30	15	15	50	570
Shared Cost Projects	1,147	2,084	1,263	1,259	981	1,842	8,577
Technology	7,235	2,908	2,037	1,137	1,079	1,395	15,791
<b>Total Uses</b>	<b>\$39,364</b>	<b>\$20,582</b>	<b>\$ 8,137</b>	<b>\$ 4,000</b>	<b>\$ 4,100</b>	<b>\$ 4,200</b>	<b>\$80,383</b>
<b>FUNDING SOURCES</b>							
Debt Financing							
Existing Bond Funds	\$15,386	\$ -	\$ -	\$ -	\$ -	\$ -	\$15,386
The Bonds	15,677	3,671	-	-	-	-	19,348
Internally Generated Funds	8,301	16,912	8,137	4,000	4,100	4,200	45,650
<b>Total Sources</b>	<b>\$39,364</b>	<b>\$20,582</b>	<b>\$ 8,137</b>	<b>\$ 4,000</b>	<b>\$ 4,100</b>	<b>\$ 4,200</b>	<b>\$80,383</b>

Note: Totals may not add due to rounding.

Source: SPU Finance and Administration

### Flow Control

Pursuant to contract and ordinance, the City controls the delivery of solid waste to particular facilities (“flow control”). Over the years, flow control has been challenged as an impermissible restriction on interstate commerce under the U.S. Constitution. In 1994, in *C&A Carbone v. Clarkstown* (“*Carbone*”), the U.S. Supreme Court held that a municipal ordinance requiring the delivery of all solid waste generated within a town to a designated privately-owned transfer station was invalid economic protectionism under the dormant commerce clause. Since *Carbone*, municipal flow control requirements created by contract have been challenged under the commerce clause and have been upheld. See, e.g., *Village of Rockville Centre v. Town of Hempstead*. In April 2007, the U.S. Supreme Court limited the scope of *Carbone* by upholding a local government regulation that required delivery of solid waste to a government-owned facility. In *United Haulers Association v. Oneida-Herkimer*, the Court held that an ordinance that treats all private haulers equally in requiring their use of a government-owned disposal facility does not violate the dormant commerce clause of the U.S. Constitution.

All commercial and residential solid waste collected under the City’s current collection contracts is required, by the contract terms, to be delivered to either of the two City-owned and -operated transfer stations or to two privately-owned and -operated transfer stations. In addition, under the current commercial collection contracts, the City reserves the right to direct construction and demolition waste to designated disposal sites. In 2008, the Washington Supreme Court in *Ventenbergs v. City of Seattle* rejected a challenge to the City’s contracts which allowed only the two commercial haulers under contract with the City to pick up and transport construction and demolition waste. In upholding those contracts, the Supreme Court relied in part on a prior 1994 decision, *Weyerhaeuser v. Pierce County*, and expressly reiterated the principle that, although a city may contract with a private company, the municipality ultimately remains responsible for collection and disposal of solid waste.

To the extent that the City’s ordinance directs solid waste to privately-owned facilities, it is possible that it could be subject to constitutional challenge. However, the City believes that, if it were to lose such a challenge, there would be no adverse effect on the ability of the City to pay principal of and interest on the Bonds when due.

### Solid Waste Comprehensive Plan

The City’s Solid Waste Comprehensive Plan was updated and approved in 1998 and amended in 2004 (the “1998 Plan”). In February 2013, the City Council adopted a 2011 Plan Revision, which received final approval by the Washington State Department of Ecology (“Ecology”) in June 2013. One of the City’s principal goals, first established in 1988 and included in the 1998 Plan, has been to achieve a 60% recycling rate. The 2004 amendment

to the 1998 Plan established 2008 as the year for achieving the 60% recycling rate; however, progress toward the recycling goal has been slower than expected. In 2011, the City Council adopted a resolution establishing revised goals for the City's recycling rate: 60% by 2015 and 70% by 2022. In 2014, the City achieved a 57.1% recycling rate. The preliminary estimate for the 2015 recycling rate is 59%.

The 2011 Plan Revision incorporates improved, augmented, and new programs to achieve the City's waste reduction and recycling goals. The City is placing greater emphasis on waste reduction and its long-term benefits, while maintaining continuous recycling program improvements and maximizing the efficiency and cost-effectiveness of collection and transfer services.

### **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.

### **Risk Management and Quality Assurance**

The Risk and Quality Assurance Program ("RQA") was first established in 2004 and became a separate City 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 SPU's 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 that 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."

### **Environmental Liability**

*Midway and Kent Highlands Landfills.* The City operated the Midway and Kent Highlands landfills, located in the City of Kent, from the 1960s through the 1980s. Both landfills were designated by the United States Environmental Protection Agency ("EPA") as Superfund sites under the Comprehensive Environmental Response, Compensation, and Liability Act of 1980 ("CERCLA"). In the early to mid-1990s, both landfills were closed and the post-closure maintenance and environmental monitoring period began. These two sites are State Lead sites, which means Ecology is the lead regulatory agency with EPA oversight. Both Midway and Kent Highlands are re-evaluated every five years as required under CERCLA. During the five-year reviews, changes in monitoring frequency are formally approved. Interim changes in monitoring are also possible between the five-year reviews, and are to be included in the next five-year review. Reporting requirements at both sites have been reduced to a single annual

report. Monitoring and maintenance of the landfill closure components is expected to continue for at least another 20 years.

*South Park Landfill.* The City and a private developer are under an Agreed Order with Ecology to perform a Remedial Investigation and Feasibility Study and to draft a Cleanup Action Plan for the historic South Park landfill site under the State Model Toxics Control Act. The City and the developer submitted a draft Remedial Investigation and Feasibility Study Report in 2012 and a Draft Cleanup Action Plan in 2014, and are negotiating with Ecology to finalize the two reports. Negotiations are underway to finalize a Consent Decree for the site with other potentially liable parties, Ecology, and the Attorney General’s office. Ecology recently approved an amendment of the Agreed Order to allow the City to construct an interim cleanup action on the City-owned portion of the landfill property. That interim cleanup is expected to be done in the 2018-2019 timeframe. Ecology also approved an interim cleanup action by the developer on his portion of site property. That cleanup was completed in 2015. In 2012, the City executed an agreement regarding the developer’s interim action that settles City liabilities for the interim cleanup costs but not City liabilities for the permanent cleanup.

*Other Landfills.* Additionally, there are other, less active, historic landfills within the City that may pose an environmental liability for the City. The Solid Waste Fund has implemented GASB 49 to account for environmental liabilities. See Appendix C—2015 Audited Financial Statements of the Solid Waste Fund—Notes 11 and 12.

### **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 Disaster Debris Management Plan, approved by the Federal Emergency Management Agency (“FEMA”) , and a disaster debris removal contract that complies with FEMA procurement regulations. Together, these position the Solid Waste Fund for maximum financial support from FEMA in the event of a disaster.

## **THE CITY OF SEATTLE**

The following provides general information about the City.

### **Municipal Government**

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

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

The City is organized under the mayor-council form of government and operates under its City Charter. The Mayor, the city attorney, and the Municipal Court judges are all elected to four-year terms. 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 re-election, 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 and utility rates, makes appropriations, and adopts and approves the annual operating budget and capital improvement plans for the City. The City Council members serve on a full-time basis.

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

## **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 for 2014 may be obtained from the Department of Finance and Administrative Services and is available at <http://www.seattle.gov/cafrs/default.htm>. The Solid Waste Fund's 2015 financial statements are also audited by an independent auditor and are attached as Appendix C.

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

*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 is \$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 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 <sup>(1)</sup>	26%
Taxable Municipal Bonds	16%
Mortgage-Backed Securities	13%
Commercial Paper	12%
Repurchase Agreements	3%
Certificates of Deposit	3%

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(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 provide 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”), Firefighters’ Pension Fund, Police Relief and Pension Fund, and Law Enforcement Officers’ and Fire Fighters’ Retirement System (“LEOFF”). The first three are administered by the City and are reported as pension trust funds as part of the City’s reporting entity. The State administers LEOFF through the State Department of Retirement Systems (“DRS”). 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 Solid Waste Fund reported a liability of \$28.188 million, 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 Solid Waste 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 Solid Waste Fund’s proportion was 2.54%. 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 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 10**  
**PLAN MEMBER DEMOGRAPHIC INFORMATION**

Age Range	Retirees and Beneficiaries		Active Employees	
	Receiving Benefits			
	Number <sup>(1)</sup>	Percent	Number	Percent
<25	-	0.0%	77	0.9%
25-39	-	0.0%	1,995	22.8%
40-49	10 <sup>(2)</sup>	0.2% <sup>(2)</sup>	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](http://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 mid-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 <sup>(1)</sup>	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 rate 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 11**  
**HISTORICAL SCERS SCHEDULE OF FUNDING PROGRESS<sup>(1)</sup>**  
**(\$000,000)**

<b>Actuarial Valuation Date (January 1)<sup>(2)</sup></b>	<b>Actuarial Value of Assets (AVA)</b>	<b>Actuarial Accrued Liability (AAL)<sup>(3)</sup></b>	<b>Unfunded AAL (UAAL)</b>	<b>Funded Ratio</b>	<b>Covered Payroll<sup>(4)</sup></b>	<b>UAAL as % of Covered Payroll</b>
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 <sup>(5)</sup>	2,013.7	2,709.0	(695.4)	74.3%	563.2	123.5 %
2012 <sup>(5)</sup>	1,954.3	2,859.3	(905.0)	68.3%	557.0	162.5 %
2013 <sup>(5)</sup>	1,920.1	3,025.3	(1,105.2)	63.5%	567.8	194.6 %
2014 <sup>(5)</sup>	2,094.3	3,260.1	(1,165.8)	64.2%	597.9	195.0 %
2015 <sup>(5)</sup>	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; 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 Solid Waste 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 12  
EMPLOYER AND EMPLOYEE SCERS CONTRIBUTION RATES**

Calendar Years (beginning Jan. 1)	Employer Rate	Employee Rate	Total Contribution Rate	Total ARC <sup>(1)</sup>	% of Total ARC Contributed	% of Total ARC	
						Total ARC per GASB 27 <sup>(2)</sup>	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 purposes.

(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 12—Employer and Employee SCERS Contribution Rates and Table 13—Projected Actuarially Required Total Contribution Rates by Employer and Employee.”

The City’s contracts with all labor unions that represent SCERS members describe how contribution rates would be changed in the event that higher contributions are needed to improve the funding status of the system. Under these contracts, the City and employees will share in any contribution rate increase equally, up to a maximum increase of 2% in the employee contribution. The 2% employee contribution rate increase was implemented via 1% increases in 2011 and 2012. This contractual restriction shifts the risk of future increases to the City’s employer contribution.

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

**TABLE 13**  
**PROJECTED ACTUARIALY REQUIRED TOTAL CONTRIBUTION RATES**  
**BY EMPLOYER AND EMPLOYEE**

<b>Contribution Year<sup>(1)</sup></b>	<b>Assuming 7.50% Returns</b>	<b>Confidence Range<sup>(2)</sup></b>
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 \$2.3 million was from the Solid Waste Fund. In 2015, employer contributions were approximately \$101 million, of which approximately \$2.5 million was from the Solid Waste Fund. The employer share for employees of each of the utility funds is allocated to and paid out of the funds of each respective utility.

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

SCERS' net assets increased by \$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 an \$8.8 million increase in retiree benefit payments.

Table 14 below shows the historical market value of SCERS' net assets (as of each December 31). Table 15 shows the revenue or loss from investment activity for the last ten years.

**TABLE 14**  
**MARKET VALUE OF ASSETS**

<b>Year</b> <b>(As of December 31)</b>	<b>Market Value of</b> <b>Assets (MVA)<sup>(1)</sup></b>
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 15**  
**SCERS INVESTMENT RETURNS**

<b>Year</b> <b>(As of December 31)</b>	<b>Net Investment Income (Loss)</b>	
	<b>Amount<sup>(1)</sup></b>	<b>%<sup>(2)</sup></b>
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 16**  
**HISTORICAL SCERS DISTRIBUTION OF INVESTMENTS BY CLASS**

<b>Investment Categories (January 1)</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>
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%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

*Source: SCERS Actuarial Valuations*

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

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

*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 Firefighters' Pension Fund and adopted a policy of fully funding the actuarial accrued liability ("AAL") by the year 2018 (which was subsequently extended to 2023). For 2013, the City funded 100% of the ARC but only a portion of the projected payment necessary to fully fund the AAL by 2023. The City's 2014 budget also anticipates fully funding the ARC and making partial payments toward the full funding of the AAL. As of January 1, 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 Fire Fighters' Retirement System.* Substantially all of the City's current uniformed firefighters and police officers are enrolled in LEOFF. LEOFF is a State-wide, multiple-employer defined benefit plan administered by the DRS. Contributions by employees, employers, and the State are based on gross wages. LEOFF participants who joined the system by September 30, 1977, are Plan 1 members. LEOFF participants who joined on or after October 1, 1977, are Plan 2 members. For all of the City's employees who are covered under LEOFF, the City contributed \$13.9 million in 2014 and \$12.9 million in 2013. The following table outlines the contribution rates of employees and employers under LEOFF.

**TABLE 17**  
**LEOFF CONTRIBUTION RATES EXPRESSED AS A PERCENTAGE OF COVERED PAYROLL**  
**(As of December 31, 2015)**

	<b>Plan 1</b>	<b>Plan 2</b>
Employer	0.18% <sup>(1)</sup>	5.23% <sup>(1)</sup>
Employee	0.00	8.41%
State	N/A	3.36%

(1) Includes a 0.18% DRS administrative expense rate.

Source: Washington State Department of Retirement Systems

While the City’s current contributions represent its full current liability under the retirement systems, any unfunded pension benefit obligations could be reflected in future years as higher contribution rates. The State Actuary’s website includes information regarding the values and funding levels of LEOFF. For additional information, see Note 9 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 Benefits**

The City has liability for two types of other post-employment benefits (“OPEB”): (i) an implicit rate subsidy for health insurance covering employees retiring under SCERS or LEOFF Plan 2 and dependents of employees retiring under LEOFF Plan 1, and (ii) medical benefits for eligible beneficiaries of the City’s Firefighters’ Pension Fund and Police Relief and Pension Fund. The implicit rate subsidy is the difference between (i) what retirees pay for their health insurance as a result of being included with active employees for rate-setting purposes, and (ii) the estimated required premiums if their rates were set based on claims experience of the retirees as a group separate from active employees. The City has assessed its OPEB liability in order to satisfy the expanded reporting requirements specified by GASB 45. While GASB 45 requires reporting and disclosure of the unfunded OPEB liability, it does not require that it be funded. The City funds its OPEB on a pay-as-you-go basis.

The City commissions a biennial valuation report on its OPEB liabilities associated with the implicit rate subsidy for health insurance covering employees retiring under the SCERS or LEOFF plans. The last 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 ("AWVSR Program") consists of multiple projects to remove and replace the State Route 99 Alaskan Way Viaduct with a bored tunnel (the "State's Project"), replace an existing seawall (the "City's Seawall Project"), 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 and the City's Seawall Project are by far the largest projects in the AWVSR Program.

The AWVSR is not expected to materially affect the Solid Waste System.

## **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 Appendix C—2015 Audited Financial Statements of the Solid Waste Fund—Note 7, 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 SPU Solid Waste Fund 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 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 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 execute a written undertaking (the "Undertaking") for the benefit of holders of the Bonds, as set forth in the Bond Legislation and described 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 Financial 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 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), 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 Solid Waste 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 outstanding bonded debt secured by Net Revenue of the Solid Waste System;
- (iii) debt service coverage ratios;
- (iv) summary operating statistics for the Solid Waste System, including data of the type herein in the tables entitled “Solid Waste Tonnage,” “Regional Comparison of Transfer Station Rates,” and “Number of Customers by Class”; and
- (v) current solid waste 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 permitted or required by State law, commencing with the City’s fiscal year ending December 31, 2016. The annual financial information may be provided in a single document or in multiple documents, and may be incorporated by specific reference to documents available to the public on the Internet website of the MSRB or filed with the SEC.

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

The City will give notice to the MSRB of the substance (or provide a copy) of any amendment to the Undertaking and a brief statement of the reasons for the amendment. If the amendment changes the type of annual financial



information to be provided, the annual financial information containing the amended information will include a narrative explanation of the effect of that change on the type of information to be provided.

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

*Remedy for Failure to Comply with Undertaking.* The City has agreed to proceed with due diligence to cause any failure to comply with the Undertaking to be corrected as soon as practicable after the City learns of that failure. No failure by the City or any other obligated person to comply with the Undertaking will constitute a default in respect of the Bonds. The sole remedy of any holder of a Bond will be to take such actions as that holder deems necessary, including seeking an order of specific performance from an appropriate court, to compel the City or other obligated person to comply with the 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 "Aa3" 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 Citigroup Global Markets Inc. (the "Underwriter") at a price of \$40,768,732.04, and will be reoffered at a price of \$40,847,904.35. 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:                   /s/ Glen M. Lee                    
                  Glen M. Lee  
                  Director of Finance

**APPENDIX A**

**BOND ORDINANCE**

Ordinance 124913, 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 124915 authorized the issuance of the refunding portion of the Bonds and is substantially similar to Ordinance 124913.

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**CITY OF SEATTLE**  
**ORDINANCE** 124913  
**COUNCIL BILL** 118542

1  
2  
3  
4  
5 AN ORDINANCE relating to the solid waste system of The City of Seattle; adopting a system or  
6 plan of additions and betterments to and extensions of the solid waste system; authorizing  
7 the issuance and sale of solid waste system revenue bonds, in one or more series, for the  
8 purposes of paying part of the cost of carrying out that system or plan, providing for the  
9 reserve requirement and paying the costs of issuance of the bonds; providing for certain  
10 terms, conditions, covenants and the manner of sale of the bonds; describing the lien of  
11 the bonds; creating certain accounts of the City relating to the bonds; and ratifying and  
12 confirming certain prior acts.

13  
14 WHEREAS, The City of Seattle (the "City") owns, maintains and operates a solid waste  
15 collection and disposal system as part of Seattle Public Utilities (the "Solid Waste  
16 System"), which Solid Waste System has from time to time required various additions,  
17 improvements and extensions; and

18 WHEREAS, the City needs to acquire and construct certain additions and betterments to and  
19 extensions of the Solid Waste System as set forth in this ordinance (the "Plan of  
20 Additions"); and

21 WHEREAS, pursuant to the bond legislation described in Exhibit A, the City issued its solid  
22 waste revenue bonds described in Exhibit A, and provided for the issuance of additional  
23 bonds having a charge and lien on the net revenue of the Solid Waste System on a parity  
24 of lien with those bonds ("Parity Bonds") upon compliance with certain conditions; and

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

29 NOW, THEREFORE,

1 **BE IT ORDAINED BY THE CITY OF SEATTLE AS FOLLOWS:**

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

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

13 **“Adjusted Annual Debt Service”** for any fiscal year means Annual Debt Service minus  
14 (a) an amount equal to earnings from investments in the Reserve Subaccount and (b) Annual  
15 Debt Service provided for by Parity Bond proceeds.

16 **“Adjusted Gross Revenue”** for any period means Gross Revenue, plus withdrawals  
17 from the Rate Stabilization Account made during that period, and minus (a) earnings from  
18 investments in the Reserve Subaccount and (b) deposits into the Rate Stabilization Account  
19 made during that period.

20 **“Adjusted Net Revenue”** means Adjusted Gross Revenue less Maintenance and  
21 Operation Expenses.

22 **“Annual Debt Service”** for any calendar year means the sum of the amounts required in  
23 such calendar year to pay the interest due in such calendar year on all Parity Bonds outstanding,

1 excluding interest to be paid from the proceeds of the sale of Parity Bonds or other bonds; the  
2 principal of all outstanding Serial Bonds due in such calendar year; and the Sinking Fund  
3 Requirement, if any, for such calendar year.

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

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

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

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

1                   **(iii) Interest on Parity Bonds With Respect to Which a Payment**

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



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

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

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

1           **“Authorized Denomination”** means \$5,000 or any integral multiple thereof within a  
2 maturity of a Series.

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

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

8           **“Bond Account”** means the Solid Waste System Revenue Bond Account, created in the  
9 Solid Waste Fund by Ordinance 118975 for the payment of the principal of and interest on Parity  
10 Bonds.

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

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

17           **“Bond Purchase Contract”** means a written offer to purchase a Series, which offer has  
18 been accepted by the City in accordance with this ordinance. In the case of a competitive sale,  
19 the official notice of sale, the Purchaser’s bid and the award by the City shall comprise the offer  
20 and the award by the City in accordance with this ordinance shall be deemed the acceptance of  
21 that offer for purposes of this ordinance.

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

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

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

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

11           **“Bonds”** means the Solid Waste System revenue bonds issued pursuant to this ordinance.

12           **“Capital Appreciation Bond”** means any Parity Bond, all or a portion of the interest on  
13 which is compounded and accumulated at the rates or in the manner, and on the dates, set forth in  
14 the applicable Parity Bond Legislation and is payable only upon redemption or on the maturity  
15 date of such Parity Bond. A Parity Bond that is issued as a Capital Appreciation Bond, but which  
16 later converts to an obligation on which interest is paid periodically, shall be a Capital  
17 Appreciation Bond until the conversion date and thereafter shall no longer be a Capital  
18 Appreciation Bond, but shall be treated as having a principal amount equal to its Accreted Value  
19 on the conversion date.

20           **“CIP”** means those portions of the City’s “2015-2020 Capital Improvement Program”  
21 relating to the Solid Waste System, adopted by the City in Ordinance 124648, together with any  
22 previously adopted Capital Improvement Program of the City. For purposes of this ordinance,

1 the CIP includes all amendments, updates, supplements or replacements that may be adopted  
2 from time to time by ordinance.

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

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

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

9 “**Construction Account**” means the “Solid Waste Construction Account 2016” created  
10 in the Solid Waste Fund by this ordinance.

11 “**Contract Resource Obligation**” means an obligation of the City, which is designated  
12 as a Contract Resource Obligation and is entered into in accordance with Section 20.

13 “**Coverage Requirement**” means Adjusted Net Revenue equal to at least 1.25 times  
14 Adjusted Annual Debt Service on all Parity Bonds then outstanding.

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

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

19 “**Event of Default**” shall have the meaning assigned to that term in Section 25(a).

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

22 “**Future Parity Bond Legislation**” means any ordinance or resolution passed or adopted  
23 by the City Council providing for the issuance and sale of a series of Future Parity Bonds, and

1 any other ordinance or resolution amending or supplementing the provisions of any such  
2 ordinance or resolution.

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

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

12 **“Gross Revenue”** means (a) all income, revenues, receipts and profits derived by the  
13 City through the ownership and operation of the Solid Waste System; (b) Payment Agreement  
14 Receipts, to the extent that such receipts are not offset by Payment Agreement Payments; and  
15 (c) the investment income earned on money held in any fund or account of the City, including  
16 any bond redemption funds and the accounts therein, in connection with the ownership and  
17 operation of the Solid Waste System. Gross Revenue does not include: (a) income derived from  
18 investments irrevocably pledged to the payment of any defeased bonds payable from Gross  
19 Revenue; (b) investment income set aside for or earned on money in any fund or account created  
20 or maintained solely for the purpose of complying with the arbitrage rebate provisions of the  
21 Code; (c) any gifts, grants, donations or other funds received by the City from any State or  
22 federal agency or other person if such gifts, grants, donations or other funds are the subject of  
23 any limitation or reservation imposed by the donor or grantor or imposed by law or

1 administrative regulation to which the donor or grantor is subject, limiting the application of  
2 such funds in a manner inconsistent with the application of Gross Revenue hereunder; (d) the  
3 proceeds of any borrowing for capital improvements (or the refinancing thereof); (e) the  
4 proceeds of any liability or other insurance, including but not limited to insurance proceeds  
5 compensating the City for the loss of a capital asset, but excluding business interruption  
6 insurance or other insurance of like nature insuring against the loss of revenues; and (f) the  
7 earnings of any separate utility system acquired or constructed by the City pursuant to  
8 Section 19.

9 **“Independent Utility Consultant”** means an independent person or firm having a  
10 favorable reputation for skill and experience with solid waste systems of comparable size and  
11 character to the Solid Waste System in such areas as are relevant to the purpose for which they  
12 were retained.

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

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

19 **“Maintenance and Operation Expenses”** means all expenses incurred by the City in  
20 causing the Solid Waste System to be operated and maintained in good repair, working order and  
21 conditions, including without limitation: (a) deposits, premiums, assessments or other payments  
22 for insurance (other than payments out of proceeds of Parity Bonds), if any, on the Solid Waste  
23 System; (b) payments into pension funds; (c) State-imposed taxes; (d) amounts due under

1 Contract Resource Obligations (but only at the times described in Section 20); (e) payments  
2 made to any other person or entity for the collection, transportation, treatment or disposal of  
3 solid waste or other commodity or service related to the Solid Waste System; and (f) payments  
4 with respect to any other expenses of the Solid Waste System that are properly treated as  
5 operation and maintenance expenses under generally accepted accounting principles.  
6 Maintenance and Operation Expenses does not include any depreciation, amortization or other  
7 similar recognitions of non-cash expense items made for accounting purposes only; taxes levied  
8 or imposed by the City or payments in lieu of City taxes; payments of claims or judgments; or  
9 capital additions or capital replacement.

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

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

14 **“Net Revenue”** means, for any period, the Gross Revenue less Maintenance and  
15 Operation Expense.

16 **“Omnibus Refunding Bond Ordinance”** means Ordinance 121940, as previously  
17 amended by Ordinance 122498, and as it may be amended from time to time, including, without  
18 limitation, any amendments adopted in connection with the 2016 budget cycle.

19 **“Outstanding Parity Bonds”** means, with reference to any Series, the then outstanding  
20 Parity Bonds described in Exhibit A and any other Parity Bonds outstanding as of the Issue Date  
21 of that Series of the Bonds.

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

1           **“Parity Bond Legislation”** means any ordinance or resolution passed or adopted by the  
2 City Council providing for the issuance and sale of a series of Parity Bonds, and any other  
3 ordinance or resolution amending or supplementing the provisions of any Parity Bond  
4 Legislation.

5           **“Parity Bonds”** means the Outstanding Parity Bonds, the Bonds and any outstanding  
6 Future Parity Bonds and Parity Payment Agreements.

7           **“Parity Conditions”** means the conditions for issuing Future Parity Bonds under the  
8 Parity Bond Legislation.

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

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

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



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

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

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

16           **“Principal and Interest Subaccount”** means the subaccount of that name created in the  
17 Bond Account by Ordinance 118975 for the payment of the principal of and interest on Parity  
18 Bonds.

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

21           **“Qualified Counterparty”** means a party (other than the City or a party related to the  
22 City) who is the other party to a Payment Agreement, (a)(i) whose senior debt obligations are  
23 rated in one of the three highest rating categories of each Rating Agency (without regard to any

1 gradations within a rating category), or (ii) whose obligations under the Payment Agreement are  
2 guaranteed for the entire term of the Payment Agreement by a bond insurer or other institution  
3 which has been assigned a credit rating in one of the two highest rating categories of each Rating  
4 Agency; and (b) who is otherwise qualified to act as the other party to a Payment Agreement  
5 under any applicable laws of the State.

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

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

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

20 **“Rate Stabilization Account”** means the account of that name originally established by  
21 Ordinance 118975.

22 **“Rating Agency”** means any nationally recognized rating agency then maintaining a  
23 rating on a series of Parity Bonds at the request of the City.

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

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

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

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

16           **“Reserve Security”** means any Qualified Insurance or Qualified Letter of Credit  
17 obtained by the City to satisfy part or all of the Reserve Requirement, and which is not  
18 cancelable on less than three years’ notice.

19           **“Reserve Subaccount”** means the subaccount of that name created in the Bond Account  
20 by Ordinance 118975 for the purpose of securing the payment of the principal of and interest on  
21 Parity Bonds.

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

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

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

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

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

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

13           **“Solid Waste Fund”** means the “Garbage Collection and Disposal Fund” of the City  
14 created by Ordinance 90379 and subsequently renamed the “Solid Waste Fund.”

15           **“Solid Waste System”** means the entire solid waste collection, transportation and  
16 disposal system of the City, created by Ordinance 90379, as amended, together with all additions  
17 thereto and betterments and extensions thereof at any time made, acquired or constructed,  
18 together with any other utility systems of the City hereafter combined with the Solid Waste  
19 System. The Solid Waste System shall not include any separate utility system acquired or  
20 constructed by the City pursuant to Section 19.

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

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

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

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

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

9           **“Term Bond”** means any Bond that is issued subject to mandatory redemption prior to  
10 its maturity in periodic mandatory redemption payments.

11           **“Undertaking”** means the undertaking to provide continuing disclosure entered into  
12 pursuant to Section 23, in substantially the form attached as Exhibit B.

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

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

22           **“Variable Interest Rate Bond”** means, for any period of time, any Parity Bond that  
23 bears a Variable Interest Rate during that period, except that a Parity Bond shall not be treated as

1 a Variable Interest Rate Bond if the net economic effect of interest rates on particular Parity  
2 Bonds of a series and interest rates on other Parity Bonds of the same series, as set forth in the  
3 applicable Parity Bond Legislation, or the net economic effect of a Payment Agreement with  
4 respect to a particular Parity Bond, in either case is to produce obligations that bear interest at a  
5 fixed interest rate; and a Parity Bond with respect to which a Payment Agreement is in force  
6 shall be treated as a Variable Interest Rate Bond if the net economic effect of the Payment  
7 Agreement is to produce an obligation that bears interest at a Variable Interest Rate.

8 **Section 2. Adoption of Plan of Additions.** The City specifies, adopts and orders the  
9 Plan of Additions to be carried out as generally provided for in the documents comprising the  
10 Plan of Additions. The estimated cost of the Plan of Additions, as near as may be determined, is  
11 declared to be \$124,648,000, of which approximately \$22,000,000 is expected to be financed  
12 from the proceeds of the Bonds and investment earnings thereon.

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

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

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

17           **(a)     Maximum Principal Amount.** The Bonds may be issued in one or more Series  
18 and shall not exceed the aggregate principal amount of \$22,000,000.

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

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

22           **(d)     Interest Rate(s); Payment Dates.** Each Bond shall bear interest from the Issue  
23 Date or from the most recent date to which interest has been paid or duly provided for,

1 whichever is later, and shall be payable on dates determined by the Director of Finance. One or  
2 more rates of interest shall be established for each maturity of each Series, which rate or rates  
3 may be fixed interest rates or Variable Interest Rates. Fixed interest rates shall be computed on  
4 the basis of a 360-day year of twelve 30-day months and the net interest cost shall not exceed a  
5 weighted average rate of 10% per annum. Principal payments shall commence on a date and  
6 shall be payable at maturity or have Sinking Fund Requirements on dates determined by the  
7 Director of Finance.

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

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

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

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

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



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

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

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

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

20                   **(iv)** The Bond Sale Terms must establish the method of providing for the  
21 Reserve Requirement, consistent with Section 15(d).

22                   **(v)** Any Series may be designated or qualified as Tax-Exempt Bonds, taxable  
23 bonds, or Tax Credit Subsidy Bonds, and may include such additional terms and covenants

1 relating to federal tax matters as the Director of Finance deems necessary or appropriate,  
2 consistent with Section 22.

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

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

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

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

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

21 Bonds surrendered to the Bond Registrar may be exchanged for Bonds in any Authorized  
22 Denomination of an equal aggregate principal amount and of the same Series, interest rate and  
23 maturity. Bonds may be transferred only if endorsed in the manner provided thereon and

1 surrendered to the Bond Registrar. Any exchange or transfer shall be without cost to the Owner  
2 or transferee. The Bond Registrar shall not be obligated to exchange or transfer any Bond during  
3 the period between the Record Date and the corresponding interest payment or redemption date.

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

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

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

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

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

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

1 determination by the Director of Finance or other direction in the Bond Resolution, credit shall  
2 be allocated on a pro rata basis.

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

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

18       **Section 9. Notice of Redemption.** The City shall cause notice of any intended  
19 redemption of Bonds to be given not less than 20 nor more than 60 days prior to the date fixed  
20 for redemption by first class mail, postage prepaid, to the Registered Owner of any Bond to be  
21 redeemed at the address appearing on the Bond Register on the Record Date, and the  
22 requirements of this sentence shall be deemed to have been fulfilled when notice has been mailed  
23 as so provided, whether or not it is actually received by the Owner of any Bond. Interest on

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

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

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

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

21 Only Bonds bearing a certificate of authentication in substantially the following form  
22 (with the designation, year, and Series adjusted consistent with this ordinance), manually signed  
23 by the Bond Registrar, shall be valid or obligatory for any purpose or entitled to the benefits of

1 this ordinance: “This Bond is one of the fully registered The City of Seattle, Washington, [Solid  
2 Waste Revenue Bonds], [Year], [Series], described in [this ordinance].” The authorized signing  
3 of a certificate of authentication shall be conclusive evidence that the Bond so authenticated has  
4 been duly executed, authenticated and delivered and is entitled to the benefits of this ordinance.

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

14 **Section 12. Construction Account; Deposit of Proceeds.** An account to be known as  
15 the “Solid Waste Construction Account 2016” is created in the Solid Waste Fund. The principal  
16 proceeds of the sale of the Bonds remaining after the deposit of accrued interest on the Bonds, if  
17 any, into the Principal and Interest Subaccount and the deposit of any proceeds as determined by  
18 the Bond Resolution into the Reserve Subaccount, shall be deposited into the Construction  
19 Account, unless otherwise specified in the Bond Resolution or directed by the Director of  
20 Finance, to be used for the purpose of paying part of the costs of carrying out the Plan of  
21 Additions and to pay capitalized interest on, if necessary, and the costs of issuance of the Bonds.  
22 Until needed to pay such costs, the City may invest principal proceeds and interest thereon  
23 temporarily in any Permitted Investments, and the investment earnings may, as determined by

1 the Director of Finance, be retained in the Construction Account and be spent for the purposes of  
2 that account or deposited in the Bond Account.

3 **Section 13. Security for the Bonds.** The Bonds shall be special limited obligations of  
4 the City payable from and secured solely by the Net Revenue and by money in the Bond  
5 Account and the subaccounts therein (including, without limitation, the Reserve Subaccount).  
6 Net Revenue is pledged to make the payments into the Bond Account and the Reserve  
7 Subaccount required by subsections (b), (c) and (d) of Section 14, which pledge shall constitute a  
8 lien and charge upon such Net Revenue prior and superior to all other liens and charges  
9 whatsoever.

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

15 The Bonds shall not in any manner or to any extent constitute general obligations of the  
16 City, the State or any political subdivision of the State or a lien or charge upon any general fund  
17 or upon any money or other property of the City, the State or any political subdivision of the  
18 State not specifically pledged thereto by this ordinance.

19 **Section 14. Flow of Funds.** Gross Revenue of the Solid Waste System shall be used  
20 for the following purposes only and shall be applied in the following order of priority:

- 21 (a) To pay Maintenance and Operation Expenses;
- 22 (b) To pay interest on Parity Bonds and Payment Agreement Payments when due;



1 (c) To pay the principal of Parity Bonds as it comes due at maturity or as the  
2 principal is required to be paid pursuant to mandatory redemption requirements applicable to  
3 Term Bonds;

4 (d) To make all payments required to be made into the Reserve Subaccount;

5 (e) To make all payments required to be made into any revenue bond, note, warrant  
6 or other revenue obligation redemption fund, debt service account or reserve account created to  
7 pay or secure the payment of the principal of and interest on any revenue bonds, notes, warrants  
8 or other obligations of the City having a lien upon the Net Revenue junior and inferior to the lien  
9 thereon for the payment of the principal of and interest on the Parity Bonds; and

10 (f) To retire by redemption or purchase any outstanding revenue bonds or other  
11 revenue obligations of the Solid Waste System, to make necessary additional betterments,  
12 improvements and repairs to or extensions and replacements of the Solid Waste System, to make  
13 deposits into the Rate Stabilization Account, or for any other lawful purposes of the Solid Waste  
14 System.

15 The City may transfer any money from any funds or accounts of the Solid Waste System  
16 legally available therefor, except bond redemption funds, refunding escrow funds or defeasance  
17 funds, to meet the required payments to be made into the Bond Account.

18 **Section 15. Bond Account.** A special account of the City known as the “Bond  
19 Account” has been created and shall be maintained as a separate account within the Solid Waste  
20 Fund, for the sole purpose of paying the principal of and premium, if any, and interest on the  
21 Parity Bonds as the same shall become due. The Bond Account consists of the Principal and  
22 Interest Subaccount and the Reserve Subaccount and such additional subaccounts as the Director

1 of Finance may deem necessary. Principal of, premium (if any) and interest on the Parity Bonds  
2 shall be payable out of the Bond Account.

3           **(a) Required Payments Into the Bond Account.** From and after the issuance of the  
4 Bonds, and so long thereafter as any Parity Bonds are outstanding against the Bond Account  
5 (including any Payment Agreement Payments required to be made under any Parity Payment  
6 Agreements), the Director of Finance shall set aside and pay into the Principal and Interest  
7 Subaccount on or prior to the respective dates on which the interest on or principal of and  
8 interest on the Parity Bonds shall become due and payable certain fixed amounts out of the Net  
9 Revenue sufficient to pay such interest or principal and interest as the same shall become due.

10           **(b) Reserve Subaccount.** The Reserve Subaccount previously has been created and  
11 maintained as a subaccount within the Bond Account for the purpose of securing the payment of  
12 the principal of and interest on all Parity Bonds outstanding (including amounts due under any  
13 Parity Payment Agreements if required under such agreement).

14           **(c) Investment of Money in Bond Account.** Money in the Principal and Interest  
15 Subaccount shall, to the fullest extent practicable and reasonable, be invested and reinvested at  
16 the direction of the Director of Finance solely in, and obligations deposited in such accounts  
17 shall consist of, Permitted Investments. Earnings on money and investments in the Principal and  
18 Interest Subaccount shall be deposited in and used for the purposes of that subaccount. Money  
19 held in the Reserve Subaccount shall, to the fullest extent practicable and reasonable, be invested  
20 and reinvested at the direction of the Director of Finance solely in, and obligations deposited in  
21 such accounts shall consist of, Permitted Investments. Earnings on money and investments in the  
22 Reserve Subaccount shall be deposited in that fund and credited against amounts required to be

1 deposited therein until the Reserve Subaccount is fully funded, and thereafter such earnings shall  
2 be deposited in the Principal and Interest Subaccount.

3       **(d) Funding of Reserve Requirement.** The City shall provide in the Bond  
4 Resolution with respect to the Bonds or in the Parity Bond Legislation authorizing the issuance  
5 of any Future Parity Bonds for the deposit into the Reserve Subaccount out of the Net Revenue  
6 (or out of any other funds of the City on hand and legally available therefor, including proceeds  
7 of the Bonds or of the Future Parity Bonds being issued or any other Future Parity Bonds) of  
8 periodic payments so that by five years from the date of such Future Parity Bonds there will have  
9 been paid into the Reserve Subaccount an amount which, together with the money already on  
10 deposit therein, will be at least equal to the Reserve Requirement for all Parity Bonds  
11 outstanding at the end of that five-year period.

12       Notwithstanding the foregoing, the Bond Resolution or any Parity Bond Legislation may  
13 provide for the City to obtain Qualified Insurance or a Qualified Letter of Credit for specific  
14 amounts required to be paid into the Reserve Subaccount. The amount available to be drawn  
15 upon under such Qualified Insurance or Qualified Letter of Credit shall be credited against the  
16 amounts required to be maintained in the Reserve Subaccount by this subsection.

17       Such Qualified Letter of Credit or Qualified Insurance shall not be cancelable on less  
18 than three years' notice. If the City receives any such notice of cancellation, the City shall  
19 substitute Qualified Insurance or a Qualified Letter of Credit in the amount required pursuant to  
20 this subsection or in the alternative shall create a special account in the Solid Waste Fund and  
21 deposit therein, on or before the 25th day of each of the 36 succeeding calendar months, 1/36th  
22 of the amount sufficient, together with other money and investments on deposit in the Reserve  
23 Subaccount, to equal the Reserve Requirement on the date any such cancellation shall become

1 effective. Such amounts shall be transferred from money in the Solid Waste Fund (after making  
2 provision for payment of Maintenance and Operation Expenses and for the required payments  
3 into the Principal and Interest Subaccount). Amounts on deposit in such special account shall not  
4 be available to pay debt service on Parity Bonds or for any other purpose of the City, and shall be  
5 transferred to the Reserve Subaccount on the effective date of any cancellation of a Qualified  
6 Letter of Credit or Qualified Insurance to make up the deficiency caused thereby.

7       If the amount in the Reserve Subaccount shall be less than the Reserve Requirement  
8 (taking into account the five-year period referred to in this subsection, the City shall transfer to  
9 the Reserve Subaccount money in an amount sufficient to restore the Reserve Subaccount to the  
10 Reserve Requirement within 12 months after the date of such deficiency. The City shall transfer  
11 such amounts from money in the Solid Waste Fund (after making provision for payment of  
12 Maintenance and Operation Expenses and for the required payments into the Principal and  
13 Interest Subaccount). If the amount in the Reserve Subaccount shall be greater than the Reserve  
14 Requirement, then and only then may the City withdraw such excess from the Reserve  
15 Subaccount and deposit such excess in the Solid Waste Fund to be used for any lawful purpose.

16       **(e) Use of Reserve Subaccount for Refunding Bonds.** If any Parity Bonds are  
17 refunded, the money set aside in the Reserve Subaccount to secure the payment of such Parity  
18 Bonds may be used to retire such Parity Bonds or may be transferred to any Reserve Subaccount  
19 or account which may be created to secure the payment of any bonds issued to refund such Parity  
20 Bonds, as long as the money left remaining in the Reserve Subaccount is at least equal, together  
21 with any Qualified Insurance or Qualified Letters of Credit, to the Reserve Subaccount  
22 Requirement.

1           **(f) Use of Reserve Subaccount for Payment of Debt Service.** If the money in the  
2 Principal and Interest Subaccount is insufficient to meet maturing installments of either interest  
3 on or principal of and interest on the Parity Bonds payable out of the Bond Account (including  
4 amounts payable under any Parity Payment Agreement), such deficiency shall be made up from  
5 the Reserve Subaccount by the withdrawal of money or proceeds of Qualified Insurance or  
6 Qualified Letters of Credit therefrom, as the case may be. Any deficiency created in the Reserve  
7 Subaccount by reason of any such withdrawal or claim against Qualified Insurance or a Qualified  
8 Letter of Credit shall then be made up out of the Net Revenue, after making necessary provision  
9 for the payments required to be made for debt service on any outstanding Parity Bonds consistent  
10 with Section 14.

11           **(g) Withdrawals From Reserve Subaccount.** Money in the Reserve Subaccount  
12 may be withdrawn by the City for any lawful purpose as long as the aggregate of any money,  
13 Qualified Insurance and Qualified Letters of Credit left remaining on deposit in the Reserve  
14 Subaccount is at least equal to the Reserve Requirement for the Parity Bonds then outstanding.

15           The City reserves the right to substitute Qualified Insurance or a Qualified Letter of  
16 Credit for money previously deposited in the Reserve Subaccount and to withdraw such money  
17 to the extent described in the preceding paragraph.

18           Any withdrawals from subaccounts within the Reserve Subaccount shall be made on a  
19 pro rata basis except when the provider of a Qualified Letter of Credit or Qualified Insurance  
20 requires all cash and investments in the Reserve Subaccount to be withdrawn before draws on  
21 the Qualified Letter of Credit or Qualified Insurance, or unless the City receives an opinion of  
22 Bond Counsel to the effect that such pro rata withdrawal is not required to maintain the exclusion

1 of interest on the Parity Bonds then outstanding from gross income for federal income tax  
2 purposes.

3 **Section 16. Parity Bond Covenants.**

4 **(a) Establishment and Collection of Rates and Charges.** The City will establish,  
5 maintain and collect rates and charges for services and facilities provided by the Solid Waste  
6 System and will adjust those rates and charges from time to time so that:

7 (i) Gross Revenue will be sufficient to (A) pay all Maintenance and  
8 Operation Expenses, (B) pay when due all amounts that the City is obligated to pay into the  
9 Bond Account and the subaccounts therein, and (C) pay all taxes, assessments or other  
10 governmental charges lawfully imposed on the Solid Waste System or the revenue therefrom or  
11 payments in lieu thereof and any and all other amounts which the City may now or hereafter  
12 become obligated to pay from the Gross Revenue by law or contract; and

13 (ii) Adjusted Net Revenue in each fiscal year will be at least equal to the  
14 Coverage Requirement; and

15 (iii) Except to aid the poor or infirm, it will not furnish or supply or permit the  
16 furnishing or supplying of any service or facility in connection with the operation of the Solid  
17 Waste System free of charge to any person, firm or corporation, public or private.

18 The failure of the City to comply with paragraphs (i) and (ii) of this subsection shall not  
19 be an Event of Default under this ordinance if the City promptly retains an Independent Utility  
20 Consultant to recommend to the City Council adjustments in the rates of the Solid Waste System  
21 necessary to meet the requirements of those paragraphs and if the City Council adopts the  
22 recommended modifications within 180 days of the date the failure became known to the City  
23 Council.

1           **(b) Maintenance and Operation of the Solid Waste System.** The City will operate  
2 the properties of the Solid Waste System in an efficient manner and at a reasonable cost, and will  
3 maintain, preserve and keep, or cause to be maintained, preserved and kept, the properties of the  
4 Solid Waste System in good repair, working order and condition; and from time to time will  
5 make or cause to be made all necessary and proper repairs, renewals and replacements thereto so  
6 that at all times the business carried on in connection therewith will be properly and  
7 advantageously conducted.

8           **(c) Liens Upon the Solid Waste System.** Except as otherwise provided in this  
9 ordinance, the City will not at any time create or permit to accrue or to exist any lien or other  
10 encumbrance or indebtedness upon the Gross Revenue or any part thereof, prior or superior to  
11 the lien thereon for the payment of the Parity Bonds, and will pay and discharge, or cause to be  
12 paid and discharged, any and all lawful claims for labor, materials or supplies which, if unpaid,  
13 might become a lien or charge upon the Gross Revenue or any part thereof, prior or superior to,  
14 or on a parity with, the lien of the Parity Bonds, or which might impair the security of the Parity  
15 Bonds.

16           **(d) Books and Accounts.** The City will keep proper books, records and accounts  
17 with respect to the operations, income and expenditures of the Solid Waste System in accordance  
18 with generally accepted accounting practices applicable to governmental utilities and any  
19 applicable rules and regulations prescribed by the State. The City will prepare or cause to be  
20 prepared annual financial and operating statements as soon as practicable after the close of each  
21 fiscal year showing in reasonable detail the financial condition of the Solid Waste System as of  
22 the close of the previous year, and the income and expenses for such year, including the amounts  
23 paid into the Bond Account and into any and all special funds or accounts created pursuant to the

1 provisions of this ordinance, the status of all funds and accounts as of the end of such year, and  
2 the amounts expended for maintenance, renewals, replacements and capital additions to the Solid  
3 Waste System. A copy of such annual financial statements shall be sent to any owner of Parity  
4 Bonds upon written request therefor being made to the City. The City may charge a reasonable  
5 cost for providing such financial statements.

6       **(e) Collection of Delinquent Accounts.** On at least an annual basis, the City will  
7 determine all accounts that are delinquent and will take such actions as the City determines are  
8 reasonably necessary to enforce payment of those delinquent accounts.

9       **(f) Maintenance of Insurance.** The City at all times will carry fire and extended  
10 coverage, public liability and property damage and such other forms of insurance with  
11 responsible insurers and with policies payable to the City on such of the buildings, equipment,  
12 works, plants, facilities and properties of the Solid Waste System as are ordinarily carried by  
13 municipal or privately owned utilities engaged in the operation of like systems, and against such  
14 claims for damages as are ordinarily carried by municipal or privately owned utilities engaged in  
15 the operation of like systems, or, in the City's sole discretion, it will self-insure or participate in  
16 an insurance pool or pools with reserves adequate, in the reasonable judgment of the City, to  
17 protect the Solid Waste System against loss.

18       **(g) Condemnation Awards and Insurance Proceeds.** If the City receives any  
19 condemnation awards or proceeds of an insurance policy in connection with any loss of or  
20 damage to any property of the Solid Waste System, the City shall apply the condemnation award  
21 or insurance proceeds, in the City's sole discretion, either (i) to the cost of replacing or repairing  
22 the lost or damaged properties, (ii) to the payment, purchase or redemption of Parity Bonds, or  
23 (iii) to the cost of improvements to the Solid Waste System.



1           **(h) Sale of System.** The City will sell, transfer or otherwise dispose of all or any part  
2 of the works, plant, properties, facilities or other component of the Solid Waste System or any  
3 real or personal property comprising a part of the Solid Waste System only consistent with one  
4 or more of the following:

5           (i) The City in its discretion may carry out such a sale, transfer or disposition  
6 (each, as used in this subsection, a “transfer”) if the facilities or property transferred are not  
7 material to the operation of the Solid Waste System, or shall have become unserviceable,  
8 inadequate, obsolete or unfit to be used in the operation of the Solid Waste System or are no  
9 longer necessary, material or useful to the operation of the Solid Waste System; or

10           (ii) The City in its discretion may carry out such a transfer if the aggregate  
11 depreciated cost value of the facilities or property being transferred under this paragraph in any  
12 fiscal year comprises no more than 5% of the total assets of the Solid Waste System; or

13           (iii) The City in its discretion may carry out such a transfer if the proceeds  
14 from such transfer are used to acquire new useful operating facilities or properties of the Solid  
15 Waste System, or are used to retire outstanding Parity Bonds or other revenue obligations of the  
16 Solid Waste System, if, at the time of such transfer, there is on file with the City Clerk a  
17 certificate of the Director of Finance and the Director of Seattle Public Utilities demonstrating  
18 that in his or her professional opinion, upon such transfer and the use of proceeds of the transfer  
19 as proposed by the City, the remaining facilities of the Solid Waste System will retain their  
20 operational integrity and, based on the financial statements for the most recent fiscal year  
21 available, the proposed transfer would not prevent the Solid Waste System from complying with  
22 the rate covenants contained in Section 16(a) during the five fiscal years following the fiscal year  
23 in which the transfer is to occur. The Director of Finance and the Director of Seattle Public

1 Utilities shall take into account (A) the reduction in revenue and expenses, if any, resulting from  
2 the transfer, (B) the use of any proceeds of the transfer for the redemption of Parity Bonds,  
3 (C) the Director of Finance and the Director of Seattle Public Utilities' estimate of revenue from  
4 customers anticipated to be served by any additions to and betterments and extensions of the  
5 Solid Waste System financed in part by the proposed portion of the proceeds of the transfer and  
6 (D) any other adjustment permitted in the preparation of a certificate under Section 17(a)(ii).  
7 Before such a transfer, the City also must obtain confirmation from each of the Rating Agencies  
8 to the effect that the rating then in effect will not be reduced or withdrawn upon such transfer.

9 **Section 17. Future Parity Bonds.**

10 (a) Except as provided in subsection (b) of this section for the issuance of refunding  
11 Parity Bonds, Future Parity Bonds may be issued (and Parity Payment Agreements may be  
12 entered into), from time to time in one or more series for any lawful purpose of the Solid Waste  
13 System, only if at the time of the delivery of each series of Future Parity Bonds to the initial  
14 purchasers thereof (or on the effective date of the Parity Payment Agreement):

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

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

19 (A) A certificate of both the Director of Finance and the Director of  
20 Seattle Public Utilities (or any officer who succeeds to substantially all of the responsibilities of  
21 either office) demonstrating that during any 12 consecutive calendar months out of the  
22 immediately preceding 24 calendar months Adjusted Net Revenue was at least equal to the  
23 Coverage Requirement of all Parity Bonds plus the Future Parity Bonds proposed to be issued

1 (and assuming that the debt service of the proposed Future Parity Bonds for that 12-month period  
2 was the Average Annual Debt Service for those proposed bonds); or

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

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

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

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

1 (4) Net revenue from any person, firm, corporation or  
2 municipal corporation under any executed contract for solid waste disposal or other utility  
3 service, which revenue was not included in the historical Net Revenue of the Solid Waste  
4 System.

5 (b) Without complying with the provisions of subsection (a) of this section, the City  
6 may at any time and from time to time issue one or more series of refunding Parity Bonds, but  
7 only if there shall have been filed with the City a certificate of the Director of Finance stating  
8 that immediately after the issuance of such refunding Parity Bonds the Annual Debt Service in  
9 any calendar year that Parity Bonds (other than such refunding Parity Bonds) are then  
10 outstanding shall not be increased by more than \$5,000 by reason of the issuance of such  
11 refunding Parity Bonds.

12 Parity Bonds of any one or more series or one or more maturities within a series may be  
13 refunded by a single series of refunding Parity Bonds, which Parity Bonds to be refunded shall  
14 be specified in the Parity Bond Legislation providing for the issuance of the refunding Parity  
15 Bonds, and the principal amount of such refunding Parity Bonds may include amounts necessary  
16 to pay the principal of the Parity Bonds to be refunded, interest thereon to the date of payment or  
17 redemption thereof, any premium payable thereon upon such payment or redemption, the costs  
18 of issuance of such refunding Parity Bonds and an amount, if any, required to fund the Reserve  
19 Requirement. The proceeds of the refunding Parity Bonds shall be held and applied in such  
20 manner as is provided in the Parity Bond Legislation providing for the issuance of such  
21 refunding Parity Bonds, so that upon the delivery of such refunding Parity Bonds the Parity  
22 Bonds to be refunded thereby shall be deemed to be no longer outstanding in accordance with the  
23 provisions of the Parity Bond Legislation providing for the issuance of those Parity Bonds.

1 Refunding Parity Bonds may also be issued upon compliance with the provisions of  
2 subsection (a) of this section.

3 Nothing contained in this ordinance shall prohibit or prevent, or be deemed or construed  
4 to prohibit or prevent, the City from issuing refunding Parity Bonds to fund or refund maturing  
5 Parity Bonds of the City for the payment of which money is not otherwise available without  
6 complying with this section.

7 (c) Nothing in this ordinance shall prevent the City from issuing revenue bonds or  
8 other obligations having a lien and charge on the Net Revenue subordinate to the lien and charge  
9 of the Parity Bonds.

10 **Section 18. Rate Stabilization Account.** There has been created in the Solid Waste  
11 Fund a separate account known as the Rate Stabilization Account. The City may at any time, as  
12 determined by the City and as consistent with Section 14, deposit in the Rate Stabilization  
13 Account Gross Revenue and any other money received by the Solid Waste System and available  
14 to be used therefor. The City may withdraw any or all of the money from the Rate Stabilization  
15 Account for inclusion in the Adjusted Gross Revenue for any fiscal year of the City. Such  
16 deposits or withdrawals may be made up to and including the date 90 days after the end of the  
17 fiscal year for which the deposit or withdrawal will be included as Adjusted Gross Revenue. No  
18 deposit of Gross Revenue shall be made into the Rate Stabilization Account to the extent that  
19 such deposit would prevent the City from meeting the Coverage Requirement in the relevant  
20 fiscal year.

21 **Section 19. Separate Utility Systems.** The City may create, acquire, construct,  
22 finance, own and operate one or more additional systems for solid waste collection,  
23 transportation, treatment or disposal, or other commodity or service related to the Solid Waste

1 System. The revenue of that separate utility system shall not be included in the Gross Revenue of  
2 the Solid Waste System and may be pledged to the payment of revenue obligations issued to  
3 purchase, construct, condemn or otherwise acquire or expand the separate utility system. Neither  
4 the Gross Revenue nor the Net Revenue of the Solid Waste System shall be pledged by the City  
5 to the payment of any obligations of a separate utility system except (1) as a Contract Resource  
6 Obligation upon compliance with Section 20 and/or (2) with respect to the Net Revenue, on a  
7 basis subordinate to the lien of the Parity Bonds on that Net Revenue.

8 **Section 20. Contract Resource Obligations.** The City may at any time enter into one  
9 or more Contract Resource Obligations for the acquisition, from facilities to be constructed, of  
10 solid waste collection, transportation, treatment or disposal, or other commodity or service  
11 relating to the Solid Waste System. The City may determine that, and may agree under a  
12 Contract Resource Obligation to provide that, all payments under that Contract Resource  
13 Obligation (including payments prior to the time that the solid waste collection, transportation,  
14 treatment or disposal or other commodity or service is being provided, or during a suspension or  
15 after termination of such other commodity or service) shall be Maintenance and Operation  
16 Expenses if the following requirements are met at the time such a Contract Resource Obligation  
17 is entered into:

18 (a) No event of default under any Parity Bond Legislation has occurred and is  
19 continuing.

20 (b) There shall be on file a certificate of an Independent Utility Consultant stating  
21 that (i) the payments to be made by the City in connection with the Contract Resource Obligation  
22 are reasonable for the commodities provided or services rendered; (ii) the source of any new  
23 commodities or services, and any facilities to be constructed to provide the commodities or

1 services, are sound from a solid waste collection, transportation, treatment and disposal, or other  
2 commodity or service planning standpoint, are technically and economically feasible in  
3 accordance with prudent utility practice, and are likely to provide commodities or services no  
4 later than a date set forth in the Independent Utility Consultant's certification; and (iii) the  
5 Adjusted Net Revenue (further adjusted by the Independent Utility Consultant's estimate of the  
6 payments to be made in accordance with the Contract Resource Obligation) for the five fiscal  
7 years following the year in which the Contract Resource Obligation is incurred, as such Adjusted  
8 Net Revenue is estimated by the Independent Utility Consultant in accordance with the  
9 provisions of and adjustments permitted in Section 17(a)(ii), will be at least equal to the  
10 Coverage Requirement.

11         Payments required to be made under Contract Resource Obligations shall not be subject  
12 to acceleration. Nothing in this section shall be deemed to prevent the City from entering into  
13 other agreements for the acquisition of solid waste collection, transportation, treatment or  
14 disposal, or other commodity or service, from existing facilities and from treating those  
15 payments as Maintenance and Operation Expenses. Nothing in this section shall be deemed to  
16 prevent the City from entering into other agreements for the acquisition of solid waste collection,  
17 transportation, treatment or disposal, or other commodity or service, from facilities to be  
18 constructed and from agreeing to make payments with respect thereto, such payments  
19 constituting a lien and charge on Net Revenue subordinate to that of Parity Bonds.

20         **Section 21. Refunding and Defeasance of the Bonds.** The Bonds are hereby  
21 designated "Refundable Bonds" for purposes of the Omnibus Refunding Bond Ordinance. The  
22 City may issue refunding bonds pursuant to the laws of the State or use money available from  
23 any other lawful source to pay when due the principal of, premium, if any, and interest on any

1 Bond, or portion thereof, included in a refunding or defeasance plan, and to redeem and retire,  
2 release, refund or defease those Bonds (the “defeased Bonds”) and to pay the costs of such  
3 refunding or defeasance. If money and/or Government Obligations maturing at a time or times  
4 and in an amount sufficient, together with known earned income from the investment thereof, to  
5 redeem and retire, release, refund or defease the defeased Bonds in accordance with their terms,  
6 are set aside in a special trust fund or escrow account irrevocably pledged to such redemption,  
7 retirement or defeasance (the “trust account”), then all right and interest of the Owners of the  
8 defeased Bonds in the covenants of this ordinance and in the Net Revenue and the funds and  
9 accounts pledged to the payment of such defeased Bonds, other than the right to receive the  
10 funds so set aside and pledged, thereafter shall cease and become void. Such Registered Owners  
11 thereafter shall have the right to receive payment of the principal of and interest or redemption  
12 price on the defeased Bonds from the trust account. After establishing and fully funding such a  
13 trust account, the defeased Bonds shall be deemed as no longer outstanding, and the Director of  
14 Finance then may apply any money in any other fund or account established for the payment or  
15 redemption of the defeased Bonds to any lawful purposes. Notice of refunding or defeasance  
16 shall be given, and selection of Bonds for any partial refunding or defeasance shall be conducted,  
17 in the manner set forth in this ordinance for the redemption of Bonds.

18       If the refunding or defeasance plan provides that the defeased Bonds or the refunding  
19 bonds to be issued be secured by money and/or Government Obligations pending the prior  
20 redemption of the defeased Bonds and if such refunding or defeasance plan also provides that  
21 certain money and/or Government Obligations are pledged irrevocably for the prior redemption  
22 of the defeased Bonds included in that refunding or defeasance plan, then only the debt service  
23 on the Bonds which are not defeased Bonds and the refunding bonds, the payment of which is



1 not so secured by the refunding plan, shall be included in the computation of the Coverage  
2 Requirement for the issuance of Future Parity Bonds and the annual computation of the  
3 Coverage Requirement for determining compliance with the rate covenants.

4 **Section 22. Provisions Relating to Certain Federal Tax Consequences of the**  
5 **Bonds.**

6 (a) **Tax-Exempt Bonds.** The City covenants that it will take all actions, consistent  
7 with the terms of any Series issued as Tax-Exempt Bonds, this ordinance, and the Bond  
8 Resolution, reasonably within its power and necessary to prevent interest on that Series from  
9 being included in gross income for federal income tax purposes, and the City will neither take  
10 any action nor make or permit any use of gross proceeds of that Series or other funds of the City  
11 treated as gross proceeds of that Series at any time during the term of such Series that will cause  
12 interest on such Series to be included in gross income for federal income tax purposes. The City  
13 also covenants that it will, to the extent the arbitrage rebate requirement of Section 148 of the  
14 Code is applicable to any Series issued as Tax-Exempt Bonds, take all actions necessary to  
15 comply (or to be treated as having complied) with that requirement in connection with that  
16 Series, including the calculation and payment of any penalties that the City has elected to pay as  
17 an alternative to calculating rebatable arbitrage, and the payment of any other penalties if  
18 required under Section 148 of the Code to prevent interest on such Series from being included in  
19 gross income for federal income tax purposes.

20 (b) **Tax Credit Subsidy Bonds or other Taxable Bonds.** The Director of Finance  
21 may, without further action by the City Council, make provision in the Bonds or other written  
22 document for such additional covenants of the City as may be necessary or appropriate in order  
23 for the City to receive from the United States Treasury the applicable Tax Credit Subsidy

1 Payments in respect of any Series issued as Tax Credit Subsidy Bonds, or in the instance that the  
2 Bonds otherwise become and remain eligible for tax benefits under the Code.

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

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

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

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

1           **Section 24.   Supplemental or Amendatory Ordinances.**

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

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

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

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

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

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

21                   (v)   To authorize different denominations of the Bonds and to make correlative  
22 amendments and modifications to this ordinance regarding exchangeability of Bonds of different

1 authorized denominations, redemptions of portions of Bonds of particular authorized  
2 denominations and similar amendments and modifications of a technical nature;

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

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

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

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

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

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

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

19           (iii)   Within two years after the date of the mailing of such notice, such  
20 supplemental or amendatory ordinance, substantially as described in such notice, may go into  
21 effect, but only if there shall have first been delivered to the Bond Registrar (A) the required  
22 consents, in writing, of registered owners of the Parity Bonds, and (B) an opinion of Bond  
23 Counsel stating that such supplemental or amendatory ordinance is authorized or permitted by

1 this ordinance and, upon the effective date thereof, will be valid and binding upon the City in  
2 accordance with its terms and will not adversely affect the exclusion from gross income for  
3 federal income tax purposes of interest on any Tax-Exempt Bonds.

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

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

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

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

22 (e) Upon the effective date of any supplemental or amendatory ordinance pursuant to  
23 the provisions of this section, this ordinance shall be, and be deemed to be, modified and

1 amended in accordance therewith, and the respective rights, duties and obligations under this  
2 ordinance of the City, the Bond Registrar and all owners of Parity Bonds then outstanding shall  
3 thereafter be determined, exercised and enforced under this ordinance subject in all respects to  
4 such modifications and amendments.

5 **Section 25. Defaults and Remedies.**

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

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

10 (ii) If the City defaults in the observance and performance of any other of the  
11 covenants, conditions and agreements on the part of the City set forth in this ordinance or in any  
12 Parity Bond Legislation (except as otherwise provided herein or in such Parity Bond Legislation)  
13 and such default or defaults have continued for a period of six months after the City has received  
14 from the Bond Owners' Trustee (as defined below) or from the registered owners of not less than  
15 25% in principal amount of the Parity Bonds a written notice specifying and demanding the cure  
16 of such default. However, if the default in the observance and performance of any other of the  
17 covenants, conditions and agreements is one which cannot be completely remedied within the six  
18 months after written notice has been given, it shall not be an Event of Default with respect to the  
19 Bonds as long as the City has taken active steps within the six months after written notice has  
20 been given to remedy the default and is diligently pursuing such remedy.

21 Notwithstanding anything in this section to the contrary, the failure of the City or any obligated  
22 person to comply with the Undertaking shall not constitute an Event of Default under this  
23 ordinance, the Bond Resolution or the Bonds, and the sole remedy of any holder of a Bond shall

1 be to seek an order of specific performance from an appropriate court to compel the City to  
2 comply with the Undertaking.

3       **(b) Bond Owners' Trustee.** So long as such Event of Default has not been  
4 remedied, a trustee (the "Bond Owners' Trustee") may be appointed by the registered owners of  
5 25% in principal amount of the then outstanding Parity Bonds, by an instrument or concurrent  
6 instruments in writing signed and acknowledged by such registered owners of the Parity Bonds  
7 or by their attorneys-in-fact duly authorized and delivered to such Bond Owners' Trustee,  
8 notification thereof being given to the City. That appointment shall become effective  
9 immediately upon acceptance thereof by the Bond Owners' Trustee. Any Bond Owners' Trustee  
10 appointed under the provisions of this subsection shall be a bank or trust company organized  
11 under the laws of the State of Washington or the State of New York or a national banking  
12 association. The bank or trust company acting as Bond Owners' Trustee may be removed at any  
13 time, and a successor Bond Owners' Trustee may be appointed, by the registered owners of a  
14 majority in principal amount of the Parity Bonds, by an instrument or concurrent instruments in  
15 writing signed and acknowledged by such registered owners of the Parity Bonds or by their  
16 attorneys-in-fact duly authorized. The Bond Owners' Trustee may require such security and  
17 indemnity as may be reasonable against the costs, expenses and liabilities that may be incurred in  
18 the performance of its duties.

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



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

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

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

17           Any action, suit or other proceedings instituted by the Bond Owners' Trustee hereunder  
18 shall be brought in its name as the Bond Owners' Trustee and all such rights of action upon or  
19 under any of the Parity Bonds or the provisions of this ordinance may be enforced by the Bond  
20 Owners' Trustee without the possession of any of those Parity Bonds and without the production  
21 of the same at any trial or proceedings relative thereto except where otherwise required by law.  
22 Any such suit, action or proceeding instituted by the Bond Owners' Trustee shall be brought for  
23 the ratable benefit of all of the registered owners of those Parity Bonds, subject to the provisions

1 of this ordinance. The respective registered owners of the Parity Bonds, by taking and holding  
2 the same, shall be conclusively deemed irrevocably to appoint the Bond Owners' Trustee the true  
3 and lawful trustee of the respective registered owners of those Parity Bonds, with authority to  
4 institute any such action, suit or proceeding; to receive as trustee and deposit in trust any sums  
5 becoming distributable on account of those Parity Bonds; to execute any paper or documents for  
6 the receipt of money; and to do all acts with respect thereto that the registered owner himself or  
7 herself might have done in person. Nothing herein shall be deemed to authorize or empower the  
8 Bond Owners' Trustee to consent to accept or adopt, on behalf of any registered owner of the  
9 Parity Bonds, any plan of reorganization or adjustment affecting the Parity Bonds or any right of  
10 any registered owner thereof, or to authorize or empower the Bond Owners' Trustee to vote the  
11 claims of the registered owners thereof in any receivership, insolvency, liquidation, bankruptcy,  
12 reorganization or other proceeding to which the City is a party.

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

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

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

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

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

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

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

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

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

12           (i) an Event of Default has happened and is continuing; and  
13           (ii) a Bond Owners' Trustee has been appointed; and  
14           (iii) such owner previously shall have given to the Bond Owners' Trustee  
15 written notice of the Event of Default on account of which such suit, action or proceeding is to  
16 be instituted; and

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

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

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

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

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

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

21           (b) The Mayor and the Director of Finance are each separately authorized to execute  
22 and deliver (i) any and all contracts or other documents as are consistent with this ordinance and  
23 for which the City's approval is necessary or to which the City is a party (including but not

1 limited to agreements with escrow agents, refunding trustees, providers of Bond Insurance or  
2 Reserve Securities, remarketing agents, underwriters, lenders, fiscal agents, Qualified  
3 Counterparties, custodians, and the Bond Registrar); and (ii) such other contracts or documents  
4 incidental to the issuance and sale of a Series; the establishment of the initial interest rate or rates  
5 on a Bond; or the tender, purchase, remarketing, or redemption of a Bond, as may in his or her  
6 judgment be necessary or appropriate.

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

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

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



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**EXHIBIT A**  
**CITY OF SEATTLE**  
**OUTSTANDING SOLID WASTE PARITY BONDS**

Issue Name	Dated Date	Original Par Amount	Bond Legislation		
			New Money Ord.	Refunding Ord.	Bond Sale Res.
Solid Waste Revenue and Refunding Bonds, 2007	12/12/2007	\$82,175,000	Ord. 122498	Ord. 121940 (as amended by Ord. 122498)	Res. 31032
Solid Waste Revenue Bonds, 2011	6/22/2011	\$45,750,000	Ord. 123576	--	Res. 31301
Solid Waste Revenue and Refunding Bonds, 2014	6/12/2014	\$95,350,000	Ord. 123576 and Ord. 124046	Ord. 121940 (as amended by Ord. 122498)	Res. 31528
Solid Waste Revenue Bonds, 2015	6/25/2015	\$35,830,000	Ord. 124629	--	Res. 31589



1 **EXHIBIT B**

2 **FORM OF UNDERTAKING TO PROVIDE CONTINUING DISCLOSURE**

3 The City of Seattle, Washington (the "City"), makes the following written undertaking  
4 (the "Undertaking") for the benefit of the holders of the City's Solid Waste Revenue Bonds,  
5 2016 (the "Bonds"), for the sole purpose of assisting the Purchaser in meeting the requirements  
6 of paragraph (b)(5) of Rule 15c2-12, as applicable to a participating underwriter for the Bonds.  
7 Capitalized terms used but not defined below shall have the meanings given in Ordinance \_\_\_\_\_  
8 and Resolution \_\_\_\_\_ (together, the "Bond Legislation").

9 (a) Undertaking to Provide Annual Financial Information and Notice of Listed  
10 Events. The City undertakes to provide or cause to be provided, either directly or through a  
11 designated agent, to the Municipal Securities Rulemaking Board (the "MSRB"), in an electronic  
12 format as prescribed by the MSRB, accompanied by identifying information as prescribed by the  
13 MSRB, the following information:

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

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

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

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

1 (i) Shall consist of: (1) annual financial statements of the Solid Waste System  
2 prepared in accordance with generally accepted accounting principles applicable to governmental  
3 units (except as otherwise noted therein), as such principles may be changed from time to time  
4 and as permitted by State of Washington (the “State”) law, which financial statements will not be  
5 audited, except, that if and when audited financial statements are otherwise prepared and  
6 available to the City they will be provided; (2) a statement of outstanding bonded debt secured  
7 by the Net Revenue of the Solid Waste System; (3) debt service coverage ratios; (4) summary  
8 operating statistics for the Solid Waste System, including data of the type included in the Official  
9 Statement for the Bonds dated \_\_\_\_\_, 20\_\_, in the tables entitled “Solid Waste Tonnage,”  
10 “Regional Comparison of Transfer Station Rates,” and “Number of Customers by Class;” and  
11 (5) current solid waste rates;

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

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

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

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

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

38 (f) Remedy for Failure to Comply with Undertaking. As soon as practicable after the  
39 City learns of any failure to comply with the Undertaking, the City will proceed with due  
40 diligence to cause such noncompliance to be corrected. No failure by the City or other obligated  
41 person to comply with the Undertaking shall constitute a default in respect of the Bonds. The

1 sole remedy of any Beneficial Owner of a Bond shall be to take such actions as that Beneficial  
2 Owner deems necessary, including seeking an order of specific performance from an appropriate  
3 court, to compel the City or other obligated person to comply with the Undertaking.

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

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

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

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

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

22 (v) Effecting any necessary amendment of the Undertaking.

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

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SANTA MONICA  
COLORADO  
DENVER  
NEVADA  
RENO  
WASHINGTON  
SEATTLE

[Date]

The City of Seattle, Washington

Re: The City of Seattle, Washington  
\$35,335,000 Solid Waste System 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"), and in that capacity have examined such law and such certified proceedings and other documents as we have deemed necessary to render this opinion. As to matters of fact material to this opinion, 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 the laws of the State of Washington and pursuant to Ordinance 124913, Ordinance 121940 (as amended by Ordinance 122498 and amended and restated by Ordinance 124915), and Resolution 31677 (together, the "Bond Legislation") to (i) pay for part of the costs of various projects of the City's Solid Waste System, (ii) make a deposit to the Reserve Subaccount, (iii) refund certain outstanding obligations of the Solid Waste System and (iv) 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.

Based upon the foregoing, 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 and binding obligations of the City payable solely out of the Net Revenue of the Solid Waste System and money in the Bond Account (including the Reserve Subaccount therein), 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.

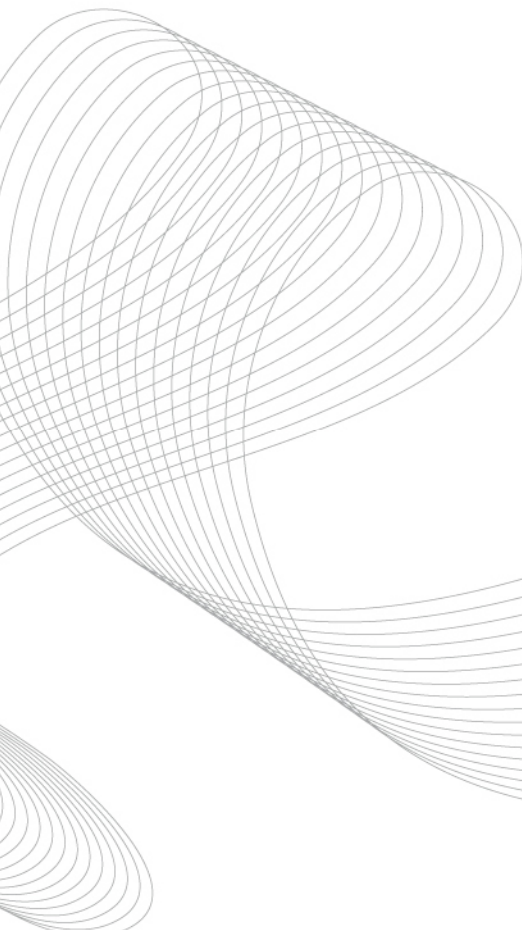
Respectfully submitted,



**APPENDIX C**

**2015 AUDITED FINANCIAL STATEMENTS OF THE SOLID WASTE FUND**

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

**Seattle Public Utilities -  
Solid Waste Fund**  
(An Enterprise Fund of the City of Seattle)

December 31, 2015 and 2014

**MOSS-ADAMS<sub>LLP</sub>**

Certified Public Accountants | Business Consultants

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## REPORT OF INDEPENDENT AUDITORS

To the Director of Seattle Public Utilities  
Solid Waste Fund  
Seattle, Washington

### **Report on Financial Statements**

We have audited the accompanying financial statements of Seattle Public Utilities – Solid Waste 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 – Solid Waste 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 13 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 42 – 45 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

# SEATTLE PUBLIC UTILITIES - SOLID WASTE FUND

## (An Enterprise Fund of the City of Seattle)

### MANAGEMENT'S DISCUSSION AND ANALYSIS

---

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 Solid Waste Fund (the "Fund") for the fiscal years ended December 31, 2015 and 2014. The revenues, expenses, assets, deferred outflows of resources, liabilities, and deferred inflows of resources of the City of Seattle's solid waste system are recorded in the Solid Waste Fund, the functions of which are primarily supported by user fees and charges billed 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 13 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 Statement of Net Position presents information, as of December 31, 2015 and 2014, on all of the Fund's assets, deferred outflows of resources, liabilities and deferred inflows of resources. The difference between assets combined with deferred outflows of resources and liabilities combined with deferred inflows of resources is reported as net position. They also provide information about the nature and amounts of investments in resources (assets and deferred outflows of resources), obligations to the Fund's creditors (liabilities and deferred inflows of resources), and provide the basis for assessing the liquidity and financial flexibility of the Fund.

The Statements of Revenues, Expenses, and Changes in Net Position present changes in the Fund's net position for the years ended December 31, 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.

**SEATTLE PUBLIC UTILITIES - SOLID WASTE FUND**  
**(An Enterprise Fund of the City of Seattle)**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

---

**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 18 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, the Fund had a surplus in total net position of \$11.3 million compared to a surplus of \$34.2 million in 2014. During the year ended December 31, 2015, the Fund's overall position changed, with a decrease in net position of \$22.9 million (-66.8%), compared to a \$1.9 million (5.9%) increase in 2014. The significant decrease in net position is primarily due to the implementation of GASB Statement No. 68. The following summary statement of net position presents the assets and deferred outflows of resources of the Fund and shows the mix of liabilities and deferred inflows of resources and net position used to acquire these assets.

**Summary Statement of Net Position**

	<u>2015</u>	<u>2014</u>	<u>2013</u>
<b>ASSETS</b>			
Current assets	\$ 57,239,916	\$ 47,111,384	\$ 35,707,827
Capital assets, net	205,737,898	156,746,013	133,408,920
Other	<u>59,349,626</u>	<u>66,139,112</u>	<u>32,250,621</u>
Total assets	322,327,440	269,996,509	201,367,368
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	<u>6,327,726</u>	<u>3,146,435</u>	<u>139,393</u>
Total assets and deferred outflows of resources	<u>\$ 328,655,166</u>	<u>\$ 273,142,944</u>	<u>\$ 201,506,761</u>
<b>LIABILITIES</b>			
Current liabilities	\$ 35,677,196	\$ 27,268,527	\$ 24,729,801
Revenue bonds	210,309,632	177,521,599	117,805,270
Other	<u>52,844,020</u>	<u>18,347,523</u>	<u>21,432,459</u>
Total liabilities	<u>298,830,848</u>	<u>223,137,649</u>	<u>163,967,530</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	<u>18,481,201</u>	<u>15,795,424</u>	<u>5,246,536</u>
<b>NET POSITION</b>			
Net investment in capital assets	16,276,742	10,747,626	18,079,526
Restricted	-	-	147,149
Unrestricted	<u>(4,933,625)</u>	<u>23,462,245</u>	<u>14,066,020</u>
Total net position	<u>11,343,117</u>	<u>34,209,871</u>	<u>32,292,695</u>
Total net position, liabilities and deferred inflows of resources	<u>\$ 328,655,166</u>	<u>\$ 273,142,944</u>	<u>\$ 201,506,761</u>



**SEATTLE PUBLIC UTILITIES - SOLID WASTE FUND**  
**(An Enterprise Fund of the City of Seattle)**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

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**FINANCIAL ANALYSIS (CONTINUED)**

**2015 Compared to 2014**

**Assets** – Current assets increased by \$10.1 million (21.5%) from the prior year due to a \$9.8 million increase in operating cash. The increase in operating cash was primarily the result of increased revenues and transfers from the construction cash account for reimbursements of 2015 construction costs paid out of the operating cash. Balances in accounts receivable, unbilled receivables, and amounts due from other City funds and other governments remained essentially unchanged from 2014.

Restricted cash and equity in pooled investments decreased \$6 million (-12.3%) from the prior year. This decrease is mostly attributable to the \$11.1 million transfer of construction cash to the operating cash account for payment on the North Transfer Station rebuild. This decrease was offset by the issuance of revenue bonds in 2015 resulting in a \$2.4 million increase in the bond reserve account and a transfer of operating cash to the rate stabilization account of \$2.5 million.

Capital assets increased \$49 million (31.3%) over the prior year. The increase in capital assets is due to a \$55.5 million increase in construction in progress and other plant assets, driven by costs for the North Transfer Station rebuild project. Offsetting these changes were \$6.5 million in accumulated depreciation.

Other noncurrent assets increased \$2.6 million (15.4%) from the prior year. This includes increases of \$1.4 million in environmental recoveries, \$1.7 million in other charges and \$0.2 million in unamortized bond issue costs, net. These increases were offset by a decrease of \$0.7 million in landfill postclosure costs.

**Deferred Outflows of Resources** – Deferred outflow of resources increased by \$3.2 million (101.1%) from 2014. The largest portion of this increase relates to the implementation of GASB Statement No. 68 and 71 and the addition of deferred outflows for pension contributions and changes in assumptions.

**Liabilities** – Current liabilities increased \$8.4 million (30.8%) from the prior year. This is mostly attributed to increases of \$4.1 million related to the accrual of 2015 expenses, \$0.9 million for revenue bonds due within one year, \$1.5 million for environmental liabilities, \$0.8 million in accrued interest, \$0.5 million for landfill closure/postclosure liability and \$0.7 million increase in miscellaneous liabilities that includes the hazardous waste program and credit due to customers .

Noncurrent and other liabilities increased \$67.3 million (34.4%) from 2014. The two most significant factors affecting this increase related to a new bond and the net pension liability. Revenue bonds and related liabilities increased \$32.8 million, mostly attributed to a new bond issue in 2015, and net pension liability increased \$28.2 million (Note 9). Additionally there was a \$7.3 million increase in the noncurrent portion of environmental liabilities. These increases were offset by a decrease of \$0.8 million in accrued landfill closure/postclosure costs and a decrease of \$0.2 million in claims payable.

# **SEATTLE PUBLIC UTILITIES - SOLID WASTE FUND**

## **(An Enterprise Fund of the City of Seattle)**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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#### **FINANCIAL ANALYSIS (CONTINUED)**

**Deferred Inflows of Resources** – Rate stabilization account increased by \$2.7 million (17.0%) from 2014 due to a cash transfer from the operating fund and interest earned in 2015.

**Net Position** – A portion of the Fund's net position (\$16.3 million) 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. During 2015, net position invested in capital assets increased \$5.5 million due to an increase in capital assets and debt related to investment in capital.

The remaining portion of the Fund's net position (a negative \$4.9 million) represents resources that are unrestricted. The unrestricted portion of net position decreased \$28.4 million from the prior year primarily due to the recording of the pension liability as required by GASB Statement No. 68 for reporting pensions (Note 9).

#### **2014 Compared to 2013**

**Assets** – Current assets increased by \$11.4 million (31.9%) from the prior year due to an \$11.5 million increase in operating cash. The increase in operating cash was primarily the result of underspending in operations, the sale of a parcel of land and transfers from the construction cash account for reimbursements of 2013 construction costs paid out of operating cash. Balances in accounts receivable, unbilled receivables, and amounts due from other City funds and other governments remained essentially unchanged from 2013.

Restricted cash and equity in pooled investments increased \$36.7 million (294.8%) from the prior year. This increase is mostly attributable to the \$10.5 million transfer of operating cash to a rate stabilization account and the issuance of revenue bonds in 2014 resulting in a \$26.6 million increase in the construction cash account and a \$1.9 million increase in bond reserve accounts. These increases were offset by a \$2.3 million retainage payment to a contractor.

Capital assets increased \$23.3 million (17.5%) over the prior year. Utility plant decreased \$16.6 million due to the closure and retirement of the old North Transfer Station. Construction in progress and other property, net increased \$29.1 million due to costs for the North Transfer Station rebuild project. Offsetting these changes were \$10.8 million in accumulated depreciation.

Other noncurrent assets decreased \$2.8 million (14.3%) mainly as a result of amortization of Landfill Closure/Post Closure Costs and Environmental Costs. Assets, in total, increased \$68.6 million (34.1%) over the prior year.

**SEATTLE PUBLIC UTILITIES - SOLID WASTE FUND**  
**(An Enterprise Fund of the City of Seattle)**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

---

**FINANCIAL ANALYSIS (CONTINUED)**

**Liabilities** – Current liabilities increased \$2.5 million (10.3%) from the prior year. This is mostly attributed to increases of \$2.1 million related to the accrual of 2014 expenses and \$1.4 million for revenue bonds due within one year. These increases were offset by a \$1.0 million decrease related to environmental liabilities, accrued interest and tax expenses.

Noncurrent and other liabilities increased \$56.6 million (40.7%) from 2013. The most significant factor affecting this change was a \$49.6 million increase in revenue bond related liabilities and a \$10.1 million addition to bond premiums, both due to a revenue bond issued in 2014. Offsetting these increases was a \$3.2 million reduction in the noncurrent portion of the accrued landfill closure/postclosure costs, environmental liabilities, net of current portion and retainage payable.

**Net Position** – A portion of the Fund's net position (\$10.7 million) 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. During 2014, net position invested in capital assets decreased \$7.3 million due to an increase in debt related to investment in capital.

The Fund's restricted net position represent resources that are subject to restrictions on how they may be used. This portion of net position decreased \$0.1 million due to reductions in other charges.

The remaining portion of the Fund's net position (\$23.5 million) represents resources that are unrestricted. The unrestricted portion of net position increased \$9.4 million from the prior year primarily due to increased residential and commercial collection revenues.

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

**Summary Statements of Revenues, Expenses, and Changes in Net Position**

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Operating revenues	\$ 174,787,770	\$ 157,497,819	\$ 159,741,503
Operating expenses	<u>(169,740,350)</u>	<u>(155,691,325)</u>	<u>(152,272,278)</u>
Net operating income	5,047,420	1,806,494	7,469,225
Other expenses, net of other revenues	(4,247,539)	(919,739)	(4,799,990)
Fees, contributions, and grants	<u>584,409</u>	<u>1,030,421</u>	<u>592,409</u>
Change in net position	<u>\$ 1,384,290</u>	<u>\$ 1,917,176</u>	<u>\$ 3,261,644</u>

**SEATTLE PUBLIC UTILITIES - SOLID WASTE FUND**  
**(An Enterprise Fund of the City of Seattle)**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

---

**FINANCIAL ANALYSIS (CONTINUED)**

**2015 Compared to 2014**

Current year operating revenues increased \$17.3 million (11%) compared to the prior year. There were several key factors affecting this change. There was an approximate 5.9% rate increase for residential and commercial garbage, and composting services effective April 1, 2015. This resulted in residential and commercial solid waste collection service revenue gains of \$9.1 million, including \$5.9 million in residential garbage collection and \$3.2 million in commercial collection revenue. The gains in residential and commercial revenues were offset by a transfer to the rate stabilization fund of \$2.5 million as compared to a \$10.5 million transfer in 2014, a reduction of \$8 million.

Seattle City Council enacted legislation in 2012 (ordinance 124056) instructing the Fund to make contributions to a Rate Stabilization Account if the balance of operating cash on hand at year-end met certain targets. The legislation dictates that Seattle Public Utilities shall deposit cash into the Solid Waste Fund's Rate Stabilization Account and defer revenues equal to the amount that the Fund's operating cash balance at the end of each fiscal year exceeds the following balances: \$17.8 million in 2015 and \$15.9 million in 2016. The deposits will be limited to cash and revenues that are not required to meet financial policy targets for the Fund with respect to debt service coverage, net income, or cash-financed capital expense. The fund may withdraw revenues from the Fund's Rate Stabilization Account provided that: such a withdrawal will allow the Fund to meet one or more financial policy targets that it would not have otherwise met in the absence of such a withdrawal; or to reduce the size of any adjustment to 2016 or 2017 solid waste rates, if such a reduction to the rates would not jeopardize the Fund's ability to meet operating cash balances specified in the legislation and the financial policy targets for debt service coverage, net income, and cash-financed capital projects. The \$17.8 million operating cash target was exceeded in 2015 and \$2.5 million of revenue was deferred and deposited into the Rate Stabilization Account.

Operating expenses in 2015 increased \$14.0 million (9%) compared to 2014. The largest operating expense increase was an \$8.5 million increase for the environmental cleanup of the South Park Landfill. Additional increases included \$3.2 million in collection expense directly related to increased revenues; \$1.6 million increase in the customer service branch; \$0.5 million increase in project delivery; \$0.5 million increase in utility services management and a \$0.3 million increase in City and State taxes. These increases were offset by decreased expenses of \$0.3 million in field operations; \$0.2 million in general and administrative and \$0.1 million in depreciation.

Nonoperating revenues (expenses) decreased \$3.8 million (-3409.6%). Most of this decrease was related to \$2.9 million reduction in the gain on sale of assets and a \$0.7 million net decrease in the Clean Cities Program.

**SEATTLE PUBLIC UTILITIES - SOLID WASTE FUND**  
**(An Enterprise Fund of the City of Seattle)**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

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**FINANCIAL ANALYSIS (CONTINUED)**

**2014 Compared to 2013**

Operating revenues in 2014 decreased \$2.2 million (1.4%) compared to 2013. There were several key factors affecting this change. There was an approximate 4.1% rate increase for residential and commercial garbage, and composting services effective April 1, 2014. This resulted in residential and commercial solid waste collection service revenue gains of \$5.9 million including \$2.9 million in residential garbage collection and \$3.1 million in increased commercial collection revenue. The gains in residential and commercial revenues were offset by a transfer to the rate stabilization fund of \$10.5 million, a \$5.3 million increase in the transfer amount versus 2013. In addition, solid waste disposal services revenue from City transfer stations decreased by \$2.9 million due to the closure of the North Transfer Station, which closed January 2014 to facilitate the rebuilding of a new transfer facility.

Operating expenses in 2014 increased \$3.4 million (2.2%) compared to 2013. The largest operating expense increase was related to contractual solid waste collection costs, which increased \$1.5 million due to inflation adjustments specified in the contracts. Taxes paid to the City and State increased \$0.4 million due to higher tax rates. While branch related operational expenses increased \$0.6 million overall in 2014, there were substantial increases and decreases in expenses within the branch categories. General and administrative expenses increased \$2.3 million while the other branch expenses decreased \$1.7 million. These shifts in expenses were mostly attributable to reorganizations of work groups within the branches and realignment of the project and delivery and customer service branch to the corporate asset management division. Depreciation expense increased \$0.9 million due to the addition of the new South Transfer Station in 2013.

Nonoperating expenses decreased \$4.3 million (102.6%). The interest expense adjustment for capitalized interest relating to construction costs increased by \$0.6 million as the South Transfer Station construction was completed and the North Transfer Station construction had begun. In 2014, the Clean Cities Program revenues collected through tonnage taxes exceeded the Clean Cities Program expenses by \$1.3 million. A portion of the historical landfill located at Kent-Highlands was sold for a gain of \$2.6 million.

**SEATTLE PUBLIC UTILITIES - SOLID WASTE FUND**  
**(An Enterprise Fund of the City of Seattle)**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

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**CAPITAL ASSETS**

The following table summarizes capital assets, net of accumulated depreciation, by major asset category as of December 31, 2015, 2014, and 2013:

**Summary of Capital Assets, Net of Accumulated Depreciation**

	2015	2014	2013
Land and land rights	\$ 15,217,643	\$ 15,217,643	\$ 15,217,643
Buildings	49,134,328	50,315,541	51,751,428
Structures	3,707,295	3,597,853	3,496,534
Machinery and equipment	24,190,656	27,068,379	30,730,505
Computer systems	3,209,280	4,557,616	5,397,181
Construction in progress	108,235,121	53,945,406	24,554,012
Other property	2,043,575	2,043,575	2,261,617
Capital assets, net of accumulated depreciation	<u>\$ 205,737,898</u>	<u>\$ 156,746,013</u>	<u>\$ 133,408,920</u>

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

**2015 Compared to 2014**

The Fund's capital assets (net of accumulated depreciation) for the year ended December 31, 2015 is \$205.7 million. This represents an increase of approximately \$49.0 million (31.3%) compared to 2014. The Fund spent \$55.2 million for construction projects in 2015. The construction projects were multi-year projects and \$2.4 million related to these projects were capitalized as assets in 2015. This increase in assets was offset by \$1.1 million for asset retirements and \$6.9 million for depreciation.

Highlights of the Fund's capital assets placed in service during 2015 include the following:

- \$1.4 million for Heavy Equipment purchases
- \$0.7 million for IT infrastructure upgrades
- \$0.3 million for additions to the South Transfer Station

The Fund's construction in progress activity at year end included \$84.2 million for the North Transfer Station rebuild and \$8.7 million for the new Utility Customer Billing System.

**SEATTLE PUBLIC UTILITIES - SOLID WASTE FUND**  
**(An Enterprise Fund of the City of Seattle)**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

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**CAPITAL ASSETS (CONTINUED)**

**2014 Compared to 2013**

The Fund's capital assets (net of accumulated depreciation) for the year ended December 31, 2014 is \$156.7 million. This represents an increase of approximately \$23.3 million (17.5%) compared to 2013. The Fund spent \$30.9 million for construction projects in 2014. The construction projects were multi-year projects and \$1.5 million related to these projects was capitalized as assets and other charges in 2014. Also, there was an adjustment to accumulated depreciation of \$17.8 million attributed to asset retirements in 2014. This increase in assets was offset by \$19.9 million for asset retirements and transfers out and \$7.0 million for depreciation.

Highlights of the Fund's capital assets placed in service during 2014 include the following:

- \$0.6 million for the new South Transfer Station placed in service in 2014.
- \$1.0 million for IT infrastructure upgrades.

The Fund's construction in progress activity at year end included \$37.0 million for the North Transfer Station rebuild.

**DEBT ADMINISTRATION**

The Fund's debt primarily consists of bonded debt, which is secured solely by solid waste revenues and provides financing for capital improvements. The Fund's credit rating on its bonds are AA by Standard & Poor's Rating Service and Aa3 by Moody's Investors Service. These ratings remain unchanged from 2014. Additional information about the Fund's long-term debt can be found in Note 4 of this report.

**2015 Compared to 2014**

At the end of 2015, the Fund had \$197.8 million in bonded debt, as compared to \$166.9 million in 2014, all of which was secured solely by solid waste revenues. This increase of \$30.9 million is attributed to the issuance of \$35.8 million in new debt, and \$4.9 million scheduled principal payments for existing bond debt. The Fund has used bond proceeds mostly for the completion of the South Transfer Station and the North Transfer Station rebuild projects. The Fund retains bond reserves of \$9.2 million.

**2014 Compared to 2013**

At the end of 2014, the Fund had \$166.9 million in bonded debt, as compared to \$115.9 million in 2013, all of which was secured solely by solid waste revenues. This increase of \$51.0 million is attributed to the issuance of \$95.4 million in new debt, refunding \$44.3 million of debt related to a 2007 bond issue, and scheduled principal payments for existing bond debt. The Fund has used all spendable bond proceeds mostly for the completion of the South Transfer Station and the North Transfer Station rebuild projects. The Fund retains bond reserves of \$6.8 million.

**SEATTLE PUBLIC UTILITIES - SOLID WASTE FUND**  
**(An Enterprise Fund of the City of Seattle)**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

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**ECONOMIC FACTORS AFFECTING NEXT YEAR**

Effective April 1, 2016, the Fund will adopt a rate increase of approximately 3.4% for residential and commercial services. This rate increase is expected to bring an additional \$4.3 million in operating revenues to the Fund in 2016.

**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, WA 98124-4018, telephone: (206) 684-3000.



**SEATTLE PUBLIC UTILITIES – SOLID WASTE FUND**  
**(An Enterprise Fund of the City of Seattle)**  
**STATEMENTS OF NET POSITION**

	December 31,	
	2015	2014
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Operating cash and equity in pooled investments	\$ 42,220,228	\$ 32,395,205
Receivables		
Accounts, net of allowance	13,201,343	12,933,310
Unbilled revenues	359,758	416,943
Notes, and other contracts	30,034	-
Due from other funds	237,469	244,192
Due from other governments	983,386	966,687
Materials and supplies inventory	102,088	68,265
Prepayments and other current assets	105,610	86,782
Total current assets	<u>57,239,916</u>	<u>47,111,384</u>
<b>NONCURRENT ASSETS</b>		
Restricted cash and equity in pooled investments	43,135,032	49,172,618
Prepayments long-term	306,514	324,545
Environmental recoveries	1,358,472	-
Regulatory landfill closure and postclosure costs	12,326,267	13,003,795
Regulatory assets, net	1,715,155	3,026,000
Other charges	508,186	612,154
Capital assets		
Land and land rights	15,217,643	15,217,643
Plant in service, excluding land	133,781,930	132,527,951
Less accumulated depreciation	(53,540,371)	(46,988,562)
Construction in progress	108,235,121	53,945,406
Other property, net	2,043,575	2,043,575
Total noncurrent assets	<u>265,087,524</u>	<u>222,885,125</u>
Total assets	<u>322,327,440</u>	<u>269,996,509</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Unamortized loss on refunded debt	2,967,747	3,146,435
Pension contributions and changes in assumptions	3,359,979	-
Total deferred outflows of resources	<u>6,327,726</u>	<u>3,146,435</u>
Total assets and deferred outflow of resources	<u>\$ 328,655,166</u>	<u>\$ 273,142,944</u>

**SEATTLE PUBLIC UTILITIES – SOLID WASTE FUND**  
**(An Enterprise Fund of the City of Seattle)**  
**STATEMENTS OF NET POSITION (CONTINUED)**

	December 31,	
	2015	2014
<b>LIABILITIES</b>		
CURRENT LIABILITIES		
Accounts payable	\$ 13,842,738	\$ 10,975,517
Salaries, benefits and payroll taxes payable	1,513,531	804,903
Compensated absences payable	149,752	148,705
Due to other funds	1,893,272	1,246,004
Interest payable	2,902,212	2,149,241
Taxes payable	371,733	470,632
Revenue bonds due within one year	5,750,000	4,895,000
Claims payable	311,289	242,510
Environmental liabilities	2,063,300	568,800
Landfill closure and postclosure liability	1,522,110	1,063,506
Other	5,357,259	4,703,709
Total current liabilities	<u>35,677,196</u>	<u>27,268,527</u>
NONCURRENT LIABILITIES		
Compensated absences payable	1,584,486	1,541,748
Claims payable	457,659	643,692
Environmental liabilities	7,590,775	256,742
Landfill closure and postclosure liability	14,163,024	14,990,322
Unfunded other post retirement benefits	860,084	894,715
Net pension liability	28,187,992	-
Other noncurrent liabilities	-	20,304
Revenue bonds	197,810,000	166,875,000
Less bonds due within one year	(5,750,000)	(4,895,000)
Bond premium	18,249,632	15,541,599
Total noncurrent liabilities	<u>263,153,652</u>	<u>195,869,122</u>
Total liabilities	<u>298,830,848</u>	<u>223,137,649</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Rate stabilization	<u>18,481,201</u>	<u>15,795,424</u>
<b>NET POSITION</b>		
Net investment in capital assets	16,276,742	10,747,626
Unrestricted	<u>(4,933,625)</u>	<u>23,462,245</u>
Total net position	<u>11,343,117</u>	<u>34,209,871</u>
Total liabilities and net position	<u>\$ 328,655,166</u>	<u>\$ 273,142,944</u>

**SEATTLE PUBLIC UTILITIES – SOLID WASTE FUND**  
**(An Enterprise Fund of the City of Seattle)**  
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**

	Years Ended December 31,	
	2015	2014
<b>OPERATING REVENUES</b>		
Charges for services and other revenues	\$ 174,787,770	\$ 157,497,819
<b>OPERATING EXPENSES</b>		
Solid waste collection	100,041,951	96,866,898
Planning and development	203,023	163,228
Utility systems management	10,616,856	1,661,161
Field operations	6,950,060	7,215,969
Project delivery	1,102,436	546,351
Customer services	6,592,019	5,035,333
General and administrative	14,249,644	14,492,820
City taxes	17,987,387	17,715,992
Other taxes	2,587,795	2,505,432
Depreciation and amortization	8,108,799	8,187,392
Amortization of landfill closure and postclosure costs	1,300,380	1,300,749
Total operating expenses	169,740,350	155,691,325
<b>OPERATING INCOME</b>	5,047,420	1,806,494
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Investment income	724,618	750,477
Interest expense	(5,651,348)	(5,797,849)
Amortization of bond premiums	735,746	478,042
Amortization of bond refunding loss	(178,688)	(108,570)
Gain (loss) on sale of capital assets	(442,826)	2,419,883
Contributions and grants	584,409	1,030,421
Other, net	564,959	1,338,278
Total nonoperating revenues (expenses)	(3,663,130)	110,682
<b>CHANGE IN NET POSITION</b>	1,384,290	1,917,176
<b>NET POSITION</b>		
Beginning of year	34,209,871	32,292,695
Cumulative effect of change in accounting principle	(24,251,044)	-
Net position	9,958,827	32,292,695
End of year	\$ 11,343,117	\$ 34,209,871

**SEATTLE PUBLIC UTILITIES – SOLID WASTE FUND**  
**(An Enterprise Fund of the City of Seattle)**  
**STATEMENTS OF CASH FLOWS**

	Years Ended December 31,	
	2015	2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from customers	\$ 183,505,271	\$ 175,239,493
Cash paid to suppliers	(109,106,932)	(109,583,599)
Cash paid to employees	(22,675,367)	(22,086,803)
Cash paid for taxes	(20,941,704)	(20,642,447)
Net cash provided by operating activities	30,781,268	22,926,644
 <b>CASH FLOW FROM NON-CAPITAL FINANCING ACTIVITIES</b>		
Operating grants received	818,163	838,473
Payments for environmental liabilities	(1,358,472)	-
Net cash provided by (used in) non-capital and related financing activities	(540,309)	838,473
 <b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Proceeds from sale of bonds	39,273,779	107,496,201
Proceeds from sale of fixed assets	257,501	2,419,883
Principal payments on revenue bonds	(4,820,105)	(49,017,442)
Capital expenditures and other charges	(53,840,935)	(29,589,557)
Interest paid on long-term debt	(7,731,594)	(6,976,549)
Capital grants received	-	77,840
Debt issuance costs	(297,958)	(630,220)
Net cash provided by (used in) capital and related financing activities	(27,159,312)	23,780,156
 <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Net gain on investments	705,790	702,904
 <b>NET INCREASE IN CASH AND EQUITY IN POOLED INVESTMENTS</b>	3,787,437	48,248,177
 <b>CASH AND EQUITY IN POOLED INVESTMENTS</b>		
Beginning of year	81,567,823	33,319,646
End of year	\$ 85,355,260	\$ 81,567,823
 <b>CASH AT THE END OF THE YEAR CONSISTS OF</b>		
Operating cash and equity in pooled investments	\$ 42,220,228	\$ 32,395,205
Noncurrent restricted cash and equity in pooled investments	43,135,032	49,172,618
Total cash at the end of the year	\$ 85,355,260	\$ 81,567,823

**SEATTLE PUBLIC UTILITIES – SOLID WASTE 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 PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 5,047,420	\$ 1,806,494
Adjustments to reconcile net operating income to net cash provided by operating activities		
Amortization of pension assumptions	576,968	-
Depreciation and amortization	8,108,799	8,187,392
Other receipts and payments	1,075,977	2,115,042
Changes in operating assets and liabilities		
Unbilled revenues	57,184	(6,574)
Accounts receivable	(268,032)	360,147
Due from other City funds	6,723	42,708
Due from other governments	(250,453)	79,237
Materials and supplies inventory	(33,823)	39,322
Other assets	665,524	1,512,101
Accounts payable	2,867,221	2,069,521
Accrued payroll and payroll taxes payable	708,628	74,337
Taxes payable	(99,549)	(121,682)
Compensated absences payable	43,785	35,491
Due to other City funds	647,918	(414,854)
Claims payable	(117,254)	2,550
Accrued landfill closure and post-closure costs	(368,694)	(906,973)
Environmental liability	8,828,533	(579,737)
Rate stabilization	2,685,777	10,548,888
Other liabilities	598,616	(1,916,766)
Total adjustments	25,733,848	21,120,150
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 30,781,268	\$ 22,926,644

# **SEATTLE PUBLIC UTILITIES - SOLID WASTE FUND**

## **(An Enterprise Fund of the City of Seattle)**

### **NOTES TO FINANCIAL STATEMENTS**

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#### **Note 1 – Operations and Summary of Significant Accounting Policies**

**Operations** – The City of Seattle, Seattle Public Utilities – Solid Waste Fund (the “Fund”) is a public utility enterprise fund of the City of Seattle (the “City”). The Fund was established to account for the solid waste activities of Seattle Public Utilities (“SPU”). These activities include the collection and disposal of residential and commercial garbage, recycling, and organic material, operation of the City’s two transfer stations and two household hazardous waste facilities, and management of the post closure maintenance and environmental monitoring of the City’s two closed landfills. The collection, disposal and/or processing of garbage, recycling, and organic materials is performed by private contractors, under contract with the Fund.

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 \$4,212,458 and \$3,868,903, respectively, to the City for its share of general and administrative services. Additionally, the Fund paid \$14,114,457 and \$13,343,416 in 2015 and 2014, respectively, to the City for business and occupation taxes, as well as \$3,872,930 and \$4,372,576, respectively, in tonnage taxes on waste collected and transferred in the City for disposal.

Solid waste collection and disposal services provided to other City departments and agencies are billed at rates prescribed by City ordinances. The Fund collected \$818,148 in 2015 and \$792,203 in 2014 from the City for solid waste services provided.

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 billed and reimbursed each other for these services in 2015 and 2014. Within SPU, the cost 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 in 2015 and \$1,742,130 in 2014. 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 Seattle 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.

**SEATTLE PUBLIC UTILITIES - SOLID WASTE FUND**  
**(An Enterprise Fund of the City of Seattle)**  
**NOTES TO FINANCIAL STATEMENTS**

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

**Basis of Accounting** – The Fund is accounted for on a flow of economic resources measurement focus. Its financial statements are prepared in accordance with accounting principles generally accepted in the United States of America as applied to governmental units using the accrual basis of accounting. With the flow of economic resources measurement focus, all assets, deferred outflows of resources, liabilities, and deferred inflows of resources associated with the Fund’s operations are included on the Statement 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 Statement 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 market value. The restricted cash and equity in pooled investments are comprised of unexpended bond proceeds, bond reserve funds, vendor’s escrow deposits and a rate stabilization fund.

**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 amount for services that have been provided but not billed.

**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 \$1,348,890 and \$1,128,348, respectively.

**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 other funds and governments.

**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.

**SEATTLE PUBLIC UTILITIES - SOLID WASTE FUND**  
**(An Enterprise Fund of the City of Seattle)**  
**NOTES TO FINANCIAL STATEMENTS**

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

**Regulatory Assets** – 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 consistent with the rate methodology 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 unless the Fund executed GASB 62. In addition, the Fund also uses regulatory accounting for future reasonably estimable cleanup costs related to the remediation the South Park Bus Barn site located near the South Park Landfill.

**Other Charges** – Other charges primarily include costs related to leasehold improvements and plans such as the Comprehensive Solid Waste 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 materials, 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 improvements is capitalized. SPU’s policy is to capitalize assets with a cost of \$5,000 or more.

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

**Other Property** – Other property is stated at cost, or if contributed, the fair value at the date of contribution. In 1990, the Fund purchased 350 acres of land surrounding the Kent-Highlands landfill. A portion of this land will become part of the landfill area, with the excess held for sale. Other property also includes artwork 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 are depreciated on the straight-line method over estimated useful lives as follows:

Buildings	10-75 years
Transfer stations, scale houses, and related improvements	5-33 years
Machinery and equipment	3-20 years
Structures	10-15 years
Computer systems	3-11 years



**SEATTLE PUBLIC UTILITIES - SOLID WASTE FUND**  
**(An Enterprise Fund of the City of Seattle)**  
**NOTES TO FINANCIAL STATEMENTS**

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

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. In 2015, the Seattle City Council authorized the Fund to deposit \$2.5 million into the rate stabilization account. These funds will be used in future periods to lessen the impact of rate increases.

**Environmental Liabilities** – The Fund has accrued a liability for pollution remediation activities in accordance with GASB Statement No. 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.

**SEATTLE PUBLIC UTILITIES - SOLID WASTE FUND**  
**(An Enterprise Fund of the City of Seattle)**  
**NOTES TO FINANCIAL STATEMENTS**

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

Most pollution remediation outlays do not qualify for capitalization and the Fund does not anticipate significant capitalized costs in the future. More information about environmental liabilities can be found in Note 11 of this report.

**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.

Retiring employees who are ineligible 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. The cash payment is 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** – Revenues are recorded through cycle billings rendered to customers monthly or bimonthly. Amounts billed but not earned at year-end are recorded as unearned revenues on the Fund’s statement of net position. The Fund accrues and records unbilled collection service revenues in the financial statements for services provided from the date of the last billing to year end.

Other operating revenues include revenues generated from the Fund’s two transfer stations. Transfer station revenues are collected from self-haul customers who deliver their garbage, yard waste, wood waste, appliances, and tires for a fee to the two transfer stations.

**SEATTLE PUBLIC UTILITIES - SOLID WASTE FUND**  
**(An Enterprise Fund of the City of Seattle)**  
**NOTES TO FINANCIAL STATEMENTS**

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

**Operating Expenses** – Certain expenses of the Fund are reported on the Statement of Revenues, Expenses, and Changes 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 solid waste 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.

**Taxes** – The Fund paid an 11.5% City utility tax on residential and commercial revenues, net of yard waste, recycling, and other costs related to waste reduction. The Fund also is charged two taxes by the City based on solid waste tonnage for operating transfer stations and for collecting garbage within the City of Seattle. In 2014, the tonnage tax rate increased to \$13.27 per ton from the 2013 rate of \$11.69 per ton. In addition, the Fund paid a 1.5% business and occupation tax, a 0.484% wholesale tax, and a 0.471% retail tax to the State on the services provided to residential, commercial, and transfer station customers. The State refuse tax rates remained the same at 3.60% for 2015.

**Nonoperating Revenues and Expenses** – This includes the nonoperating revenues and expenses that arise from transactions not related directly to the major income-earning operations of the utility and are of a recurring nature. Major items are the Clean Cities Program revenue and expenses, investment and interest income, interest expense, amortization of debt expenses, amortization of debt discounts, premiums and refunding losses, sale of capital assets, and rental income. Clean Cities revenue is earned through tonnage fees collected from businesses engaged in operating transfer stations and collecting garbage and that are then used for the City’s Clean Cities program.

**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.

**SEATTLE PUBLIC UTILITIES - SOLID WASTE FUND**  
**(An Enterprise Fund of the City of Seattle)**  
**NOTES TO FINANCIAL STATEMENTS**

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

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 relates to certain restricted assets that are offset by related liabilities.

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 arbitrage liability 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.

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.

**SEATTLE PUBLIC UTILITIES - SOLID WASTE FUND**  
**(An Enterprise Fund of the City of Seattle)**  
**NOTES TO FINANCIAL STATEMENTS**

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

**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 landfill closure and post closure costs, unbilled collection services, 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 Uncertainty** – The Fund is subject to certain business risks that could have a material impact on future operations and financial performance. These risks include, but are not limited to, weather and natural disaster-related disruptions, collective bargaining labor disputes, Environmental Protection Agency regulations, and federal government regulations or orders concerning the operation, maintenance, and licensing of facilities.

**Note 2 – Cash and 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 both 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.

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.

**SEATTLE PUBLIC UTILITIES - SOLID WASTE FUND**  
**(An Enterprise Fund of the City of Seattle)**  
**NOTES TO FINANCIAL STATEMENTS**

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**Note 2 – Cash and Investments (Continued)**

**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
Cash and equity in pooled investments	\$ 42,220,228	\$ 32,395,205
Restricted cash and equity in pooled investments	43,135,032	49,172,618
	\$ 85,355,260	\$ 81,567,823
Balance as a percentage of City Pool cash and investments	4.8%	5.0%

**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.

**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 (“NRSRO”s). 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.

**SEATTLE PUBLIC UTILITIES - SOLID WASTE FUND**  
**(An Enterprise Fund of the City of Seattle)**  
**NOTES TO FINANCIAL STATEMENTS**

**Note 2 – Cash and Investments (Continued)**

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 5% or more is invested in any single issuer as of December 31 are as follows:

Issuer	2015		2014	
	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 investments as of December 31, 2015.

**Note 3 – Capital Assets**

Capital assets activity for the year ended December 31, 2015 consisted of the following:

	Beginning Balance	Additions and Transfers In	Retirements and Transfers Out	Ending Balance
Buildings	\$ 57,977,476	\$ 203,224	\$ -	\$ 58,180,700
Structures	3,974,672	273,587	-	4,248,259
Machinery and equipment	46,877,558	1,707,895	(1,036,096)	47,549,357
Computer systems	23,698,245	257,116	(151,747)	23,803,614
Total capital assets, excluding land	132,527,951	2,441,822	(1,187,843)	133,781,930
Less accumulated depreciation	(46,988,562)	(6,907,046)	355,237	(53,540,371)
	85,539,389	(4,465,224)	(832,606)	80,241,559
Construction in progress	53,945,406	55,283,403	(993,688)	108,235,121
Land and land rights	15,217,643	-	-	15,217,643
Other property	2,043,575	-	-	2,043,575
Capital assets, net	\$ 156,746,013	\$ 50,818,179	\$ (1,826,294)	\$ 205,737,898

**SEATTLE PUBLIC UTILITIES - SOLID WASTE FUND**  
**(An Enterprise Fund of the City of Seattle)**  
**NOTES TO FINANCIAL STATEMENTS**

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**Note 3 – Capital Assets (Continued)**

Capital assets activity for the year ended December 31, 2014 consisted of the following:

	Beginning Balance	Additions and Transfers In	Retirements and Transfers Out	Ending Balance
Buildings	\$ 62,574,420	\$ 31,986	\$ (4,628,930)	\$ 57,977,476
Structures	3,727,734	246,938	-	3,974,672
Machinery and equipment	57,989,440	606,357	(11,718,239)	46,877,558
Computer systems	24,879,323	661,767	(1,842,845)	23,698,245
Total capital assets, excluding land	149,170,917	1,547,048	(18,190,014)	132,527,951
Less accumulated depreciation	(57,795,269)	(7,025,710)	17,832,417	(46,988,562)
	91,375,648	(5,478,662)	(357,597)	85,539,389
Construction in progress	24,554,012	30,894,717	(1,503,323)	53,945,406
Land and land rights	15,217,643	-	-	15,217,643
Other property	2,261,617	-	(218,042)	2,043,575
Capital assets, net	<u>\$ 133,408,920</u>	<u>\$ 25,416,055</u>	<u>\$ (2,078,962)</u>	<u>\$ 156,746,013</u>

During 2015 and 2014, the Fund capitalized interest costs relating to construction of \$2,833,217 and \$990,601, 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 set aside \$9,185,863 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 were \$197,810,000.

Revenue bonds outstanding as of December 31, 2015 and 2014 consisted of the following Solid Waste bonds:

Name of Issue	Issuance Date	Maturity Years	Interest Rates	Original Issue Amount	Bonds Outstanding	
					2015	2014
2007 Revenue and Refunding	12/05/2007	2008-2033	4.0 - 5.0%	\$ 82,175,000	\$ 26,130,000	\$ 28,665,000
2011 Revenue Bonds	6/22/2011	2012-2036	3.0 - 5.0%	45,750,000	41,730,000	42,860,000
2014 Revenue Bonds	6/12/2014	2015-2039	2.0 - 5.0%	95,350,000	94,120,000	95,350,000
2015 Revenue Bonds	6/25/2015	2016-2040	2.0 - 5.0%	35,830,000	35,830,000	-
				<u>\$ 259,105,000</u>	<u>\$ 197,810,000</u>	<u>\$ 166,875,000</u>



**SEATTLE PUBLIC UTILITIES - SOLID WASTE FUND**  
**(An Enterprise Fund of the City of Seattle)**  
**NOTES TO FINANCIAL STATEMENTS**

**Note 4 – Revenue Bonds (Continued)**

Minimum debt service requirements to maturity on revenue bonds are as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 5,750,000	\$ 9,281,908	\$ 15,031,908
2017	6,165,000	8,860,850	15,025,850
2018	6,380,000	8,563,500	14,943,500
2019	6,700,000	8,238,125	14,938,125
2020	6,605,000	7,907,250	14,512,250
2021 - 2025	38,415,000	34,128,750	72,543,750
2026 - 2030	49,215,000	23,496,982	72,711,982
2031 - 2035	51,155,000	11,377,986	62,532,986
2036 - 2040	27,425,000	2,414,669	29,839,669
	<u>\$ 197,810,000</u>	<u>\$ 114,270,020</u>	<u>\$ 312,080,020</u>

The following table shows the revenue bond activity during the year ended December 31, 2015:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds payable, revenue bonds	\$ 166,875,000	\$ 35,830,000	\$ (4,895,000)	\$ 197,810,000	\$ 5,750,000
Add (deduct) deferred amounts: Issuance premiums	15,541,599	3,443,779	(735,746)	18,249,632	-
Total bonds payable	<u>\$ 182,416,599</u>	<u>\$ 39,273,779</u>	<u>\$ (5,630,746)</u>	<u>\$ 216,059,632</u>	<u>\$ 5,750,000</u>

The following table shows the revenue bond activity during the year ended December 31, 2014:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds payable, revenue bonds	\$ 115,875,000	\$ 95,350,000	\$ (44,350,000)	\$ 166,875,000	\$ 4,895,000
Add (deduct) deferred amounts: Issuance premiums	5,425,270	12,146,201	(2,029,872)	15,541,599	-
Total bonds payable	<u>\$ 121,300,270</u>	<u>\$ 107,496,201</u>	<u>\$ (46,379,872)</u>	<u>\$ 182,416,599</u>	<u>\$ 4,895,000</u>

**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.

**SEATTLE PUBLIC UTILITIES - SOLID WASTE FUND**  
**(An Enterprise Fund of the City of Seattle)**  
**NOTES TO FINANCIAL STATEMENTS**

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**Note 4 – Revenue Bonds (Continued)**

In 2015, no bonds were defeased and none were redeemed as shown below:

<u>Name of Issue</u>	<u>Amount Outstanding at December 31, 2014</u>	<u>Additions</u>	<u>Redemptions</u>	<u>Amount Outstanding at December 31, 2015</u>
2007 Parity	<u>\$ 40,855,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 40,855,000</u>

In June 2015, the Fund issued \$35,830,000 of Solid Waste Revenue Bonds with varying annual principal payments due beginning 2016 and ending in 2040, at interest rates ranging from 2.0 percent and 5.0 percent. There were no bond refundings in 2015.

**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 at least equal to 125% of annual debt service. Net revenue available for debt service, as defined by the bond covenants, was 346% of annual debt service for 2015. Management believes the Fund was in compliance with all debt covenants as of December 31, 2015. For more information see Other Information (page 42).

**Note 5 – Leases**

The Fund has non-cancelable operating lease commitments for real and personal property with minimum payments of \$205,257 in 2015 and \$199,195 in 2014. Rents are paid as they become due and payable. Minimum payments under the leases for the years ending December 31, are as follows:

2016	\$ 176,306
2017	6,582
2018	5,027
2019	5,178
2020	3,073
	<u>\$ 196,166</u>

**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.

**SEATTLE PUBLIC UTILITIES - SOLID WASTE FUND**  
**(An Enterprise Fund of the City of Seattle)**  
**NOTES TO FINANCIAL STATEMENTS**

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**Note 6 – Postemployment Benefit Plans (Continued)**

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 of Seattle 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, 2014.

	<u>2015</u>	<u>2014</u>
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	<u>(2,540,000)</u>	<u>(2,403,000)</u>
Annual OPEB cost (expense)	3,695,000	3,531,000
Contribution (employer-paid benefits)	<u>(1,141,000)</u>	<u>(1,006,000)</u>
Increase in net OPEB obligation	2,554,000	2,525,000
Net OPEB obligation, beginning of year	<u>46,828,000</u>	<u>44,303,000</u>
Net OPEB obligation, end of year	<u>\$ 49,382,000</u>	<u>\$ 46,828,000</u>
Fund’s allocated share of city liability	<u>\$ 860,084</u>	<u>\$ 894,715</u>

**SEATTLE PUBLIC UTILITIES - SOLID WASTE FUND**  
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**NOTES TO FINANCIAL STATEMENTS**

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**Note 6 – Postemployment Benefit Plans (Continued)**

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. 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.

**SEATTLE PUBLIC UTILITIES - SOLID WASTE FUND**  
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**NOTES TO FINANCIAL STATEMENTS**

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**Note 6 – Postemployment Benefit Plans (Continued)**

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, the other 50% will continue coverage under the same plan.

Schedules of funding progress are as follows (dollars in millions):

Actuarial Valuation Date	Actuarial Value of Assets (a)	AAL Entry Age (b)	UAAL (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percent 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 Sub Fund 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, Washington 98124-4747 or [www.seattle.gov/cafrs/](http://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 \$311,289 and \$242,510 as of December 31, 2015 and 2014, respectively.

**SEATTLE PUBLIC UTILITIES - SOLID WASTE FUND**  
**(An Enterprise Fund of the City of Seattle)**  
**NOTES TO FINANCIAL STATEMENTS**

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**Note 7 - Claims Payable (Continued)**

The schedules below present the changes in the liability for workers' compensation claims and other claims (risk financing liabilities) as of December 31:

	<u>2015</u>	<u>2014</u>
Beginning liability, discounted	\$ 886,202	\$ 883,652
Payments	(180,255)	(172,533)
Incurred claims and change in estimate	<u>63,001</u>	<u>175,083</u>
Ending liability, discounted	<u>\$ 768,948</u>	<u>\$ 886,202</u>

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:

	<u>2015</u>	<u>2014</u>
Beginning liability	\$ 1,690,453	\$ 1,654,962
Additions	1,644,452	1,698,858
Reductions	<u>(1,600,667)</u>	<u>(1,663,367)</u>
Ending liability	<u>\$ 1,734,238</u>	<u>\$ 1,690,453</u>

**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.

**SEATTLE PUBLIC UTILITIES - SOLID WASTE FUND**  
**(An Enterprise Fund of the City of Seattle)**  
**NOTES TO FINANCIAL STATEMENTS**

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**Note 9 – Pension Benefit Plan (Continued)**

**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 \$2,481,944 and \$2,289,317, respectively.

The System issues stand-alone financial statements, which may be obtained by writing to the Seattle City Employees’ Retirement System, 720 Third Avenue, Suite 900, Seattle, Washington, 98104, and telephone: (206) 386-1293, or [www.seattle.gov/retirement/annual\\_report.htm](http://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 \$28,187,992, 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 2.54%.

For the year ended December 31, 2015, the Fund recognized pension expense of approximately \$3,059,000. 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	\$ 878,035	\$ -
Contributions made subsequent to measurement date	2,481,944	-
Total	\$ 3,359,979	\$ -

The \$2,481,944 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.

**SEATTLE PUBLIC UTILITIES - SOLID WASTE FUND**  
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**NOTES TO FINANCIAL STATEMENTS**

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**Note 9 – Pension Benefit Plan (Continued)**

Other amounts currently reported as deferred outflows of resources relate to the difference in actual earnings on pension investments from projected earnings and will be recognized in pension expense as follows for years ending December 31:

2015	\$	219,509
2016	\$	219,509
2017	\$	219,509
2018	\$	219,508

**Actuarial Assumptions** – The total pension liability as of December 31, 2015 was determined using the following actuarial 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.



**SEATTLE PUBLIC UTILITIES - SOLID WASTE FUND**  
**(An Enterprise Fund of the City of Seattle)**  
**NOTES TO FINANCIAL STATEMENTS**

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**Note 9 – Pension Benefit Plan (Continued)**

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 expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

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%
\$ 38,899,121	\$ 28,187,992	\$ 19,180,522

**Note 10 – Contractual Obligations**

The City contracts with private companies for the collection of residential and commercial garbage, yard waste, food waste, and recycling. Effective March 30, 2009 the City entered into contracts with Waste Management and Recology CleanScapes for residential and commercial collection. The contracts are scheduled to end on March 31, 2019. Total payments under these contracts for residential and commercial collection in 2015 and 2014 were \$77,151,253 and \$75,554,323, respectively.

**SEATTLE PUBLIC UTILITIES - SOLID WASTE FUND**  
**(An Enterprise Fund of the City of Seattle)**  
**NOTES TO FINANCIAL STATEMENTS**

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**Note 10 – Contractual Obligations (Continued)**

In 1990, the City entered into a contract with Waste Management of Washington, Inc., (f/k/a Washington Waste Systems) for the disposal of non-recyclable City waste. This contract is scheduled to end on March 31, 2028, however the City may terminate this contract at its option without cause on March 31, 2019. Total payments under the terms of this contract for waste disposal in 2015 and 2014 were \$12,825,828 and \$12,915,856, respectively.

The City also had negotiated a long-term yard waste processing contract with Cedar Grove Composting, Inc. This contract expired on March 30, 2014. Total payments under the terms of this contract in 2014 were \$431,830.

Effective April 1, 2014 the City entered into contracts with PacifiClean Environmental of Washington, LLC and Lenz Enterprises, Inc. to process yard and food waste into marketable products. The contracts are scheduled to end on March 31, 2020, however the city may, at its option, extend the contract in two year increments up to March 31, 2024. Total payments under the terms of these contracts for 2015 and 2014 were \$4,437,698 and \$3,370,301, respectively.

Effective April 1, 2009, the City commenced a contract for recycling processing with Rabanco, LTD. The company is responsible for processing recyclables from both commercial and residential customers. The contract is scheduled to end on March 31, 2016 with an option to extend the contract for a three-year period at that time. The City elected to proceed with a solitication process, and as a result, negotiated a new long term contract with Rabanco, LTD. This contract became effective April 1, 2016 and will expire March 31, 2021. The City may, at its option, extend the contract in three year increments up to March 31, 2027. Total payment for recycling processing in 2015 and 2014 were \$2,626,299 and \$2,444,422, respectively.

**Note 11 – Environmental Liabilities**

The City of Seattle and a private developer are under an Agreed Order with the Washington State Department of Ecology (Ecology) to perform a Remedial Investigation and Feasibility Study and to draft a Cleanup Action Plan for the historic South Park Landfill site under the State Model Toxics Control Act. The City and developer submitted a draft Remedial Investigation and Feasibility Study Report in April 2012 and a Draft Cleanup Action Plan in June 2014 and are negotiating with Ecology to finalize the two reports. Negotiations are underway to finalize a Consent Decree for the site with other PLP's, Ecology and the Attorney General's office. Ecology recently approved an amendment of the Agreed Order to allow the City to construct an interim cleanup action on the City-owned portion of the landfill property. That interim cleanup is expected to be done in the 2018-19 timeframe. Ecology also approved an interim cleanup action by the developer on his portion of site property. That cleanup was completed in 2015. In 2012, the City executed an agreement regarding the developer's interim action that settles City liabilities for the interim cleanup costs but not City liabilities for the permanent cleanup.

**SEATTLE PUBLIC UTILITIES - SOLID WASTE FUND**  
**(An Enterprise Fund of the City of Seattle)**  
**NOTES TO FINANCIAL STATEMENTS**

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**Note 11 – 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. 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; as new information becomes available, estimates may vary significantly due to price increases or reductions, technology, or applicable laws or regulations.

The following changes in the provision for environmental liabilities at December 31 are:

	<u>2015</u>	<u>2014</u>
Beginning environmental liability, net of recoveries	\$ 825,542	\$ 1,405,279
Payments or amortization	(516,276)	(264,973)
Change in estimated liability	<u>9,344,809</u>	<u>(314,764)</u>
Ending environmental liability, net of recoveries	<u>\$ 9,654,075</u>	<u>\$ 825,542</u>

The following table represents the current and long term positions of the environmental liability:

	<u>2015</u>	<u>2014</u>
Environmental liability, current	\$ 2,063,300	\$ 568,800
Environmental liability, noncurrent	<u>7,590,775</u>	<u>256,742</u>
Ending liability	<u>\$ 9,654,075</u>	<u>\$ 825,542</u>

**Note 12 – Landfill Closure and Post Closure Care**

At December 31, 2015, accrued landfill closure and post closure costs consist primarily of monitoring, maintenance, and repair costs. It is the City Council’s policy to include the Fund’s share of all landfill closure and post closure costs in the revenue requirements used to set future solid waste rates. Therefore, the Fund uses regulatory accounting and total estimated landfill closure and post closure care costs are accrued and also reflected as a future costs in the accompanying financial statements, in accordance with generally accepted accounting principles.

**SEATTLE PUBLIC UTILITIES - SOLID WASTE FUND**  
**(An Enterprise Fund of the City of Seattle)**  
**NOTES TO FINANCIAL STATEMENTS**

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**Note 12 - Landfill Closure and Post Closure Care (Continued)**

These costs are being amortized as they are recovered from rate payers. These costs are regulatory assets even though the Fund chooses to present them separately on the Statement of Net Position. Actual costs for closure and post closure care may be higher due to inflation, changes in technology, or changes in regulations. Such amounts would be added to the liability and accrued when identified. Landfill closure costs were fully amortized in 2009 and landfill postclosure costs will continue to amortize until 2024.

In prior years, the Fund delivered its refuse to two leased disposal sites: the Midway and Kent-Highlands landfills. Subsequent to signing the original lease agreement, federal and state requirements for closure of landfill sites were enacted. The Fund stopped disposing of municipal waste in the Midway site in 1983 and in the Kent-Highlands site in 1986.

**Note 13 - 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 \$24,251,044.

**REQUIRED SUPPLEMENTARY INFORMATION**

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**SEATTLE PUBLIC UTILITIES – SOLID WASTE FUND**  
**(An Enterprise Fund of the City of Seattle)**  
**REQUIRED SUPPLEMENTARY INFORMATION**

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**Schedule of Seattle Public Utilities' Proportionate Share of the Net Pension Liability**

	2015
Employer's proportion of the net pension liability	16.96%
Employer's proportionate share of the net pension liability	\$ 187,919,945
Employer's covered-employee payroll	\$ 102,783,473
Employer's proportionate share of the net pension liability 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)**

**SEATTLE PUBLIC UTILITIES – SOLID WASTE FUND**  
**(An Enterprise Fund of the City of Seattle)**  
**OTHER INFORMATION (UNAUDITED)**

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**Debt Service Coverage Calculation**

<b>Operating Revenue</b>	
Residential Collection Services	\$ 112,667,164
Commercial Collection Services	54,046,480
Disposal and Other	10,574,127
Rate Stabilization Account	<u>(2,500,000)</u>
<b>Total Operating Revenue</b>	<u>174,787,770</u>
<b>Operating Expense</b>	
Solid Waste Contract Expense	100,041,951
Other Operations and Maintenance	39,714,038
City Taxes	17,987,387
State B&O Tax	<u>2,587,795</u>
<b>Total Operating Expense</b>	<u>160,331,171</u>
<b>Net Operating Income</b>	<u>14,456,599</u>
<b>Adjustments</b>	
Less: DSRF Earnings	(90,540)
Add: City Taxes	17,987,387
Add: Environmental Liability Costs	9,344,809
Add: Investment Interest	819,774
Add: Net Proceeds from Sale on Assets	257,501
Add: Net Other Nonoperating Revenues (Expenses)	<u>564,959</u>
<b>Total Adjustments</b>	<u>28,883,890</u>
<b>Net Revenue Available for Debt Service</b>	<u><u>\$ 43,340,489</u></u>
<b>Net Revenue Available for Debt Service (w/o City Taxes)</b>	<u><u>\$ 25,353,102</u></u>
<b>Annual Debt Service</b>	
Annual Debt Service	\$ 12,626,594
Less: DSRF Earnings	<u>(90,540)</u>
 <b>Adjusted Annual Debt Service</b>	 <u><u>\$ 12,536,054</u></u>
Coverage	3.46
Coverage without taxes	2.02



**SEATTLE PUBLIC UTILITIES – SOLID WASTE FUND**  
**(An Enterprise Fund of the City of Seattle)**  
**OTHER INFORMATION (UNAUDITED)**

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**Solid Waste Customers by Class**

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
VARIABLE CANS					
No can/vacancy	2,611	2,443	2,385	2,388	2,114
12-Gallon Can	16,761	17,974	18,613	19,215	19,893
20-Gallon Can	43,830	44,395	44,738	46,083	46,942
32-Gallon Can	94,393	91,783	90,499	86,956	86,675
64-Gallon Can	6,525	6,568	6,627	7,034	7,081
96-Gallon Can	<u>1,461</u>	<u>1,606</u>	<u>1,677</u>	<u>1,891</u>	<u>2,008</u>
TOTAL VARIABLE CANS	165,581	164,769	164,539	163,567	164,713
Residential Dumpster Accounts	5,245	5,206	5,185	5,203	5,261
Commercial Accounts	8,198	8,173	8,183	8,168	8,145

**SEATTLE PUBLIC UTILITIES – SOLID WASTE FUND**  
**(An Enterprise Fund of the City of Seattle)**  
**OTHER INFORMATION (UNAUDITED)**

**Solid Waste Tonnage**

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
<b>GARBAGE</b>						
Residential collection	114,135	112,772	111,402	110,838	112,245	101,972
Self-haul garbage	79,293	71,033	70,474	74,019	57,844	60,938
Commercial collection	142,180	135,536	134,089	132,401	139,475	139,557
Total tons disposed	<u>335,608</u>	<u>319,341</u>	<u>315,965</u>	<u>317,258</u>	<u>309,564</u>	<u>302,467</u>
<b>RECYCLING</b>						
Private recycling <sup>(1)</sup>	208,711	220,878	218,784	229,279	235,150	239,583
Residential curbside recycling	57,131	57,234	55,317	55,023	56,054	57,073
Apartment recycling	19,267	18,544	20,599	20,886	22,212	24,028
Residential curb yard and food waste	79,952	78,456	82,244	80,989	82,588	89,213
Self-haul yard waste	7,682	6,794	6,593	6,290	4,199	4,009
Self-haul wood waste	808	739	569	626	523	682
Self-haul recycling	4,643	3,949	3,501	3,413	2,086	2,209
Composting <sup>(2)</sup>	10,800	10,800	10,800	10,800	10,800	10,800
Total tons recycled	<u>388,994</u>	<u>397,394</u>	<u>398,407</u>	<u>407,306</u>	<u>413,612</u>	<u>427,597</u>
Total tons generated	<u>724,602</u>	<u>716,735</u>	<u>714,372</u>	<u>724,564</u>	<u>723,176</u>	<u>730,064</u>
Garbage as a percentage of total tons generated	46%	45%	44%	44%	43%	41%
Recycling as a percentage of total tons generated	54%	55%	56%	56%	57%	59%

<sup>(1)</sup> Estimate for 2015.

<sup>(2)</sup> Composting figures are estimates based on surveys and include grasscycling and backyard food waste and yard waste composting. Survey was conducted in 2010.

**SEATTLE PUBLIC UTILITIES – SOLID WASTE FUND**  
**(An Enterprise Fund of the City of Seattle)**  
**OTHER INFORMATION (UNAUDITED)**

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**Solid Waste Rate Schedule and Transfer Station Fees**

2016 Monthly Residential Rate Schedule

Service unit	<u>Rates (Effective April 1, 2016)</u>
No can (minimum charge)	\$ 6.85
12-Gallon	21.30
20-Gallon	26.10
32-Gallon	34.00
64-Gallon	68.00
96-Gallon	102.00
Recycling	No charge
Non-Compacted Dumpster (one cubic yard, once/week, one container) <sup>(2)</sup>	252.17
Compacted Dumpster (three cubic yards, once/week, one container) <sup>(2)</sup>	727.82
Yard Waste Mini-Can	5.65
Yard Waste 32-Gallon Can	8.50
Yard Waste 96-Gallon Can	10.85

<sup>(1)</sup> Rates listed are for curb/alley service.

<sup>(2)</sup> Dumpster rates vary based on size and number of containers as well as the frequency of collection. Dumpster rates shown include a \$37.40 monthly account fee.

2016 Commercial Collection Rates

Like other solid waste rates, the City sets commercial rates through ordinance. Commercial rates vary with the type and level of service. A typical commercial customer has 3 cubic yards of garbage collected once per week. As of April 1, 2016 the cost of this service is \$456.68 per month, including a monthly account fee of \$25.20.

2016 Transfer Station Fees

	<u>Rates (Effective January 1, 2010)</u>
<b>Garbage</b>	
Sedans, SUVs, and station wagons	\$30.00 per trip
All other self-haul vehicles with garbage	\$145.00 per ton (\$30.00 minimum charge)
<b>Yard and wood waste</b>	
Sedans, SUVs, and station wagons	\$20.00 per trip
All other self-haul vehicles with yard waste	\$110.00 per ton (\$20.00 minimum charge)

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**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.

<b>POPULATION</b>			
<b>Year</b>	<b>Washington</b>	<b>King County</b>	<b>Seattle</b>
1980 <sup>(1)</sup>	4,130,163	1,269,749	493,846
1990 <sup>(1)</sup>	4,866,692	1,507,319	516,259
2000 <sup>(1)</sup>	5,894,121	1,737,034	563,374
2010 <sup>(1)</sup>	6,724,540	1,931,249	608,660
2011 <sup>(2)</sup>	6,767,900	1,942,600	612,100
2012 <sup>(2)</sup>	6,817,770	1,957,000	616,500
2013 <sup>(2)</sup>	6,882,400	1,981,900	626,600
2014 <sup>(2)</sup>	6,968,170	2,017,250	640,500
2015 <sup>(2)</sup>	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.

<b>PER CAPITA INCOME</b>					
	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
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

Year	New Single Family Units		New Multifamily Units		Total Value(\$)
	Number	Value(\$)	Number	Value(\$)	
2010	241	\$ 53,269,934	2,456	\$ 192,261,935	\$ 245,531,869
2011	316	71,808,767	2,857	376,591,834	448,400,601
2012	498	120,592,378	6,799	984,110,088	1,104,702,466
2013	822	205,297,350	5,855	805,297,482	1,010,594,832
2014	898	227,307,102	6,547	881,734,102	1,109,041,204
2015	810	215,818,201	10,530	1,684,630,374	1,900,448,575
2015 <sup>(1)</sup>	268	70,982,420	4,595	727,957,886	798,940,306
2016 <sup>(1)</sup>	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 <sup>(1)</sup>
Providence Health & Services	17,600
Fred Meyer Stores	15,900
Costco Wholesale Corp.	14,900
King County Government	14,500 <sup>(2)</sup>
City of Seattle	13,300 <sup>(3)</sup>
Starbucks Corp.	12,400 <sup>(1)</sup>
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<sup>(1)</sup>**

	<b>Annual Average</b>				
	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>
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%
<b>NAICS INDUSTRY</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>
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
	<b>Apr. 2016</b>				
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 3.6 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has a Standard & Poor’s rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://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 Bond Registrar and request that copies of notices be provided directly to them.

Redemption notices will be sent to DTC. If less than all of the Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. 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.