

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

*Enterprise Fund of The City of Seattle*

*Financial Statements as of and for the  
Years Ended December 31, 2017 and 2016,  
Required Supplementary Information,  
Other Information, and  
Independent Auditors' Report*



# THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

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## INDEPENDENT AUDITORS' REPORT

To the Housing, Health, Energy and Workers' Rights Committee  
The City of Seattle – City Light Department  
Seattle, Washington

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of The City of Seattle – City Light Department (the “Department”), an enterprise fund of The City of Seattle, Washington, as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the Department's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Department as of December 31, 2017 and 2016, and the respective changes in financial position and cash flows thereof 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 1, the financial statements present only the Department and do not purport to, and do not present fairly the financial position of The City of Seattle, Washington, as of December 31, 2017 and 2016 and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

### ***Other Matters***

#### ***Required Supplementary Information***

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

#### ***Other Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The other information as listed in the table of contents, which are the responsibility of management, are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion or provide any assurance on it.

#### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we will also issue a report on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department's internal control over financial reporting and compliance.

*Baker Tilly Virchow Krause, LLP*

Madison, Wisconsin  
April 30, 2018

# THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 and 2016

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The following discussion and analysis of the financial performance of The City of Seattle—City Light Department (the Department) provides a summary of the financial activities for the years ended December 31, 2017, and 2016. This discussion and analysis should be read in combination with the Department's financial statements, which immediately follow this section.

### ORGANIZATION

The Department is the public electric utility of The City of Seattle (the City). As an enterprise fund of the City, the Department owns and operates generating, transmission, and distribution facilities and delivers electricity to approximately 454,500 customers in Seattle and certain surrounding communities. The Department also provides electrical energy to other City agencies at rates prescribed by City ordinances.

### OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

# THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 and 2016

### CONDENSED BALANCE SHEETS

(\$ in millions)	December 31		
	2017	2016	2015
Assets:			
Utility plant—net	\$ 3,509.5	\$ 3,214.7	\$ 2,961.5
Restricted assets	252.4	222.0	265.1
Current assets	343.6	286.5	339.6
Other assets	<u>416.8</u>	<u>396.2</u>	<u>339.5</u>
Total assets	<u>4,522.3</u>	<u>4,119.4</u>	<u>3,905.7</u>
Total deferred outflows of resources	<u>83.2</u>	<u>94.9</u>	<u>49.8</u>
Total assets and deferred outflows of resources	<u>\$ 4,605.5</u>	<u>\$ 4,214.3</u>	<u>\$ 3,955.5</u>
Liabilities:			
Long-term debt	\$ 2,417.4	\$ 2,165.3	\$ 2,090.8
Noncurrent liabilities	409.6	433.6	341.5
Current liabilities	280.7	266.5	271.4
Other liabilities	<u>36.3</u>	<u>37.2</u>	<u>29.7</u>
Total liabilities	<u>3,144.0</u>	<u>2,902.6</u>	<u>2,733.4</u>
Total deferred inflows of resources	<u>123.6</u>	<u>94.2</u>	<u>89.9</u>
Net position:			
Net investment in capital assets	1,382.8	1,310.5	1,169.6
Restricted:			
Rate stabilization account	25.0	25.0	25.0
Special deposits and other purposes	-	-	-
Total restricted	<u>25.0</u>	<u>25.0</u>	<u>25.0</u>
Unrestricted—net	<u>(69.9)</u>	<u>(118.0)</u>	<u>(62.4)</u>
Total net position	<u>1,337.9</u>	<u>1,217.5</u>	<u>1,132.2</u>
Total liabilities, deferred inflows, and net position	<u>\$ 4,605.5</u>	<u>\$ 4,214.3</u>	<u>\$ 3,955.5</u>



# THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

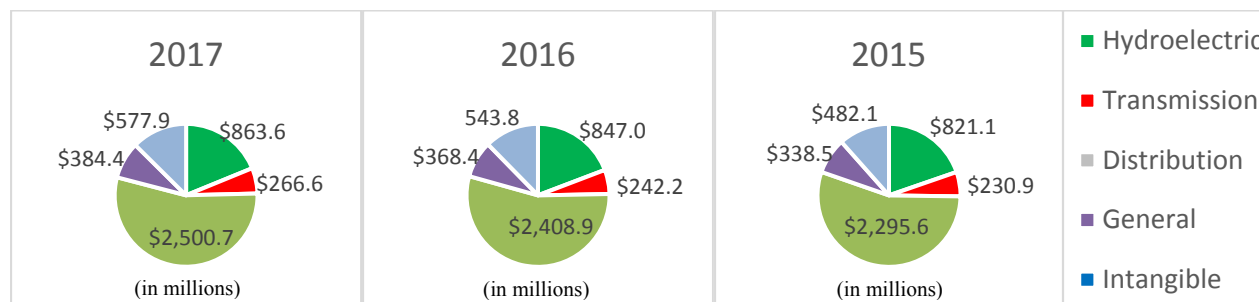
## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 and 2016

### ASSETS

#### *Utility Plant—Net*

#### *2017 Compared to 2016*

Utility plant assets net of accumulated depreciation and amortization increased \$294.8 million to \$3,509.5 million in 2017. Utility plant assets were comprised of hydroelectric production plant \$863.6 million which increased \$16.6 million, transmission plant, \$266.6 million, which increased \$24.4 million, distribution plant, \$2,500.7 million, which increased \$91.8 million, general plant, \$384.4 million, which increased \$16.0 million, and intangible assets, \$577.9 million which increased \$34.1 million. The net increase in utility plant assets were partially offset by a \$88.1 million increase in Accumulated depreciation and amortization to \$1,823.4 million.



The \$91.8 million increase in distribution plant is primarily due to \$43.0 million for underground system, \$16.3 million for transformers, \$14.5 million for overhead system, \$8.2 million for meters, \$6.6 million for poles, and \$2.1 million for streetlights. In hydroelectric production, an increase of \$16.6 million is primarily due to Ross Bank 42 replacement, Gorge Network automation, Boundary Unit 55 relay protection, and Diablo powerhouse AC panel replacement. The \$24.4 million increase in transmission is primarily due to equipment improvements.

Other components of utility plant include Construction work-in-progress \$589.3 million which increased \$196.8 million, Nonoperating property \$14.7 million which increased \$2.0 million, Assets held for future use \$59.1 million which decreased \$0.4 million, and Land and land rights \$76.6 million, which increased \$1.6 million. The \$196.8 million increase in Construction work-in-progress is primarily due to \$48.4 million for Denny substation, \$23.3 million for Downtown network system, \$22.4 million for Alaskan Way Viaduct, \$16.4 million for Diablo powerhouse Units 31 & 31 rebuild, \$15.1 million for Broad Street sub, \$14.5 million for Advanced metering, \$11.3 million for PeopleSoft reimplementation, and \$45.4 million increases in various other projects.

See Note 3 Utility Plant of the accompanying financial statements.

#### *2016 Compared to 2015*

Utility plant assets net of accumulated depreciation and amortization increased \$253.2 million to \$3,214.7 million in 2016. Utility plant assets were comprised of hydroelectric production plant \$847.0 million which increased \$25.9 million, transmission plant, \$242.2 million, which increased \$11.3 million, distribution plant, \$2,408.9 million, which increased \$113.3 million, general plant, \$368.4 million, which increased \$29.9 million,

## THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

### MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 and 2016

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and intangible assets, \$543.8 million which increased \$61.7 million. The net increase in utility plant assets were partially offset by a \$63.5 million increase in Accumulated depreciation and amortization to \$1,735.3 million.

The \$113.2 million increase in distribution plant is primarily due to \$31.0 million for Underground, \$22.0 million for Network, \$14.1 million for Services, \$12.2 million for Poles, \$5.4 million for Station Equipment, \$5.2 million for Street Lights.

The \$27.3 million increase in Hydro Assets is primarily due to: \$12.5 million for Ancillary Electric Equipment, \$5.4 million for Miscellaneous Hydro Equipment, \$5.2 million for Hydro Structures. The \$11.4 million increase in Transmission is primarily due to: \$6.4 million for Transmission Station Equipment, \$2.2 million for Transmission Overhead Lines. The \$29.9 million increase in General plant is primarily due to: \$18.4 million for General Structure improvements, \$5.7 million for Communication Equipment, \$4.5 million for vehicles. The \$61.7 million increase in Intangible assets is primarily due to: \$38.8 million for net Software additions (New Customer Information System and Emergency Management System) and \$22.8 million for High Ross and Relicensing at Boundary and Skagit.

Other components of utility plant include Construction work-in-progress \$392.5 million which increased \$72.7 million, driven mainly by an increase of \$95.2 in Underground Distribution projects and a decrease in General Plant of \$27.5. Nonoperating property has a balance of \$12.7 million which increased \$0.9 million, Assets held for future use \$59.5 million which decreased \$1.3 million, and Land and land rights \$75 million, which increased \$2.3 million.

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

***2017 Compared to 2016*** Restricted assets consisting of restricted cash increased by \$30.4 million to \$252.4 million.

Construction funds increased by \$8.4 million to \$36.8 million and represent the balance of unspent proceeds from the 2016A Clean Renewable Energy Bonds issued in January 2016 and 2017C revenue bonds issued in September 2017. Proceeds are being used for on-going funding of a significant portion of the capital improvement program.

Bond reserve account increased by \$16.6 million to \$103.6 million from bond proceeds and interest earnings. Ongoing funding from operating cash of \$10.0 million continued accumulation of the reserve account ahead of the existing surety bond 2029 expiration.

The Rate Stabilization Account (RSA) increased by a net \$2.3 million to \$93.4 million. A surcharge on electric rates of 1.5% remains in effect implemented in August 2016 until the RSA is funded to \$100.0 million. Additions from the rate surcharge of \$11.2 million and interest earnings of \$1.4 million were offset by transfer of funds to operating cash of \$10.3 million because actual net wholesale revenues were less than budgeted. See Note 4 Rate Stabilization Account of the accompanying financial statements.

Other restricted assets increased by \$3.1 million to \$18.6 million primarily for sundry prepayments and escrow deposits.

***2016 Compared to 2015*** Restricted assets consisting of restricted cash decreased by \$43.1 million to \$222.0 million.

Construction funds decreased by \$60.3 million to \$28.4 million and represent the balance of unspent proceeds from the 2016A Clean Renewable Energy Bonds issued in January. All proceeds from bonds issued prior to

## THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

### MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 and 2016

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2016 and from additional bonds issued during 2016, were fully spent and used for funding a significant portion of the ongoing capital improvement program.

Bond reserve account increased by \$13.3 million to \$87.0 million from bond proceeds and interest earnings. Additional funding from operating cash of \$10.0 million continued accumulation of the reserve account ahead of the existing surety bond 2029 expiration.

The RSA increased by a net \$0.1 million to \$91.1 million. A surcharge on electric rates of 1.5% remains in effect implemented in August 2016 until the RSA is funded to \$100.0 million. Additions from the rate surcharge of \$4.4 million and interest earnings of \$1.2 million were offset by transfer of funds to operating cash of \$5.5 million because actual net wholesale revenues were less than budgeted.

Other restricted assets increased by \$3.8 million to \$15.5 million primarily for sundry prepayments and escrow deposits.

#### *Current Assets*

**2017 Compared to 2016** Current assets increased by \$57.1 million to \$343.6 million at year end.

Operating cash increased by \$56.2 million to \$129.1 million at the end of 2017. Increased inflows to cash derived from a 5.6% system average rate increase effective in January, RSA surcharge, capital contributions, and reimbursement from the Construction account for capital expenditures. These were offset by payments for higher debt service, transfers to RSA, lower net wholesale energy sales, capital construction projects, and ongoing operations.

Accounts receivable, net, decreased by \$6.7 million to \$91.1 million. A total of \$11.9 million net increase in receivables were for retail electric due to rate increases and large service connections in progress. These were offset by a net increase of \$10.7 million in the allowance for bad debt primarily for retail electric receivables in arrears. Additional net decreases of \$7.9 million were for lower inter-departmental billings, grants, receivables from wind renewal energy, and other.

Unbilled revenues increased by \$12.8 million to \$89.4 million because of the rate increases and higher consumption due to colder weather during the 4<sup>th</sup> quarter 2017. In addition, a correction to unbilled revenues from 2016 recorded in January 2017 also affected the increase.

Other current assets decreased by \$5.2 million to \$323.7 million. Materials and supplies inventory was lower by \$2.3 million due primarily to issues out to two major projects. The balance decrease was the result of fully allocating inventory loading costs by year end, and including costs held over from 2016.

**2016 Compared to 2015** Current assets decreased by \$53.1 million to \$286.5 million at year end.

Operating cash decreased by \$79.6 million to \$72.9 million at the end of 2016. Increased inflows to cash derived from a 4.9% system average rate increase effective in January, Bonneville Power Administration (Bonneville) 0.9% pass-through rate adjustment effective in October 2015, transfers from the RSA, and reimbursement from the Construction account for capital expenditures. These were offset by payments for higher debt service, capital construction projects, and ongoing operations.

Accounts receivable, net, increased by \$15.6 million to \$97.8 million. A total of \$17.8 million net increase in receivables were for retail electric due to rate increases noted above of \$5.4 million, reclassification of customer overpayments to a liability at implementation of the new billing system of \$4.8 million, large service

## THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

### MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 and 2016

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connections in progress of \$3.0 million, billings to other City departments of \$1.6 million, wholesale power receivables of \$2.0 million, and other. These were offset by a net increase of \$2.2 million in the allowance for bad debt for retail electric and sundry billings.

Unbilled revenues increased by \$6.1 million to \$76.6 million because of the rate increases and higher customer loads due to colder weather during the 4<sup>th</sup> quarter compared to same comparable period of 2015.

Other current assets increased by \$4.8 million to \$39.2 million. Materials and supplies inventory was higher by \$3.1 million due to the purchase of an additional spare transformer for generating facilities and materials for two major projects in progress. The balance increase consisted mainly of inventory loading costs that will be allocated in the following year.

#### *Other Assets*

**2017 Compared to 2016** Other assets increased by \$20.6 million to \$416.8 million. The regulatory asset for environmental cleanup costs increased by \$10.0 million, due primarily to the estimated cost to clean up the East Waterway Superfund Site. Environmental cleanup costs are being recovered through rates over a 25-year period. Initial amortization occurred in 2017. See Note 14 Environmental Liabilities of the accompanying financial statements.

Remaining balance of Other assets increased by \$10.6 million to \$323.7 million. Conservation costs, net, increased by \$9.8 million. The balance increase of \$0.8 million was primarily for ongoing Long term environmental receivables to be paid by other responsible parties for cleanup costs incurred by the Department. See Note 7 Other Assets of the accompanying financial statements.

**2016 Compared to 2015** Other assets increased by \$56.7 million to \$396.2 million. The regulatory asset for environmental cleanup costs increased by \$51.9 million, due primarily to the estimated cost to clean up the East Waterway Superfund Site. Environmental cleanup costs are being recovered through rates over a 25-year period. See Note 14 Environmental Liabilities of the accompanying financial statements.

Conservation costs, net, increased by \$8.6 million. Decreases totaled \$3.8 million of which \$2.8 million was for over allocation of labor benefits costs from actual retro pay and COLA costs paid. Accordingly, labor benefits costs will be allocated in the following year. The remaining decrease of \$1.1 million was for Long term environmental receivables to be paid by other responsible parties for cleanup costs incurred by the Department.

#### *Deferred Outflows of Resources*

**2017 Compared to 2016** Deferred outflows of resources decreased by \$11.7 million to \$83.2 million.

In 2015, the Department implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27* concerning accounting for pension plans. For 2017, the net decrease of \$17.7 million was primarily related to differences between projected and actual investment earnings, which decreased from \$38.9 million in 2016 to \$22.9 million in 2017. See Note 12 Seattle City Employees' Retirement System of the accompanying financial statements.

Charges on advance refunding increased a net \$6.0 million to \$36.3 million. Net activity is the result of additions due to new refunding bond issues and decreases for amortization.

## THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

### MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 and 2016

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**2016 Compared to 2015** Deferred outflows of resources increased by \$45.1 million to \$94.9 million.

For 2016, the net increase of \$31.2 million was primarily related to an increase in the difference between actuarially determined projected and actual investment earnings pertaining to retirement plan.

Charges on advance refunding increased a net \$13.9 million to \$30.3 million. Net activity is the result of additions due to new refunding bond issues and decreases for amortization.

### LIABILITIES

#### *Long-Term Debt*

**2017 Compared to 2016** Long-term debt increased a net \$252.1 million to \$2,417.4 million during 2017. The Department issued total new debt in the amount of \$485.5 million consisting of revenue bonds to fund a portion of the ongoing capital improvement program and refunding revenue bonds. The 2017 bond issues were a combination of fixed and variable rate bonds. \$145.1 million in revenue bonds were refunded with lower interest rate debt.

Debt to capitalization ratio was 63.7% at the end of 2017, a slight increase from the 63.5% ratio of 2016 because of the additional bonds issued.

Net revenues available to pay debt service were equal to 1.85 times principal and interest on all bonds for 2017.

See Note 9 Long-Term Debt of the accompanying financial statements.

**2016 Compared to 2015** Long-term debt increased a net \$74.5 million to \$2,165.3 million during 2016. The Department issued total new debt in the amount of \$309.6 million consisting of revenue bonds to fund a portion of the ongoing capital improvement program and refunding revenue bonds. The 2016 bond issues were a combination of fixed and variable rate bonds. \$154.8 million in revenue bonds were refunded with lower interest rate debt.

Debt to capitalization ratio was 63.5% at the end of 2016, a favorable improvement from the 64.7% ratio of 2015.

Net revenues available to pay debt service were equal to 1.69 times principal and interest on all bonds for 2016.

#### *Noncurrent Liabilities*

**2017 Compared to 2016** Total non-current liabilities decreased by \$24.0 million to \$409.6 million at the end of 2017.

Net Pension Liability decreased by a net \$29.0 million. The lower liability reflects the effect of certain Department information technology employees transferring to Seattle Information Technology Department (SIT) that occurred in May 2016. See Note 12 Seattle City Employees' Retirement System of the accompanying financial statements.

Environmental liabilities increased by a net \$3.7 million to \$85.8 million. Environmental liabilities are primarily attributable to the estimated cost of remediating contaminated sediments in the lower Duwamish Waterway, a designated federal Superfund site. The Department is considered a potentially responsible party for contamination in the Duwamish River due to land ownership or use of property located along the river.

## THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

### MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 and 2016

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More information on environmental liabilities is found in Note 14 Environmental Liabilities of the accompanying financial statements.

The balance net increase of \$1.3 million was for nominal changes for post-employment benefits, estimated arbitrage liability for certain bonds, and other.

**2016 Compared to 2015** Total non-current liabilities increased by \$92.1 million to \$433.6 million at the end of 2016.

Net Pension Liability increased by a net \$46.0 million and as noted earlier, primarily for losses related to differences between projected and actual investment earnings. See Note 12 Seattle City Employees' Retirement System of the accompanying financial statements.

Environmental liabilities increased by a net \$48.4 million to \$82.0 million. In 2016, an additional liability in the amount of \$45.0 million was recorded for the Department's estimated share of cleaning the East Waterway Superfund Site.

The balance net decrease of \$2.3 million was for nominal changes within risk management liabilities, a decrease in compensated absences as the long-term amount of restored furlough days to affected employees taken in 2010 were re-classified to current at the end of 2016, and other.

#### ***Current Liabilities***

**2017 Compared to 2016** Current liabilities increased by a net of \$14.2 million for a total of \$280.7 million at the end of 2017.

Current liability increases totaling \$26.8 million were due to several factors. Increases in customer deposits received for pole attachment projects, retail electric customer overpayments, and escrow retainage were a combined \$10.5 million. Debt service for bonds was higher by \$7.6 million. Balance net increase of \$8.7 million was for payroll, current environmental liabilities, taxes, and other.

Current liability decreases of \$12.6 million were for net decrease in vouchers payable for normal operations in the amount of \$7.3 million, downward adjustment of \$2.8 million primarily for unvouchered inventory received, compensated absences liability of \$1.1 million and for paid furlough days from 2016, power payables of \$1.0 million, and other of \$0.4 million.

**2016 Compared to 2015** Current liabilities decreased by \$4.9 million for a total of \$266.5 million at the end of 2016.

Current liability decreases of \$8.3 million were for vouchers payable for normal operations, payment of \$7.8 million for Terminal 117 and Cedar Falls Bridge remediation environmental projects, lower interest due for bonds of \$2.6 million, and lower estimate for current compensated absences of \$1.1 million due in part to transfer of information technology staff to Seattle Information Technology Department in April 2016. These were offset by higher liabilities for principal on bonds of \$5.3 million, reclassification of customer overpayments to a liability at implementation of the new billing system of \$4.8 million, inventory payables of \$2.0 million, retainage of \$1.6 million, and other net of \$1.2 million for ongoing operations.

## THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

### MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 and 2016

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#### *Other Liabilities*

**2017 Compared to 2016** Other liabilities decreased by \$0.9 million to \$36.3 million in 2017. Decrease in unearned revenue was the result of increased completions of large service connections offset by increased billings for large service connection projects in progress, both driven by the continued strong local economy.

**2016 Compared to 2015** Other liabilities increased by \$7.5 million to \$37.2 million in 2016. The major increase was for unearned revenue for large service connections in progress due to the strong local economy.

#### *Deferred Inflows of Resources*

**2017 Compared to 2016** Deferred inflows of resources increased by \$29.4 million for a total of \$123.6 million at the end of 2017.

In 2017, Deferred inflows related to pension liability increased by \$23.0 million to \$23.8 million and primarily for actuarially determined differences for the Department between employer contributions and proportionate share of contributions affected by the transfer of information technology employees to SIT.

The significant activity occurring since 2010 has been principally the result of implementing, funding, and related activity of the RSA. Funding of the RSA from operating cash has the corresponding effect of deferring operating revenues in the rate stabilization unearned revenue account and vice versa. The rate stabilization unearned revenue account increased a net \$2.3 million from 2016.

During 2017, the 1.5% surcharge on electric rates in effect since August 2016 contributed \$11.2 million, with an offset of \$10.3 million transferred to operating revenues for actual net wholesale revenues being lower than budget. \$1.4 million in interest income was also earned, adding to the unearned revenue account, and leaving an ending balance of \$68.4 million in the rate stabilization unearned revenue account. See Note 4 Rate Stabilization Account of the accompanying financial statements.

Other deferred inflows of resources increased by \$4.1 million to \$31.4 million. Again in 2017, the increase was mostly due to payments received from Bonneville in accordance with the Department's Energy Conservation Agreement plus increase for BPA Slice true up credit deferred at the end of 2017.

**2016 Compared to 2015** Deferred inflows of resources increased by \$4.3 million for a total of \$94.2 million at the end of 2016.

During 2016 for RSA unearned revenue account, a 1.5% surcharge on electric rates was in effect since August that contributed \$4.4 million, with an offset of \$5.5 million transferred to operating revenues for actual net wholesale revenues being lower than budget. \$1.2 million in interest income was also earned, adding to the unearned revenue account, and leaving an ending balance of \$66.1 million in the rate stabilization unearned revenue account.

Other deferred inflows of resources increased by \$4.2 million to \$28.1 million. The increase was mostly due to payments received from Bonneville in accordance with the Department's Energy Conservation Agreement, net of earned revenue, offset by recognition of BPA Slice true up credit deferred at the end of 2015.

# THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 and 2016

### RESULTS OF OPERATIONS

#### *Condensed Statements of Revenues, Expenses, and Changes in Net Position*

(\$ in millions)	Year Ended December 31		
	2017	2016	2015
Operating revenues	\$ 989.7	\$ 903.2	\$ 882.9
Nonoperating revenues	13.3	14.6	16.7
Total revenues	<u>1,003.0</u>	<u>917.8</u>	<u>899.6</u>
Operating expenses	852.5	795.8	772.0
Nonoperating expenses	75.4	75.1	76.5
Total expenses	<u>927.9</u>	<u>870.9</u>	<u>848.5</u>
Income before capital contributions and grants	<u>75.1</u>	<u>46.9</u>	<u>51.1</u>
Capital contributions	45.1	37.9	39.0
Capital grants	0.2	0.5	0.4
Total capital contributions and grants	<u>45.3</u>	<u>38.4</u>	<u>39.4</u>
Change in net position	<u>\$ 120.4</u>	<u>\$ 85.3</u>	<u>\$ 90.5</u>

### SUMMARY

**2017 Compared to 2016** Change in net position for 2017 was \$120.4 million, an increase of \$35.1 million or 41.1% from 2016 change in net position of \$85.3 million. Higher retail electric sales attributable to rate increases, including for the 1.5% rate surcharge, and capital contributions were offset by lower net Short-term wholesale power revenues and higher long-term purchased power, bad debt, administrative & general, taxes, and depreciation.

**2016 Compared to 2015** Change in net position for 2016 was \$85.3 million, a decrease of \$5.2 million or 5.7% from 2015 change in net position of \$90.5 million. Higher retail electric sales attributable to rate increases, including for the 1.5% rate surcharge, and higher net Short-term wholesale power revenues were offset by lower transfers from/(to) RSA. Further offsets were for higher non-power operations and maintenance expenses due to retro pay and COLA labor costs, and for the increase in pension expense.

### REVENUES

**2017 Compared to 2016** Total operating revenues were \$989.7 million, an increase of \$86.5 million or 9.6% from 2016. Retail power revenues at \$875.2 million increased \$87.2 million, Short-term wholesale power revenues at \$60.9 million decreased \$2.0 million, Other power-related revenues at \$35.8 million increased \$3.2 million, Transfers from/(to) RSA at (\$2.3) million decreased \$2.2 million, and Other operating revenues at \$20.1 million increased \$0.3 million.

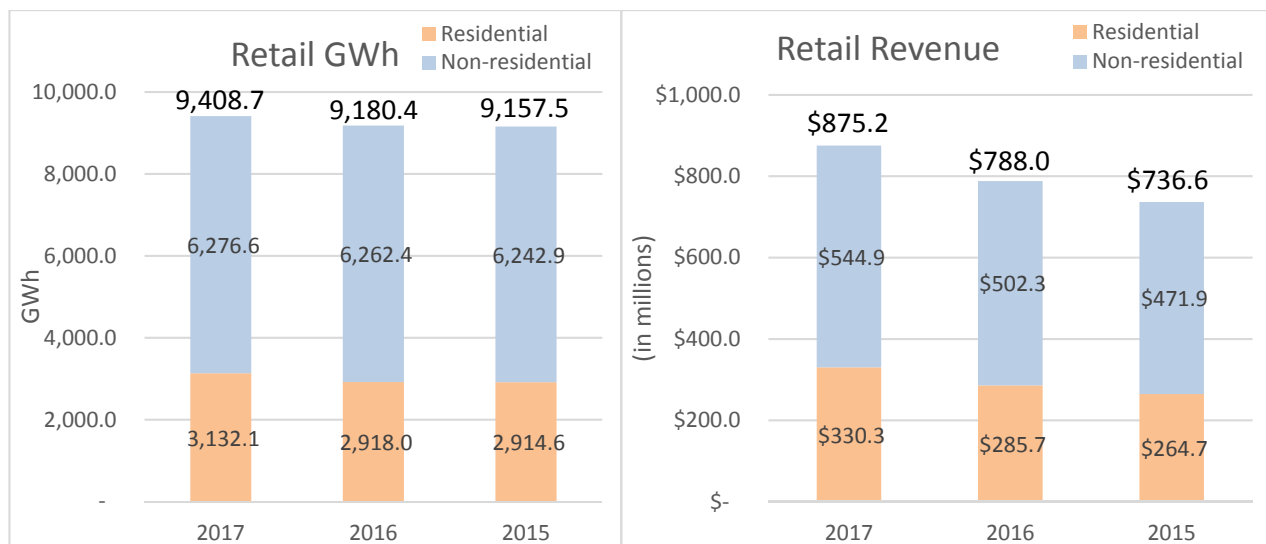
Retail power revenues were higher due to the 5.6% across-the-board rate increase effective January 1, 2017, and the RSA rate surcharge, in effect since August 1, 2016. Higher consumption due to the colder weather during the first two months of the year was another element contributing to the higher revenues. Transactions



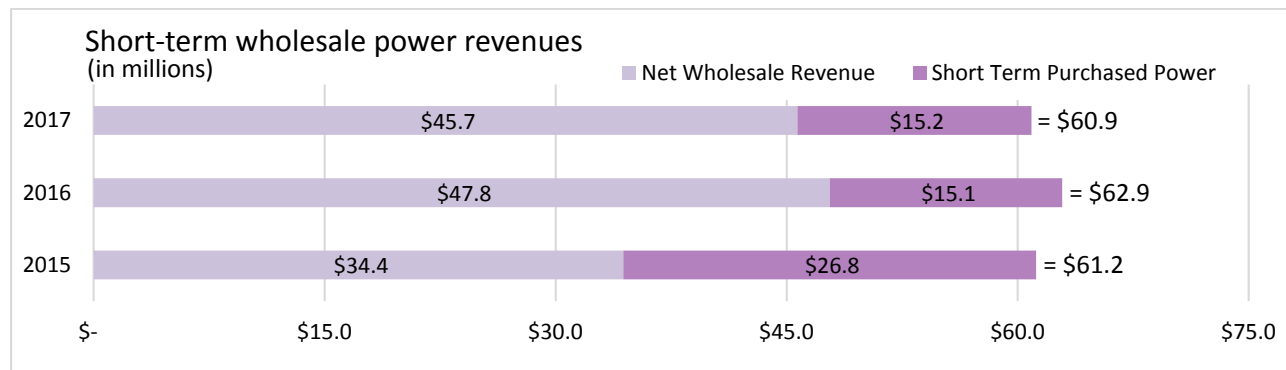
# THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 and 2016

within Transfers from/(to) rate stabilization account are affected in part by actual net wholesale power revenues compared to budget. In 2017, actual net wholesale power revenues were lower than budget by \$10.3 million and this amount was transferred from the rate stabilization unearned revenue account. This was offset by the RSA rate surcharge revenues of \$11.2 million and interest earnings of \$1.4 million for a net (\$2.3) million transferred to the rate stabilization unearned revenue account. In 2016, net transfers to rate stabilization unearned revenue account were (\$0.1), the result of comparable transactions with different amounts and hence, an overall decrease of \$2.2 million between years.



Net Short-term wholesale power revenues were \$45.7 million, a decrease of \$2.1 million or 4.4% from net Short-term wholesale power revenues of \$47.8 million in 2016. Net Short-term wholesale power revenues represent revenue received from the sale of power generated in excess of system sales and other obligations. Net short-term wholesale power revenues fluctuate with changes in water conditions, retail sales and economic factors such as the price of natural gas. The decrease from 2016 was primarily due to lower net energy sales volume affected somewhat by higher average wholesale power prices. Other net power-related revenues, including valuation of energy exchange revenues increased by a net \$2.3 million due in part to additional ancillary contracts in 2017.



**2016 Compared to 2015** Total operating revenues were \$903.2 million, an increase of \$20.3 million or 2.3% from 2015. Retail power revenues at \$788.0 million increased \$51.4 million, Short-term wholesale power revenues at \$62.9 million increased \$1.7 million, Other power-related revenues at \$32.6 million decreased \$4.2

## THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

### MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 and 2016

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million, Transfers from/(to) RSA at (\$.01) million decreased \$23.5 million, and Other operating revenues at \$19.8 million decreased \$5.1 million.

Retail power revenues were higher due to the 4.9% across-the-board rate increase effective January 1, 2016, the 0.9% Bonneville pass-through rate adjustment effective in October 2015, and the RSA rate surcharge, effective August 1, 2016 even with lower consumption from another year with overall warmer weather. Transactions within Transfers from/(to) rate stabilization account are affected in part by actual net wholesale power revenues compared to budget. In 2016, actual net wholesale power revenues were lower than budget by \$5.5 million and this amount was transferred from the rate stabilization unearned revenue account. This was offset by the RSA rate surcharge revenues of \$4.4 million and interest earnings of \$1.2 million for a net (\$0.1) million transferred to the rate stabilization unearned revenue account. In 2015, actual net wholesale power revenues were lower than budget and \$23.4 million net was transferred to operating revenues. The net effect to the Transfers from/(to) RSA between years was a decrease of \$23.5 million. Other operating revenues declined for damage billings of \$1.9 million, salvage sales of \$1.6 million, and new retail billing system interest charges of \$0.6 million, and were offset by other net increases of \$1.0 million.

Net Short-term wholesale power revenues were \$47.8 million, an increase of \$13.4 million or 39.0% from net Short-term wholesale power revenues of \$34.4 million in 2015. Average wholesale power prices were again lower in 2016 because of the low natural gas prices. Other net power-related revenues, including valuation of energy exchange revenues were lower by a net \$2.9 million due to lower average wholesale power prices.

### EXPENSES

**2017 Compared to 2016** Operating expenses totaled \$852.5 million, an increase of \$56.7 million or 7.1% from \$795.8 million in 2016.

Power-related operating expenses at \$357.9 million were higher by \$9.4 million or 2.7%. These expenses were comprised of Long-term purchased power - Bonneville and other of \$224.8 million, which increased \$5.0 million, Short-term wholesale power purchases of \$15.2 million, which increased \$0.1 million, Other power expenses of \$65.4 million, which increased \$5.3 million, and Transmission of \$52.5 million, which decreased \$1.0 million.

Bonneville costs increased largely because of changing to Block power purchases only, effective October 2017, and thereby reducing Slice power purchases. A lower Bonneville Slice true-up credit also added to the higher Bonneville costs. These were offset by lower other Long-term purchased power costs primarily for less renewable wind energy due to weather dependency. Other power expenses increased because of higher operating costs, including for an abandoned plan to replace the AC/DC electrical supply system at the Skagit Ross Dam. Other power related variances were minimal for normal operations.

Non-power operating expenses increased by \$29.7 million to \$271.0 million or 29.7% from \$241.3 million in 2016. These expenses included Distribution expenses of \$60.4 million, which decreased \$3.1 million, Customer service of \$49.4 million, which increased \$6.8 million, Conservation of \$32.5 million, which increased \$2.3 million, and Administrative and general (A&G), net, of \$128.7 million which increased \$23.7 million.

Distribution expenses were lower in several categories including for underground system network maintenance, contracting and support services, fewer wireless antenna upgrades, lower street lighting maintenance due to use of LEDs, and other. Customer service expenses continued to be driven primarily by higher bad debt expense

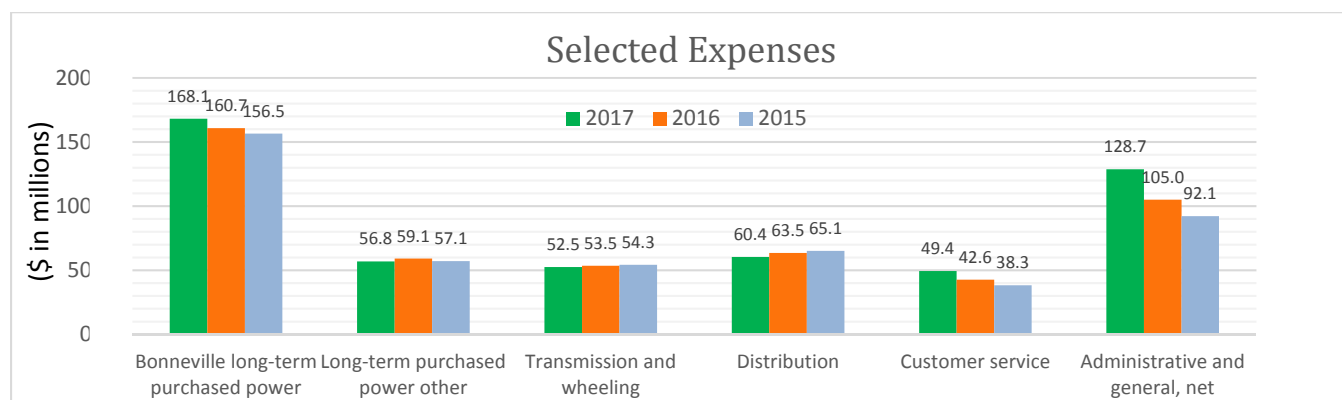
# THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 and 2016

for retail electric sales because of higher balances in aged receivables, as these accounts are processed through collection.

Administrative and general, net, were significantly higher for SIT expenses as these billings were consolidated within A&G. In prior years, technology expenses were recorded throughout capital and operations projects (total SIT costs for 2017 and 2016 were comparable). Other increases were for COLA salary adjustments, general year-end estimated accruals, and compensated absences. These were offset by lower general plant maintenance, lower pension and benefits from the transfer of staff to SIT, industrial insurance, and other.

Taxes at \$94.8 million increased by \$9.6 million because of the higher revenues. Depreciation and amortization at \$128.8 million increased by \$8.0 million generally due to additional plant assets placed in service, including for the retail power billing system implemented in 4<sup>th</sup> quarter 2016.



**2016 Compared to 2015** Operating expenses totaled \$795.8 million, an increase of \$23.8 million or 3.1% from \$772.0 million in 2015.

Power-related operating expenses at \$348.5 million were lower by \$5.8 million or 1.6%. These expenses were comprised of Long-term purchased power - Bonneville and other of \$219.8 million, which increased \$6.2 million, Short-term wholesale power purchases of \$15.1 million, which decreased \$11.7 million, Other power expenses of \$60.1 million, which increased \$0.5 million, and Transmission of \$53.5 million, which decreased \$0.8 million.

Short-term wholesale power purchases were lower because additional power generated during 2016 was used to meet the Department's load, and lower wholesale prices also affected wholesale power purchased. Bonneville purchased power was higher due to an increase in the Slice product of which the Department's share is 3.63% of Bonneville's total system costs. Stateline wind generation power costs were higher during 2016 due to increased generation, and subject to weather dependency. Other power related variances were minimal and part of normal operations.

Non-power operating expenses increased by \$16.7 million to \$241.3 million or 7.4% from \$224.6 million in 2015. These expenses included Distribution expenses of \$63.5 million, which decreased \$1.6 million, Customer service of \$42.6 million, which increased \$4.3 million, Conservation of \$30.2 million, which increased \$1.1 million, and Administrative and general, net, of \$105.0 million which increased \$12.9 million.

## THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

### MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 and 2016

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Customer service expenses were driven higher by bad debt expense for retail electric sales due to clean-up of accounts in arrears as part of the conversion process to the new retail billing system. Retro pay and COLA salary adjustments also contributed to the higher Customer service expenses.

The 2016 GASB Statement No. 68 adjustment increased pension expenses by \$9.2 million within Administrative and general, net. Other increases were for salaries and benefits due to retro pay and COLA salary adjustments; and injuries and damages expenses based on the most recent actuarial report; and other. These were offset by lower legal costs as an ongoing power related case from the 2001 energy crises was settled, compensated absences, and other.

Taxes at \$85.2 million increased by \$4.1 million because of the higher revenues. Depreciation and amortization at \$120.8 million increased by \$8.8 million generally due to additional plant assets placed in service.

#### **NONOPERATING REVENUES AND (EXPENSES), CAPITAL CONTRIBUTIONS AND GRANTS**

**2017 Compared to 2016** Nonoperating revenues decreased by \$1.3 million to \$13.3 million in 2017. There was no Washington State Department of Ecology grant reimbursement received in 2017 compared to the prior year. This was offset by higher unrealized gains on pooled investments due to favorable investment market performance, higher interest earnings from bond proceeds for two bond issues, and higher surplus property sales.

Nonoperating expenses at \$75.4 million were slightly higher by \$0.3 million. Higher interest on greater average balance of bonds outstanding in 2017 along with higher refunding loss amortization were offset by increased interest charged to construction projects and bond premium amortization.

Capital contributions and grants increased by \$6.9 million to \$45.3 million in 2017. The increase was due for the most part to an increase in new amperage fees charged to large service connections and service work charged to telecommunications companies.

**2016 Compared to 2015** Nonoperating revenues decreased by \$2.1 million to \$14.6 million in 2016. There was no FEMA non-capital grant revenue related to a fire near one of the Department's generating facilities as occurred in 2015. Lower sales of property were offset by higher CREB bonds interest subsidies from the U.S. Treasury Department.

Nonoperating expenses were slightly lower by \$1.4 million to \$75.1 million. Higher bond premium amortization and interest for construction projects were offset by an increase in bond refunding loss amortization and interest on higher average bonds outstanding throughout the year.

Capital contributions and grants decreased by \$1.0 million to \$38.4 million in 2016, the net of higher service connections for larger construction projects during 2016 on the heels of a strong local economy; and no recurring energization of underground electrical infrastructure for a local suburban jurisdiction as transpired in 2015.

#### **RISK MANAGEMENT**

The Department began implementing an Enterprise-wide Risk Management (ERM) process in 2008 to establish a full spectrum approach to risk management that links important decision-making functions through a standardized process of identifying, assessing, monitoring, and mitigating risks across all Business Units and Divisions of the Department.

## THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

### MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 and 2016

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Risk Oversight Council (ROC) oversees wholesale power marketing activities. It is comprised of the Chief Financial Officer (Chair/Voting), Power Supply Officer (Voting), Director of Risk Oversight (Voting), Director of Power Management (non-Voting), Director of Power Contracts, Regional Affairs & Strategic Planning (non-Voting), and Director of Finance (non-Voting). ROC guides the continuous improvement of energy risk management activities and capabilities, approves hedging strategies, hedging plans, and approves changes to relevant operating procedures.

The Risk Oversight Division, in addition to the ERM, manages the market and credit risk related to all wholesale marketing activities, and carries out the middle office functions of the Department. This includes confirmations, risk controls, deal review & valuations, independent reporting of market positions, counterparty credit risk, risk modeling, model validations, settlements, and ensuring adherence to Wholesale Energy Risk Management (WERM) policy and procedures.

#### **Hydro Risk**

Due to the Department's primary reliance on hydroelectric generation, weather can significantly affect its operations. Hydroelectric generation depends on the amount of snow-pack in the mountains upstream of the Department's hydroelectric facilities, springtime snow-melt, run-off and rainfall. Hydroelectric operations are also influenced by flood control and environmental matters, including protection of fish. In low-water years, the Department's generation is reduced, and the use of wholesale purchased power may increase in order to meet load. Normally, the Department experiences electricity usage peaks in winter; however, extreme weather conditions affecting either heating or cooling needs could cause the Department's seasonal fluctuations to be more pronounced and increase costs. In addition, economic trends (increase or decrease in business activity, housing sales and development of properties) can affect demand and change or increase costs.

#### **Energy Market Risk**

For the Department, energy market risk is the risk of adverse fluctuations in the price of wholesale electricity, which is compounded by volumetric changes affecting the availability of, or demand for electricity. Factors that contribute to energy market risk include: regional planned and unplanned generation plant outages, transmission constraints or disruptions, the number of active creditworthy market participants willing to transact, and environmental regulations that influence the availability of generation resources.

The Department's exposure to hydro volumetric and energy market risk is managed by the ROC and the approved strategies are executed by the Power Management Division. The Department engages in market transactions to meet its load obligations and to realize earnings from surplus energy resources.

With significant portion of the Department's revenue expected from wholesale energy market sales, great emphasis is placed on the management of risks associated with this activity. Policies, procedures, and processes designed to manage, control and monitor these risks are in place. A formal front, middle, and back office structure is in place to ensure proper segregation of duties.

The Department measures the risk in its energy portfolio using a model that utilizes historical simulation methodology and incorporates not only price risk, but also the volumetric risk associated with its hydro-dominated power portfolio. Scenario analysis is used for stress testing.

## **THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 and 2016**

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#### **Credit Risk**

Credit risk is the risk of loss that would be incurred as a result of nonperformance by a counterparty of their contractual obligations. If a counterparty failed to perform on its contractual obligation to deliver electricity, then the Department may find it necessary to procure electricity at current market prices, which may be higher than the contract price. If a counterparty failed to pay its obligation in a timely manner, this would have an impact on the Department's revenue and cash flow. As with market risk, the Department has policies governing the management of credit risk.

Wholesale counterparties are assigned credit limits based on publicly available and proprietary financial information. Along with ratings provided by national ratings agencies, an internal credit scoring model is used to classify counterparties into one of several categories with permissible ranges of credit limits. Specific counterparty credit limits are set within this prescribed range based on qualitative and quantitative factors. Credit limits are also used to manage counterparty concentration risk. The Department actively strives to reduce concentration of credit risk related to geographic location of counterparties as it only transacts in the western energy markets. This geographic concentration of counterparties may impact the Department's overall credit exposure, because counterparties may be affected by similar conditions.

Credit limits, exposures and credit quality are actively monitored daily. Despite such efforts, there is potential for default, however the Department has not faced a counterparty default in nearly 15 years. The Department transacts with counterparties on an uncollateralized and collateralized basis. Posted collateral may be in the form of cash, letters of credit, or parental guarantees.

#### **REQUESTS FOR INFORMATION**

For more information about Seattle City Light, contact Marketing and Communications at 206-684-3090 or at P.O. Box 34023, Seattle, WA 98124-4023.

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# THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

## BALANCE SHEETS - ASSETS AND DEFERRED OUTFLOWS OF RESOURCES AS OF DECEMBER 31, 2017 AND 2016

(\$ in millions)	2017	2016
<b>ASSETS</b>		
UTILITY PLANT—At original cost:		
Plant-in-service—excluding land	\$ 4,593.2	\$ 4,410.3
Less accumulated depreciation and amortization	<u>(1,823.4)</u>	<u>(1,735.3)</u>
Total plant-in-service—net	2,769.8	2,675.0
Construction work-in-progress	589.3	392.5
Nonoperating property—net of accumulated depreciation	14.7	12.7
Assets held for future use	59.1	59.5
Land and land rights	<u>76.6</u>	<u>75.0</u>
Total utility plant—net	<u>3,509.5</u>	<u>3,214.7</u>
RESTRICTED ASSETS:		
Rate stabilization account	93.4	91.1
Municipal light and power bond reserve account	103.6	87.0
Construction account	36.8	28.4
Special deposits and other restricted assets	<u>18.6</u>	<u>15.5</u>
Total restricted assets	<u>252.4</u>	<u>222.0</u>
CURRENT ASSETS:		
Cash and equity in pooled investments	129.1	72.9
Accounts receivable (includes \$1.6 and \$2.1 at fair value), net of allowance of \$10.7 and \$8.4	88.8	92.7
Interfund receivables	2.3	5.1
Unbilled revenues	89.4	76.6
Materials and supplies at average cost	33.6	36.0
Prepayments and other current assets	<u>0.4</u>	<u>3.2</u>
Total current assets	<u>343.6</u>	<u>286.5</u>
OTHER ASSETS:		
Conservation costs—net	262.2	252.4
Environmental costs—net	93.1	83.1
Other charges and assets—net	<u>61.5</u>	<u>60.7</u>
Total other assets	<u>416.8</u>	<u>396.2</u>
TOTAL ASSETS	<u>4,522.3</u>	<u>4,119.4</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Unrealized contributions and losses related to Pension	46.9	64.6
Charges on advance refunding	<u>36.3</u>	<u>30.3</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>83.2</u>	<u>94.9</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 4,605.5</u>	<u>\$ 4,214.3</u>

See notes to financial statements.



# THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

## BALANCE SHEETS - LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION AS OF DECEMBER 31, 2017 AND 2016

<i>(\$ in millions)</i>	<b>2017</b>	<b>2016</b>
<b>LIABILITIES</b>		
LONG-TERM DEBT:		
Revenue bonds	\$ 2,345.5	\$ 2,118.1
Plus bond premium—net	190.7	158.4
Less revenue bonds—current portion	<u>(118.8)</u>	<u>(111.2)</u>
Total long-term debt	<u>2,417.4</u>	<u>2,165.3</u>
NONCURRENT LIABILITIES:		
Net pension liability	288.8	317.8
Accumulated provision for injuries and damages	96.1	92.0
Compensated absences	15.7	15.8
Other noncurrent liabilities	<u>9.0</u>	<u>8.0</u>
Total noncurrent liabilities	<u>409.6</u>	<u>433.6</u>
CURRENT LIABILITIES:		
Accounts payable and other current liabilities	102.1	99.5
Interfund payables	12.0	11.1
Accrued payroll and related taxes	15.3	10.8
Compensated absences	1.5	2.5
Accrued interest	31.0	31.4
Long-term debt—current portion	<u>118.8</u>	<u>111.2</u>
Total current liabilities	<u>280.7</u>	<u>266.5</u>
OTHER LIABILITIES	<u>36.3</u>	<u>37.2</u>
TOTAL LIABILITIES	<u>3,144.0</u>	<u>2,902.6</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Rate stabilization unearned revenue	68.4	66.1
Unrealized gains related to pension	23.8	0.8
Other deferred inflows of resources (includes \$1.2 and \$0.6 at fair value)	<u>31.4</u>	<u>27.3</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>123.6</u>	<u>94.2</u>
<b>NET POSITION</b>		
Net investment in capital assets	1,382.8	1,310.5
Restricted:		
Rate stabilization account	<u>25.0</u>	<u>25.0</u>
Total restricted	<u>25.0</u>	<u>25.0</u>
Unrestricted—net	<u>(69.9)</u>	<u>(118.0)</u>
Total net position	<u>1,337.9</u>	<u>1,217.5</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	<u>\$ 4,605.5</u>	<u>\$ 4,214.3</u>

See notes to financial statements.

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# THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

## STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

<i>(\$ in millions)</i>	<b>2017</b>	<b>2016</b>
OPERATING REVENUES:		
Retail power revenues	\$ 875.2	\$ 788.0
Short-term wholesale power revenues	60.9	62.9
Other power-related revenues	35.8	32.6
Transfers from/(to) rate stabilization account	(2.3)	(0.1)
Other operating revenues	<u>20.1</u>	<u>19.8</u>
Total operating revenues	<u>989.7</u>	<u>903.2</u>
OPERATING EXPENSES:		
Long-term purchased power—Bonneville and other	224.8	219.8
Short-term wholesale power purchases	15.2	15.1
Other power expenses	65.4	60.1
Transmission	52.5	53.5
Distribution	60.4	63.5
Customer service	49.4	42.6
Conservation	32.5	30.2
Administrative and general	128.7	105.0
Taxes	94.8	85.2
Depreciation and amortization	<u>128.8</u>	<u>120.8</u>
Total operating expenses	<u>852.5</u>	<u>795.8</u>
OPERATING INCOME	<u>137.2</u>	<u>107.4</u>
NONOPERATING REVENUES AND (EXPENSES):		
Other revenues and (expenses)—net	13.3	14.6
Interest expense		
Interest expense—net	(86.6)	(85.8)
Amortization of bond costs—net	<u>11.2</u>	<u>10.7</u>
Total interest expense	<u>(75.4)</u>	<u>(75.1)</u>
Total nonoperating expenses	<u>(62.1)</u>	<u>(60.5)</u>
INCOME BEFORE CAPITAL CONTRIBUTIONS AND GRANTS	<u>75.1</u>	<u>46.9</u>
CAPITAL CONTRIBUTIONS AND GRANTS:		
Capital contributions	45.1	37.9
Capital grants	<u>0.2</u>	<u>0.5</u>
Total capital contributions and grants	<u>45.3</u>	<u>38.4</u>
CHANGE IN NET POSITION	120.4	85.3
NET POSITION:		
Beginning of year	<u>1,217.5</u>	<u>1,132.2</u>
End of year	<u>\$ 1,337.9</u>	<u>\$ 1,217.5</u>

See notes to financial statements.

# THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

## STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

<i>(\$ in millions)</i>	<b>2017</b>	<b>2016</b>
<b>OPERATING ACTIVITIES:</b>		
Cash received from customers and counterparties	\$ 957.2	\$ 869.9
Cash paid to suppliers and counterparties	(327.2)	(322.7)
Cash paid to employees	(165.2)	(181.0)
Taxes paid	<u>(92.9)</u>	<u>(86.9)</u>
Net cash provided by operating activities	<u>371.9</u>	<u>279.3</u>
<b>NONCAPITAL FINANCING ACTIVITIES:</b>		
Interfund operating cash received	2.0	1.9
Interfund operating cash paid	(30.2)	(30.4)
Principal paid on long-term debt	(8.6)	(10.4)
Interest paid on long-term debt	(8.2)	(9.1)
Noncapital grants received	(0.3)	2.5
Bonneville receipts for conservation	5.2	9.4
Payment to vendors on behalf of customers for conservation	<u>(31.8)</u>	<u>(32.2)</u>
Net cash used in noncapital financing activities	<u>(71.9)</u>	<u>(68.3)</u>
<b>CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Proceeds from long-term debt	485.5	309.6
Proceeds from long-term debt premiums	54.8	50.7
Payment to trustee for defeased bonds	(163.6)	(178.8)
Bond issue costs paid	(1.5)	(1.4)
Principal paid on long-term debt	(104.4)	(97.1)
Interest paid on long-term debt	(88.1)	(85.5)
Acquisition and construction of capital assets	(418.1)	(348.2)
Interfund payments for acquisition and construction of capital assets	(28.9)	(26.2)
Capital contributions	37.4	38.9
Interfund receipts for capital contributions	1.5	0.6
Capital grants received/(paid)	3.2	(2.0)
Interest received for suburban infrastructure improvements	2.3	2.5
Proceeds on sale of property	0.8	0.4
(Increase) Decrease in other assets	<u>0.9</u>	<u>(0.8)</u>
Net cash used in capital and related financing activities	<u>(218.2)</u>	<u>(337.3)</u>
<b>INVESTING ACTIVITIES:</b>		
Interest received on cash and equity in pooled investments	<u>4.8</u>	<u>3.6</u>
Net cash provided by investing activities	<u>4.8</u>	<u>3.6</u>
<b>NET INCREASE (DECREASE) IN CASH AND EQUITY IN POOLED INVESTMENTS</b>	<b>86.6</b>	<b>(122.7)</b>
<b>CASH AND EQUITY IN POOLED INVESTMENTS:</b>		
Beginning of year	<u>294.9</u>	<u>417.6</u>
End of year	<u>\$ 381.5</u>	<u>\$ 294.9</u>

See notes to financial statements.

# THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

## STATEMENTS OF CASH FLOWS - RECONCILIATION FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

<i>(\$ in millions)</i>	<b>2017</b>	<b>2016</b>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	\$ 137.2	\$ 107.4
Adjustments to reconcile operating income to net cash provided by operating activities:		
Non-cash items included in operating income:		
Depreciation	136.1	127.3
Amortization of other liabilities	(1.5)	(1.1)
Amortization of other assets	55.8	56.2
Bad debt expense	14.6	7.0
Power revenues	(31.5)	(28.5)
Power expenses	30.6	28.7
Provision for injuries and damages	(0.4)	(1.6)
Other non-cash items	19.9	21.3
Change in:		
Accounts receivable	(6.4)	(24.0)
Unbilled revenues	(12.8)	(6.1)
Materials and supplies	8.1	(3.1)
Prepayments, interest receivable, and other receivables	4.8	(1.9)
Other assets	(1.9)	6.1
Provision for injuries and damages and claims payable	(5.5)	(1.1)
Accounts payable and other payables	22.5	(7.4)
Rate stabilization unearned revenue	2.3	0.1
Total adjustments	<u>234.7</u>	<u>171.9</u>
Net cash provided by operating activities	<u>\$ 371.9</u>	<u>\$ 279.3</u>
SUPPLEMENTAL DISCLOSURES OF NONCASH ACTIVITIES:		
In-kind capital contributions	\$ 0.5	\$ 1.5
Amortization of debt related costs—net	11.2	10.7
Allowance for funds used during construction	12.0	10.2
Power exchange revenues	15.0	15.8
Power exchange expenses	(15.0)	(15.8)
Power revenue netted against power expenses	5.4	6.6
Power expense netted against power revenues	(9.8)	(5.9)

See notes to financial statements.

# THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

## NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

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### 1. OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City Light Department (the Department) is the public electric utility of The City of Seattle (the City). The Department is an enterprise fund of the City. The Department owns and operates certain generating, transmission, and distribution facilities and supplies electricity to approximately 454,500 residential, commercial, and public customers in the city of Seattle. The Department also supplies electrical energy to other City agencies at rates prescribed by City ordinances, and to certain neighboring communities under franchise agreements. The establishment of the Department's rates is within the exclusive jurisdiction of the Seattle City Council. A requirement of Washington State law provides that rates must be fair, nondiscriminatory, and fixed to produce revenue adequate to pay for operation and maintenance expenses and to meet all debt service requirements payable from such revenue. The Department pays occupation taxes to the City based on total revenues.

The Department's revenues for services provided to other City departments were \$17.9 million and \$20.1 million in 2017 and 2016, respectively, and \$2.9 million and \$2.4 million for non-energy services, respectively.

The Department receives certain services from other City departments and paid \$108.0 million in 2017 and \$86.6 million in 2016, for such services. Amounts paid include central cost allocations from the City for services received including treasury services, risk financing, purchasing, data processing systems, vehicle maintenance, personnel, payroll, legal, administrative, information technology and building rentals, including for the Department's administrative offices.

The Department's receivables from other City departments totaled \$2.3 million and \$5.1 million at December 31, 2017, and 2016, respectively. The Department's payables to other City departments totaled \$12.0 million and \$11.1 million at December 31, 2017, and 2016, respectively. The balances receivable and payable are the result of transactions incurred in the normal course of operations.

***Basis of Presentation and Accounting Standards***—The financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America as applied to governmental units. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Department has applied and is current through 2017 with all applicable GASB pronouncements.

The GASB has issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, replacing the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. This Statement establishes new accounting and financial reporting requirements for governments whose employees are provided with OPEB, including the recognition and measurement of liabilities, deferred outflows of resources, deferred inflows of resources and expense. Statement No. 75 will be effective for the Department in 2018 and the Department is currently evaluating the impact that adoption of this statement will have on its financial statements.

The GASB has issued Statement No. 85, *Omnibus 2017*, which addresses topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment

## THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

### NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

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benefits. Statement No. 85 will be effective for the department in 2018 and the Department is currently evaluating the impact that adoption of this statement may have on its financial statements.

The GASB has issued Statement No. 83, *Certain Asset Retirement Obligations*, which establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for legally enforceable asset retirement obligations and requires that recognition occur when the liability is both incurred and reasonably estimable. This standard will be adopted by the Department in 2019. The effect of this Statement on the Department's financial statements has not yet been determined.

The GASB has issued Statement No. 84, *Fiduciary Assets*, which improves guidance regarding the identification of fiduciary assets, including pension plans and other postemployment benefits, for accounting and financial reporting purposes and how those activities should be reported. Statement No. 84 will be effective for the Department in 2019 and the Department is currently evaluating the impact the adoption of this statement will have on its financial statements.

The GASB has issued Statement No. 87, *Leases*, which improves accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. Statement No. 87 will be effective for the department in 2020 and the Department is currently evaluating the impact the adoption of this statement will have on its financial statements.

**Fair Value Measurements**—Descriptions of the Department's accounting policies on fair value measurements for items reported on the balance sheets at December 31, 2017 and 2016, are as noted in Note 2 Fair Value Measurement, Note 5 Cash and Equity in Pooled Investments and Investments, Note 6 Accounts Receivable and Note 18 Long-Term Purchased Power, Exchanges, and Transmission.

**Fair Value of Financial Instruments**—The Department's financial instruments reported on the balance sheets at December 31, 2017 and 2016, as Restricted assets and Cash and equity in pooled investments are measured at fair value. These instruments consist primarily of the Department's share of the City-wide pool of investments (see Note 5 Cash and Equity in Pooled Investments and Investments). Gains and losses on these financial instruments are reflected in Investment income in the statements of revenues, expenses, and changes in net position. Long-term debt at December 31, 2017 and 2016, is disclosed at fair value (see Note 9 Long-Term Debt).

**Net Position**—The Department classifies its net position into three components as follows:

- **Net investment in capital assets**—This component consists of capital assets, net of accumulated depreciation and amortization, reduced by the net outstanding debt balances related to capital assets net of unamortized debt expenses.
- **Restricted**—This component consists of net position with constraints placed on use. Constraints include those imposed by creditors (such as through debt covenants and excluding amounts considered in net capital, above), grants, or laws and regulations of other governments, or by enabling legislation, The City of Seattle Charter, or by ordinances legislated by the Seattle City Council.
- **Unrestricted**—This component consists of assets and liabilities that do not meet the definition of Net investment in capital assets or Restricted.

# THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

## NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

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***Restricted and Unrestricted Net Position***—The Department’s policy is to use restricted net position for specified purposes and to use unrestricted net position for operating expenses. The Department does not currently incur expenses for which both restricted and unrestricted net position is available.

***Assets Held for Future Use***—These assets include property acquired but never used by the Department in electrical service and therefore, held for future service under a definitive plan. Also included is property previously used in service but retired and held pending its reuse in the future under a definitive plan. As of December 31, 2017, and 2016, Assets held for future use included the following electrical plant assets: land for future substations, ducts and vaults, transmission lines, and plans for additional hydraulic generating capacity totaling \$59.1 million and \$59.5 million, respectively.

***Materials and Supplies***—Materials and supplies are generally used for construction, operation and maintenance work, not for resale. They are valued utilizing the average cost method and charged to construction or expense when used.

***Revenue Recognition***—Service rates are authorized by City ordinances. Billings are made to customers on a monthly or bimonthly basis. Revenues for energy delivered to customers between the last billing date and the end of the year are estimated and reflected in the accompanying financial statements as unbilled revenue within Retail power revenues.

The Department’s customer base accounted for electric energy sales at December 31, 2017 and 2016, as follows:

	2017	2016
Residential	37.7 %	36.3 %
Nonresidential	<u>62.3 %</u>	<u>63.7 %</u>
Total	100.0 %	100.0 %

Revenues earned in the process of delivering energy to customers, wholesale energy transactions, and related activities are considered operating revenues in the determination of change in net position. Investment income, nonexchange transactions, and other revenues are considered Nonoperating revenues.

***Expense Recognition***—Expenses incurred in the process of delivering energy to customers, wholesale energy transactions, and related activities are considered operating expenses in the determination of net income. Debt interest expense, debt related amortization, and certain other expenses are considered Nonoperating expenses.

***Administrative and General Overhead Costs Applied***—Certain administrative and general overhead costs are allocated to construction work-in-progress, major data processing systems development, programmatic conservation, relicensing mitigation projects, and billable operations and maintenance activities based on rates established by cost studies. Pension and benefit costs are allocated to capital and operations and maintenance activities based on a percentage of labor dollars. The administrative and general overhead costs applied totaled \$50.1 million and \$51.4 million in 2017 and 2016, respectively. Pension and benefit costs applied were \$57.1 million and \$59.9 million in 2017 and 2016, respectively. Administrative and general expenses, net of total applied overhead, were \$128.7 million and \$105.0 million in 2017 and 2016, respectively.



## THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

### NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

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***Interest Charged to Construction***—Interest is charged for funds used during construction of plant assets and to non-billable construction work-in-progress. Interest charged represents the estimated costs of financing construction projects and is computed using the Department’s weighted-average interest rate for all bonds outstanding, the majority of which are tax exempt, and is revised when new bonds are issued and at the end of the year. Interest charged to construction totaled \$12.0 million and \$10.2 million in 2017 and 2016, respectively, and is reflected as a reduction of Interest expense in the statements of revenues, expenses, and changes in net position.

***Nonexchange Transactions***—Capital contributions and grants in the amount of \$45.3 million and \$38.4 million for 2017 and 2016, respectively, and noncapital grants in the amount of -\$0.3 million and \$2.5 million for 2017 and 2016, respectively, are reported in the statements of revenues, expenses, and changes in net position as nonoperating revenues from nonexchange transactions. Capital contributions and grants revenues are recognized based on the accrual basis of accounting. In-kind capital contributions are recognized at estimated acquisition value in the period when all eligibility requirements have been met as described in GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*. Federal and state grant revenues are recognized as earned and are subject to contract and other compliance audits.

***Compensated Absences***—Regular employees of the Department earn vacation time in accordance with length of service. A maximum of 480 hours may be accumulated for the most tenured employees and, upon termination, employees are entitled to compensation for unused vacation. Upon retirement, employees receive compensation equivalent to 25% of their accumulated sick leave. Effective 2006, only employees represented by unions who voted in favor of a Healthcare Reimbursement Arrangement (HRA) receive 35% of their sick leave balance tax-free through an HRA account for healthcare expenses post retirement. Because of the special tax arrangement, the sick leave balance may only go into the HRA account; it may not be taken as a cashout. The HRA program is administered by an independent third-party administrator, Meritain Health. HRA investments are managed by HRA Voluntary Employee Beneficiary Association (VEBA) Trust. The Department accrues all costs associated with compensated absences, including payroll taxes.

***Use of Estimates***—The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect amounts reported in the financial statements. The Department used significant estimates in determining reported allowance for doubtful accounts, unbilled revenues, power exchanges, accumulated provision for injuries and damages and workers’ compensation, environmental liabilities, accrued sick leave, net pension liability, other postemployment benefits, and other contingencies. Actual results may differ from those estimates.

***Significant Risk and Uncertainty***—The Department is subject to certain business risks that could have a material impact on future operations and financial performance. These risks include financial market liquidity and economic uncertainty; prices on the wholesale markets for short-term power transactions; interest rates and other inputs and techniques for fair valuation; water conditions, weather, climate change, and natural disaster-related disruptions; terrorism; collective bargaining labor disputes; fish and other Endangered Species Act (ESA) issues; Environmental Protection Agency (EPA) regulations; compliance with clean and renewable energy legislation; local and federal government regulations or orders concerning the operations, maintenance, and/or licensing of hydroelectric facilities; other governmental regulations; restructuring of the electrical utility industry; and the costs of constructing transmission facilities that may be incurred as part of a northwest regional transmission system, and related effects of this system on transmission rights, transmission sales, surplus energy, and governance.

# THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

## NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

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### 2. FAIR VALUE MEASUREMENT

The Department records certain assets, liabilities and deferred inflows of resources in accordance with GASB Statement No. 72, *Fair Value Measurement and Application*, which defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurement.

Fair value is defined in Statement No. 72 as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). Fair value is a market-based measurement for a particular asset or liability based on assumptions that market participants would use in pricing the asset or liability. Such assumptions include observable and unobservable inputs of market data, as well as assumptions about risk and the risk inherent in the inputs to the valuation technique.

Valuation techniques to determine fair value should be consistent with one or more of three approaches: the market approach, cost approach, and income approach. The Department uses the market approach for the valuation of pooled investments, a combination of the market and income approaches for the valuation of the undelivered forward portion of energy exchanges and other nonmonetary transactions, and the market approach for the valuation of long-term debt.

As a basis for considering market participant assumptions in fair value measurements, Statement No. 72 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Department can access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability. Valuation adjustments such as for nonperformance risk or inactive markets could cause an instrument to be classified as Level 3 that would otherwise be classified as Level 1 or Level 2.

The valuation methods of the fair value measurements are disclosed as noted below.

Cash resources of the Department are combined with cash resources of the City to form a pool of cash and investments that is managed by the City's Department of Finance and Administrative Services (FAS). The City records pooled investments at fair value based on quoted market prices.

The Department obtained the lowest level of observable input of the fair value measurement of energy exchanges and other non-monetary transactions in its entirety from subscription services or other independent parties. The observable inputs for the settled portion of the energy exchange contracts are Dow Jones price indices. The observable inputs for the undelivered forward portion of energy exchanges and other non-monetary transactions are Kiodex forward curves and present value factors based on the interest rate for Treasury constant maturities, bond-equivalent yields.

Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Department's assessment of the significance of a particular

# THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

## NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

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input to the fair value measurement requires judgement and may affect the valuation of fair value assets and liabilities and their place within the fair value hierarchy levels.

The Department had no assets or liabilities that met the criteria for Level 3 at December 31, 2017 and 2016. The following fair value hierarchy table presents information about the Department's assets, liabilities, and deferred inflows of resources reported at fair value on a recurring basis or disclosed at fair value as of December 31, 2017 and 2016:

# THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

## NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

(\$ in millions)

<b>2017</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Total</b>
<b>Assets</b>			
Fair value investments (16.3% of City pool)			
Bank note	\$ -	\$ 7.8	\$ 7.8
Commercial paper	-	41.0	41.0
Municipal bonds	-	59.7	59.7
Repurchase agreements	22.6	-	22.6
U.S. government agency mortgage-backed securities	-	39.7	39.7
U.S. government agency securities	-	113.1	113.1
U.S. treasury & U.S. government-backed securities	75.5	2.0	77.5
Washington State Local Government Investment Pool	-	19.7	19.7
Total fair value investments (16.3% of City pool)	<u>98.1</u>	<u>283.0</u>	<u>381.1</u>
Exchange energy receivable	<u>-</u>	<u>1.6</u>	<u>1.6</u>
Total Assets at fair value	<u>\$ 98.1</u>	<u>\$ 284.6</u>	<u>\$ 382.7</u>
<b>Deferred Inflows of Resources</b>			
Exchange energy regulatory deferred gains	<u>\$ -</u>	<u>\$ 0.8</u>	<u>\$ 0.8</u>

(\$ in millions)

<b>2016</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Total</b>
<b>Assets</b>			
Fair value investments (16.9% of City pool)			
Bank note	\$ -	\$ 8.1	\$ 8.1
Commercial paper	-	34.6	34.6
Municipal bonds	-	51.8	51.8
Repurchase agreements	8.5	-	8.5
U.S. government agency mortgage-backed securities	-	44.2	44.2
U.S. government agency securities	-	93.6	93.6
U.S. treasury & U.S. government-backed securities	46.5	2.1	48.6
Washington State Local Government Investment Pool	-	7.7	7.7
Total fair value investments (16.9% of City pool)	<u>55.0</u>	<u>242.1</u>	<u>297.1</u>
Exchange energy receivable	<u>-</u>	<u>2.1</u>	<u>2.1</u>
Total Assets at fair value	<u>\$ 55.0</u>	<u>\$ 244.2</u>	<u>\$ 299.2</u>
<b>Deferred Inflows of Resources</b>			
Exchange energy regulatory deferred gains	<u>\$ -</u>	<u>\$ 1.2</u>	<u>\$ 1.2</u>

# THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

## NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

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### 3. UTILITY PLANT

*Utility Plant*—Utility plant is recorded at original cost, which includes both direct costs of construction or acquisition and indirect costs, including an allowance for funds used during construction. The capitalization threshold for tangible assets was \$5,000, and for intangible assets, \$500,000 in 2017 and 2016. Plant constructed with capital contributions or contributions in-aid-of construction received from customers is included in Utility plant. Capital contributions and capital grants totaled \$45.3 million in 2017 and \$38.4 million in 2016. The Department uses a straight-line composite method of depreciation and amortization and, therefore, groups assets into composite groups for purposes of depreciation. Estimated economic lives range from 4 to 50 years. Effective with the implementation of a new fixed asset system January 1, 2017, the Department changed from a half-year convention method of depreciation to an actual month method, on the assumption that additions and replacements are placed in service at mid-year. Depreciation and amortization expense as a percentage of depreciable utility plant-in-service was approximately 2.8% in 2017 and 2.7% in 2016. When operating plant assets are retired, their original cost together with retirement costs and removal costs, less salvage, is charged to accumulated depreciation or amortization, if applicable. The cost of maintenance and repairs is charged to expense as incurred, while the cost of replacements and betterments are capitalized. The Department periodically reviews long-lived assets for impairment to determine whether any events or circumstances indicate the carrying value of the assets may not be recoverable over their economic lives.

Intangible assets are those that lack physical substance, are nonfinancial in nature, and have useful lives extending beyond a single reporting period. The Department's intangible assets are reported as capital assets under Utility Plant. The Department's intangible assets consist of easements, purchased and internally developed software, transmission rights, capitalized relicensing costs for Skagit and Boundary hydroelectric projects, Tolt hydroelectric project mitigation costs, and costs capitalized under the High Ross Agreement.

# THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

## NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

Utility plant-in-service at original cost, including land at December 31, 2017, and 2016, was:

	Hydroelectric Production	Transmission	Distribution	General	Intangible	Total
<b>2017</b>						
<i>(\$ in millions)</i>						
<b>Utility Plant-in-service - At original cost:</b>						
<b>Plant-in-service, excluding Land:</b>						
1/1/2017 Balance	\$ 847.0	\$ 242.2	\$ 2,408.9	\$ 368.4	\$ 543.8	\$ 4,410.3
Acquisitions	22.9	27.1	110.8	28.1	34.1	223.0
Dispositions	(6.3)	(2.7)	(24.2)	(12.1)	-	(45.3)
Transfers and adjustments	-	-	5.2	-	-	5.2
	<u>863.6</u>	<u>266.6</u>	<u>2,500.7</u>	<u>384.4</u>	<u>577.9</u>	<u>4,593.2</u>
<b>Accumulated depreciation and amortization:</b>						
1/1/2017 Balance	\$ 361.0	\$ 85.2	\$ 881.5	\$ 230.6	\$ 177.0	\$ 1,735.3
Increase in accumulated depreciation and amortization	16.7	5.8	73.8	18.2	24.6	139.1
Retirements	(7.3)	(3.8)	(27.8)	(12.1)	-	(51.0)
Transfers and adjustments	-	-	-	(1.1)	1.1	-
	<u>370.4</u>	<u>87.2</u>	<u>927.5</u>	<u>235.6</u>	<u>202.7</u>	<u>1,823.4</u>
<b>Sub Total Plant-in-service - Net, excluding Land:</b>	<u>\$ 493.2</u>	<u>\$ 179.4</u>	<u>\$ 1,573.2</u>	<u>\$ 148.8</u>	<u>\$ 375.2</u>	<u>\$ 2,769.8</u>
<b>Land and land rights:</b>						
1/1/2017 Balance	\$ 52.0	\$ 3.0	\$ 13.4	\$ 6.6	\$ -	\$ 75.0
Acquisitions	0.7	-	-	-	-	0.7
Dispositions	-	-	-	-	-	-
Transfers and adjustments	0.9	-	-	-	-	0.9
	<u>53.6</u>	<u>3.0</u>	<u>13.4</u>	<u>6.6</u>	<u>-</u>	<u>76.6</u>
<b>Total Plant-in-service - Net, including Land:</b>	<u>\$ 546.8</u>	<u>\$ 182.4</u>	<u>\$ 1,586.6</u>	<u>\$ 155.4</u>	<u>\$ 375.2</u>	<u>\$ 2,846.4</u>

# THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

## NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	Hydroelectric Production	Transmission	Distribution	General	Intangible	Total
<b>2016</b>						
<i>(\$ in millions)</i>						
<b>Utility Plant-in-service - At original cost:</b>						
<b>Plant-in-service, excluding Land:</b>						
1/1/2016 Balance	\$ 821.1	\$ 230.9	\$ 2,295.6	\$ 338.5	\$ 482.1	\$ 4,168.2
Acquisitions	27.8	13.9	133.6	30.7	96.1	302.1
Dispositions	(1.9)	(2.6)	(20.3)	(0.8)	(34.4)	(60.0)
Transfers and adjustments	-	-	-	-	-	-
12/31/2016 Balance	<u>847.0</u>	<u>242.2</u>	<u>2,408.9</u>	<u>368.4</u>	<u>543.8</u>	<u>4,410.3</u>
<b>Accumulated depreciation and amortization:</b>						
1/1/2016 Balance	347.7	82.5	836.0	214.3	191.3	1,671.8
Increase in accumulated depreciation and amortization	16.2	5.4	71.1	17.4	17.6	127.7
Retirements	(2.9)	(2.7)	(25.6)	(1.1)	(34.4)	(66.7)
PY Adjustments	-	-	-	-	2.5	2.5
12/31/2016 Balance	<u>361.0</u>	<u>85.2</u>	<u>881.5</u>	<u>230.6</u>	<u>177.0</u>	<u>1,735.3</u>
<b>Sub Total Plant-in-service - Net: excluding Land:</b>	<u>\$ 486.0</u>	<u>\$ 157.0</u>	<u>\$ 1,527.4</u>	<u>\$ 137.8</u>	<u>\$ 366.8</u>	<u>\$ 2,675.0</u>
<b>Land and land rights:</b>						
1/1/2016 Balance	\$ 50.6	\$ 3.0	\$ 13.4	\$ 5.7	\$ -	\$ 72.7
Acquisitions	0.6	-	-	0.9	-	1.5
Dispositions	-	-	-	-	-	-
Transfers and adjustments	0.8	-	-	-	-	0.8
12/31/2016 Balance	<u>52.0</u>	<u>3.0</u>	<u>13.4</u>	<u>6.6</u>	<u>-</u>	<u>75.0</u>
<b>Total Plant-in-service - Net: including Land:</b>	<u>\$ 538.0</u>	<u>\$ 160.0</u>	<u>\$ 1,540.8</u>	<u>\$ 144.4</u>	<u>\$ 366.8</u>	<u>\$ 2,750.0</u>

#### 4. RATE STABILIZATION ACCOUNT

The Rate Stabilization Account (RSA) is a restricted cash reserve established to reduce the need for rapid and substantial rate increases solely to comply with the Department's bond covenants.

In March 2010, the Seattle City Council adopted Resolution No. 31187 and Ordinance No. 123260, establishing revised financial policies and parameters for the operation of the RSA created by Ordinance No. 121637 in 2004. Ordinance No. 123260 identified the sources of significant funding of the RSA and specified parameters for its operation. The RSA is drawn down to supplement revenues when surplus power sales revenues are below the budgeted amount, and conversely, deposits are to be made to the RSA when the surplus power sales revenues are greater than budgeted. Deposits or withdrawals may be made up to and including the date 90 days after the end of the applicable year.

Ordinance No. 123260 established a target size for the RSA of no less than \$100.0 million and no greater than \$125.0 million, and authorized the imposition of automatic temporary surcharges on electric rates when the RSA balance is within the below specified levels:

# THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

## NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

RSA Balance	Action
Less than or equal to \$90.0 million but greater than \$80.0 million:	Automatic 1.5% surcharge
Less than or equal to \$80.0 million but greater than \$70.0 million:	Automatic 3.0% surcharge
Less than or equal to \$70.0 million but greater than \$50.0 million:	Automatic 4.5% surcharge
Less than or equal to \$50.0 million:	City Council must initiate rate review within 45 days and determine actions to replenish RSA to \$100.0 million within 12 months

In February 2014, the Seattle City Council adopted Ordinance No. 124426 (retroactive to December 2013), directing specific cash transfers to the RSA with the intention of reducing the likelihood of future rate surcharges.

Ordinance No. 123260 originally required a rate review whenever the RSA balance exceeded \$125.0 million, along with the implementation of measures to reduce the RSA balance to \$125.0 million within a period of 12 months or less. Subsequently, the Seattle City Council adopted Ordinance No. 124108 in February 2013 (retroactive to January 1, 2013) which extended the timing of this required rate review and associated action to an effective date of January 1, 2014.

In 2017, actual net wholesale revenue was \$10.3 million less than budgeted. Hence, net transfers of \$10.3 million were made from the RSA to the operating cash account during the year. The 1.5% surcharge enacted August 1, 2016 remained in effect throughout 2017. Transfers from the RSA were fully offset by \$11.2 million surcharge revenue resulting from the 1.5% surcharge. Interest of \$1.4 million was earned on the RSA in 2017. The RSA ending balance was \$93.4 million at December 31, 2017.

In 2016, actual net wholesale revenue was \$5.5 million less than budgeted. Hence, net transfers of \$5.5 million were made from the RSA to the operating cash account during the year. At June 30, 2016, the RSA balance was \$89.1 million (below the \$90.0 million threshold) which triggered a 1.5% rate surcharge effective August 1, 2016. Transfers from the RSA were partially offset by \$4.4 million surcharge revenue resulting from this 1.5% surcharge. Interest of \$1.2 million was earned on the RSA in 2016. The RSA ending balance was \$91.1 million at December 31, 2016.

The RSA at December 31, 2017, and 2016, consisted of cash from the following sources:

<i>(\$ in millions)</i>	2017	2016
Rate Stabilization Account		
Beginning balance	\$ 91.1	\$ 91.0
Surcharge revenue	11.2	4.4
RSA interest income	1.4	1.2
Operating revenue	<u>(10.3)</u>	<u>(5.5)</u>
Ending balance	<u>\$ 93.4</u>	<u>\$ 91.1</u>



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RSA transactions are recorded in accordance with GASB Statement No. 62 *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.

The regulatory deferred inflow of resources rate stabilization unearned revenue account at December 31, 2017, and 2016, consisted of the following:

(\$ in millions)	2017	2016
Unearned revenue - Rate Stabilization Account		
Beginning balance	\$ 66.1	\$ 66.0
Surcharge revenue	11.2	4.4
RSA interest income	1.4	1.2
Operating revenue	<u>(10.3)</u>	<u>(5.5)</u>
Ending balance	<u>\$ 68.4</u>	<u>\$ 66.1</u>

The initial \$25.0 million transfer from the Contingency Reserve Account to the RSA in May 2010 is not included in the Rate stabilization unearned revenue balance and is not available to be transferred to current revenue in the event that net wholesale revenues are less than the budgeted amount. The Contingency Reserve Account was established in 2005 with proceeds that had been deposited in the Bond Reserve Fund, which was replaced with a surety bond.

Net transfers from/(to) the RSA in the statements of revenues, expenses and net position for the periods ended December 31, 2017, and 2016 were as follows:

(\$ in millions)	2017	2016
Transfers from/(to) Rate Stabilization Account	<u>\$ (2.3)</u>	<u>\$ (0.1)</u>

## 5. CASH AND EQUITY IN POOLED INVESTMENTS AND INVESTMENTS

**Cash and Equity in Pooled Investments**—Cash resources of the Department are combined with cash resources of the City to form a pool of cash that is managed by the City’s Department of Finance and Administrative Services (FAS). Under the City’s investment policy, all temporary cash surpluses in the pool are invested. The Department’s share of the pool is included on the balance sheets as Cash and Equity in Pooled Investments or as restricted assets. The pool operates like a demand deposit account in that all departments, including the Department, may deposit cash at any time and can also withdraw cash, out of the pool, up to the amount of the Department’s fund balance, without prior notice or penalty. Accordingly, the statements of cash flows reconcile to cash and equity in pooled investments. The City considers investments in financial instruments having a maturity of 90 days or less as a cash equivalent.

**Custodial Credit Risk - Deposits**—Custodial credit risk of deposits is the risk that in the event of bank failure for one of the City’s depository institutions, the City’s deposits or related collateral securities may not be returned in a timely manner.

As of December 31, 2017, and 2016, the City did not have custodial credit risk. The City’s deposits are covered by insurance provided by the Federal Deposit Insurance Corporation (FDIC) and the National

# THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

## NOTES TO FINANCIAL STATEMENTS

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Credit Union Association (NCUA) as well as protection provided by the Washington State Public Deposit Protection Commission (PDPC) as established in RCW 39.58. The PDPC makes and enforces regulations and administers a program to ensure public funds deposited in banks and thrifts are protected if a financial institution becomes insolvent. The PDPC approves which banks, credit unions, and thrifts can hold state and local government deposits and monitors collateral pledged to secure uninsured public deposits. This secures public treasurers' deposits when they exceed the amount insured by the FDIC or NCUA by requiring banks, credit unions, and thrifts to pledge securities as collateral.

As of December 31, 2017, and 2016, the City held \$95,000 in its cash vault. Additional small amounts of cash were held in departmental revolving fund accounts with the City's various custodial banks, all of which fell within the NCUA/FDIC's \$250,000 standard maximum deposit insurance amount. Any of the City's cash not held in its vault, or a local depository, was held in the City's operating fund (investment pool), and at the close of every business day, any cash remaining in the operating fund is swept into an overnight repurchase agreement that matures the next day.

**Investments**—The Department's cash resources may be invested by FAS separate from the cash and investments pool. Investments are managed in accordance with the City's Statement of Investment Policy, with limits and restrictions applied at the City-wide level rather than to specific investments of the Department. As of December 31, 2017, and 2016, the Department did not have any dedicated investments. The City's Statement of Investment Policy will be modified on January 1, 2018, with an effective date of March 8, 2018, and the Department will work with the City of Seattle Treasury to evaluate and determine the impact that adoption of the new investment policy will have on its financial statements.

Eligible investments are those securities and deposits authorized by statute (chapters 35.39, 39.58, 39.59, 39.60, and 43.250 RCW; RCW 43.84.080, 43.180.190). Eligible investments include, but are not limited to:

- U.S. Government obligations,
- U.S. Government Agency obligations,
- U.S. Agency Mortgaged-Backed securities,
- Repurchase Agreements,
- Municipal bonds,
- Washington State Local Government Investment Pool,
- Bankers' Acceptances,
- Commercial Paper,
- Bank Notes,
- Non-negotiable Certificates of Deposit and Demand Deposits,
- Mutual Funds and Money Market Funds

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## NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

The City of Seattle has three objectives in managing its investments that define its risk profile and guide implementation of its investment strategy. In order of importance they are Safety of Principal, Maintenance of Liquidity, and Return on Investment.

The City follows a set of Standards of Care when it comes to its investments that include the following:

- **Social Policies:** A City social policy shall take precedence over furthering the City’s financial objectives when expressly authorized by City Council resolution, except where otherwise provided by law or trust principles.
- **Prudence:** The standard of prudence to be used by investment personnel shall be the “Prudent Investor Rule” and will be applied in the context of managing an overall portfolio.
- **Ethics and Conflict of Interest:** Investment officers shall comply with the City’s Ethics Code (SMC 4.16.080) and annually submit a Financial Interest Statement to the City’s Ethics & Elections Commission that identifies any potential financial interest that could be related to the performance of the City’s investment portfolio.
- **Delegation of Authority:** The Director of Finance and Administrative Services has delegated management responsibility for the City’s investment program to the Director of Finance who has designated day to day management responsibility to investment officers under the supervision of the City’s Treasury Services Director. No persons may engage in an investment transaction except as provided under the terms of the City Statement of Investment Policy and the procedures established therein.

As of December 31, 2017, and 2016 The City’s pooled investments were as follows:

(\$ in millions)	2017		2016	
	Fair Value of City Pooled Investments	Weighted-Average Maturity (Days)	Fair Value of City Pooled Investments	Weighted-Average Maturity (Days)
Bank Note	\$ 48.0	294	\$ 48.1	658
Commercial Paper	251.7	33	204.5	90
Local Government Investment Pool	120.7	1	45.4	3
Municipal Bonds	366.1	1858	306.5	1692
Repurchase Agreements	138.4	2	50.4	3
US Government Agency Mortgage-Backed Securities	243.7	1732	261.4	1853
US Government Agency Securities	693.6	1209	553.8	1355
US Treasury and US Government-Backed Securities	475.7	490	287.8	472
Total	<u>\$ 2,337.9</u>		<u>\$ 1,757.9</u>	
Portfolio Weighted Average Maturity		803		1103

# THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

## NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

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As of December 31, 2017, and 2016, the Department's share of the City pool was as follows:

(\$ in millions)	2017	2016
Operating cash and equity in pooled investments	\$ 129.1	\$ 72.9
Restricted cash and equity in pooled investments	252.4	222.0
Total	<u>\$ 381.5</u>	<u>\$ 294.9</u>
Balance as a percentage of City pool cash and investments	16.3%	16.8%

**Fair Value of Pooled Investments**—The City reports investments at fair value and categorizes its fair value measurements within the fair value hierarchy established by GASB Statement No. 72, *Fair Value Measurement and Application*. See Note 2 Fair Value Measurement. Fair value of the City's pooled investments fluctuates with changes in interest rates and the underlying size of the pooled investment portfolio. To mitigate interest rate risk in the City's pooled investment portfolio, the City typically holds its investments to maturity and manages its maturities to ensure sufficient monthly cash flow to meet its liquidity requirements. During the first quarter of 2018 interest rates moved higher in anticipation of tighter monetary policy and higher inflation expectations following expansionary fiscal policy passed by Congress at the end of 2017. At the conclusion of the Federal Open Market Committee meeting of the Federal Reserve System (Federal Reserve) on March 21, 2018, the Federal Reserve raised the federal funds target range by 25 basis points to 1.50% - 1.75% and communicated the Federal Reserve is firmly on course to normalize interest rates. The City's pooled investments will experience an unrealized loss on its investments in the near future as overall interest rates move higher and more quickly than new funds can be reinvested at higher interest rates.

The City holds a \$120.7 million deposit in the Washington State Local Government Investment Pool (LGIP) managed by the Office of the Washington State Treasurer. The City's investments in the LGIP are reported at amortized cost which approximates fair value. It is overseen by the Office of the State Treasurer, the State Finance Committee, the Local Government Investment Pool Advisory Committee, and the Washington State Auditor's Office.

**Interest Rate Risk**- Interest rate risk is the risk that changes in interest rates over time will adversely affect the fair value of an investment. To mitigate interest rate risk, the City intentionally immunizes its known and expected cash flow needs. To best accomplish meeting its investment objectives, the City has divided the Pool into two separate portfolios: Operating and Strategic.

The Operating Portfolio is invested to meet reasonably expected liquidity needs over a period of twelve to eighteen months. This portfolio has low duration and high liquidity. Consistent with this profile, and for the purpose of comparing earnings yield, its benchmark is the net earnings rate of the State of Washington's Local Government Investment Pool (LGIP).

The Strategic Portfolio consists of cash that is in excess of known and expected liquidity needs. Accordingly, this portfolio is invested in debt securities with longer maturities than the Operating Portfolio, which over a market cycle, is expected to provide a higher return and greater investment income. Consistent with this profile, and for the purpose of comparing duration, yield and total return, the benchmark for the Strategic portfolio is the Barclays U.S. Government 1-7 year index. The duration of the Strategic Portfolio is targeted between 75% and 125% of the benchmark.

## THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

### NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

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To further mitigate interest rate risk a minimum of 60% of the Operating Portfolio and 30% of the Strategic Portfolio must be invested in asset types with high liquidity, specifically U.S. Government obligations, U.S. Government Agency obligations, LGIP, Demand Accounts, Repo, Sweep, and Commercial Paper.

**Credit Risk** - Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Some of the City's pooled investments have credit risk from holdings in commercial paper, corporate notes, and taxable municipal bonds. The City may not hold more than 50% of the Pool's total assets in these credit sensitive sectors.

State statute defines the investments in commercial paper and corporate notes as a "credit portfolio". The credit portfolio may not exceed 25 percent of the Pool's market value. Credit investments must be diversified by sector and industry. No single issuer shall exceed 3 percent of the Pool's market value.

Commercial Paper investments may not have maturities exceeding 270 days and must hold the highest short-term credit rating by all the major credit rating agencies that rate the issuer at the time of purchase.

Corporate notes must mature within 5.5 years from the time of purchase and must be rated at least weak single-A or better by all the major rating agencies that rate the note at the time of purchase. No single issuer rated AA or better may exceed 3 percent of the Pool's market value. No single issuer rated in the single-A category may exceed 2 percent of the Pool's market value.

Municipal bonds must have a credit rating of weak single-A or better by all the major rating agencies that rate the issuer at the time of purchase. No single issuer may exceed 5 percent of the Pool's market value.

**Concentration Risk** - Concentration Risk is the risk of loss attributed to the magnitude of investments in a single issuer. The City manages concentration risk by limiting its investments in any one issuer in accordance with the City's investment policy and state statutes. The policy limits vary for each investment category. State statute and the City's Statement of Investment Policy do not stipulate concentration limits for holdings of U.S. Government or U.S. Government Agency Obligations. However, as noted under credit risk, the City's Statement of Investment Policy outlines maximum percentage allocations for municipal securities, commercial paper as well as bank notes and corporate notes. The City's investments in which 5% or more is invested in any single issuer as of December 31, 2017 and 2016 are as follows:

# THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

## NOTES TO FINANCIAL STATEMENTS

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(\$ in millions)	2017		2016	
	Fair Value	Percent of Total Investments	Fair Value	Percent of Total Investments
Federal Farm Credit Bank/Federal Home Loan Bank	\$ 428.9	18%	\$ 329.9	19%
Municipal Bonds	366.1	16%	306.5	17%
Federal National Mortgage Association	291.7	12%	302.4	17%
United States Treasury (HUD Debenture, US Treasury Bonds)	475.7	20%	287.8	16%
Federal Home Loan Mortgage Corp. and FHMS K Series	146.5	6%	182.8	10%
Local Government Investment Pool	120.7	5%	-	-
SWEEP-REPO	138.4	6%	-	-
	<u>\$ 1,968.0</u>	<u>83%</u>	<u>\$ 1,409.4</u>	<u>79%</u>

**Custodial Credit Risk – Investments-** Custodial credit risk for investments is the risk that, in the event of failure of the counterparty, the City will not have access to, or be able to recover, its investments or collateral securities that are in the possession of an outside party. The City mitigates custodial credit risk for its investments by having its investment securities held by the City’s contractual custodial agent. The City maintains a custody relationship with Wells Fargo under the State of Washington’s statewide custody provider program arranged by the State Treasurer’s Office. The City mitigates counterparty risk by settling trades through its custodian on a delivery-versus-payment method.

By investment policy, the City maintains a list of approved securities dealers for transacting business. The City also conducts its own due diligence as to the financial wherewithal of its counterparties.

**Foreign Currency Risk** – The City’s pooled investments do not include securities denominated in foreign currencies.

The City of Seattle’s Comprehensive Annual Financial Report may be obtained by writing to The City of Seattle, Department of Finance and Administrative Services, P.O. Box 94689, Seattle, WA 98124-4689; telephone: (206) 684-2489, or obtained on-line at <http://www.seattle.gov/financial-services/comprehensive-annual-financial-report>.

# THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

## NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

### 6. ACCOUNTS RECEIVABLE

Accounts receivable at December 31, 2017 and 2016, consist of:

(\$ in millions)	Retail Electric	Wholesale Power	Other Operating	Operating Subtotal	Nonoperating Subtotal	Total
<b>2017</b>						
Accounts receivable	\$ 62.5	\$ 9.7	\$ 15.2	\$ 87.4	\$ 22.9	\$ 110.3
Less allowance for doubtful accounts	<u>(12.7)</u>	<u>-</u>	<u>(8.8)</u>	<u>(21.5)</u>	<u>-</u>	<u>(21.5)</u>
	<u>\$ 49.8</u>	<u>\$ 9.7</u>	<u>\$ 6.4</u>	<u>\$ 65.9</u>	<u>\$ 22.9</u>	<u>\$ 88.8</u>
<b>2016</b>						
Accounts receivable	\$ 56.1	\$ 11.7	\$ 12.8	\$ 80.6	\$ 22.8	\$ 103.4
Less allowance for doubtful accounts	<u>(3.4)</u>	<u>-</u>	<u>(7.3)</u>	<u>(10.7)</u>	<u>-</u>	<u>(10.7)</u>
	<u>\$ 52.7</u>	<u>\$ 11.7</u>	<u>\$ 5.5</u>	<u>\$ 69.9</u>	<u>\$ 22.8</u>	<u>\$ 92.7</u>

Wholesale power receivable includes \$1.6 million at December 31, 2017, and \$2.1 million at December 31, 2016, for exchange energy at fair value under long-term contracts (see Note 18 Long-Term Purchased Power, Exchanges, and Transmission).

### 7. OTHER ASSETS

Seattle City Council passed resolutions authorizing debt financing and reporting as regulatory assets certain costs in accordance with Statement No. 62 of the GASB, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB & AICPA Pronouncements*. Programmatic conservation costs incurred by the Department and not funded by third parties, Endangered Species Act costs, and environmental costs are reported as regulatory assets in accordance with GASB Statement No. 62. Conservation costs reported as regulatory assets are amortized over 20 years. Endangered Species Act costs reported as regulatory assets are amortized over the remaining license period (see Note 19 Commitments and Contingencies). Environmental costs reported as regulatory assets are amortized over 25 years, beginning in the year costs are paid.

Other assets, which are not covered under GASB Statement No. 62, consist of:

- Suburban infrastructure long-term receivables are underground electrical infrastructure costs for suburban jurisdictions, which are recovered through rates from customers within the respective jurisdictions for a period of approximately 25 years, as approved by the Seattle City Council.
- Long-term interfund receivable for expected recoveries related to environmental costs covered under GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* (see Note 14 Environmental Liabilities).
- Puget Sound Energy Stillwater substation costs, which are being amortized to expense over 25 years.
- Studies, surveys, and investigations are reported as regulatory assets until such time they result in active projects, or when it is determined no assets will result, at which time they are expensed.
- Long-term customer loans receivable and the remaining components of other assets, are not amortized.

# THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

## NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

Regulatory assets and other assets, net, at December 31, 2017 and 2016, consisted of the following:

(\$ in millions)	2017	2016
Regulatory assets:		
Conservation costs—net	\$ 262.2	\$ 252.4
Endangered Species Act costs—net	1.8	1.9
Environmental costs	<u>93.1</u>	<u>83.1</u>
	<u>357.1</u>	<u>337.4</u>
Other charges and assets—net:		
Suburban infrastructure long-term receivables	51.7	53.3
Long-term interfund receivable for environmental costs	3.8	3.0
Long-term customer notes receivable	0.4	0.3
Puget Sound Energy interconnection and substation	0.3	0.4
Studies, surveys, and investigations	2.8	2.8
Other <sup>1</sup>	<u>0.7</u>	<u>(1.0)</u>
	<u>59.7</u>	<u>58.8</u>
Total Other Assets	<u>\$ 416.8</u>	<u>\$ 396.2</u>

<sup>1</sup> - 2016 contained \$2.3 million in over-allocated labor benefit costs which were included in calculation of revised 2017 allocation rate per Department policy.

### 8. DEFERRED OUTFLOWS OF RESOURCES

In accordance with the requirements of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*, the Department recognizes pension contributions made between the pension plan measurement date and the Department’s fiscal year end as deferred outflows of resources. Also recognized as deferred outflows of resources are losses resulting from differences between projected and actual earnings on plan investments, which are amortized over a closed five-year period, and losses related to differences between expected and actual experience with regard to economic or demographic factors in the measurement of total pension liability, which are amortized to pension expense over a period equal to the expected remaining service life of employees receiving pension benefits. See Note 12 Seattle City Employees’ Retirement System.

The excess of costs incurred over the carrying value of bonds refunded on early extinguishment of debt are reported as Deferred outflows of resources and amortized as a component of interest expense using the effective interest method over the terms of the issues to which they pertain. See Note 9 Long-term Debt.



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## NOTES TO FINANCIAL STATEMENTS

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Deferred outflows of resources at December 31, 2017 and 2016 consisted of the following:

<i>(\$ in millions)</i>	<b>2017</b>	<b>2016</b>
Deferred outflows of resources:		
Unrealized contributions and losses related to pension	\$ 46.9	\$ 64.6
Charges on advance refunding	<u>36.3</u>	<u>30.3</u>
Total	<u>\$ 83.2</u>	<u>\$ 94.9</u>

## 9. LONG-TERM DEBT

At December 31, 2017 and 2016, the Department's long-term debt consisted of the following prior lien or parity bonds:

<b>LONG-TERM</b>						
<i>(\$ in millions)</i>		<b>Fixed Rate</b>	<b>Maturity Year</b>	<b>Original Issuance</b>	<b>2017</b>	<b>2016</b>
Prior Lien Bonds:						
2017C	ML&P Improvement and Refunding Revenue Bonds	4.000%–5.000%	2047	\$ 385.5	\$ 385.5	\$ -
2017A	ML&P Revenue Bonds	variable rates	2046	50.0	49.1	-
2017B	ML&P Revenue Bonds	variable rates	2046	50.0	49.1	-
2016A	ML&P Revenue Bonds	4.050% fixed	2041	31.9	31.9	31.9
2016B	ML&P Refunding Revenue Bonds	4.000%–5.000%	2029	116.9	115.3	115.3
2016C	ML&P Improvement and Refunding Revenue Bonds	4.000%–5.000%	2046	160.8	158.7	160.8
2015A	ML&P Revenue Bonds	4.000%–5.000%	2045	171.9	161.1	167.5
2015B1	ML&P Adjustable Rate Revenue Bonds	variable rates	2045	50.0	50.0	50.0
2015B2	ML&P Adjustable Rate Revenue Bonds	variable rates	2045	50.0	50.0	50.0
2014	ML&P Improvement and Refunding Revenue Bonds	4.000%–5.000%	2044	265.2	232.2	239.5
2013	ML&P Improvement and Refunding Revenue Bonds	2.000%–5.000%	2043	190.8	178.7	181.9
2012A	ML&P Improvement and Refunding Revenue Bonds	2.000%–5.000%	2041	293.3	243.9	261.1
2012C	ML&P Clean Renewable Energy Bonds	3.400%–3.750%	2033	43.0	43.0	43.0
2011A	ML&P Improvement and Refunding Revenue Bonds	1.000%–5.500%	2036	296.3	80.7	239.8
2011B	ML&P Clean Renewable Energy Bonds	5.750%–5.750%	2027	10.0	10.0	10.0
2010A	ML&P Build America Bonds	4.447%–5.570%	2040	181.6	181.6	181.6
2010B	ML&P Improvement and Refunding Revenue Bonds	2.000%–5.000%	2026	596.9	290.3	340.9
2010C	ML&P Recovery Zone Economic Development Bonds	5.590%–5.590%	2040	13.3	13.3	13.3
2008	ML&P Revenue and Refunding Revenue Bonds	4.000%–6.000%	2029	<u>257.4</u>	<u>21.1</u>	<u>31.5</u>
Total prior lien bonds				<u>\$ 3,214.8</u>	<u>\$ 2,345.5</u>	<u>\$ 2,118.1</u>

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The Department had the following activity in long-term debt during 2017 and 2016:

<i>(\$ in millions)</i>	Balance at 1/1/17	Additions	Reductions	Balance at 12/31/17	Current Portion
<b>2017</b>					
Prior Lien Bonds - fixed rate	\$ 2,018.1	\$ 385.5	\$ (256.3)	\$ 2,147.3	\$ 117.0
Prior Lien Bonds - variable rate	100.0	100.0	(1.8)	198.2	1.8
	<u>\$ 2,118.1</u>	<u>\$ 485.5</u>	<u>\$ (258.1)</u>	<u>\$ 2,345.5</u>	<u>\$ 118.8</u>
<i>(\$ in millions)</i>	Balance at 1/1/16	Additions	Reductions	Balance at 12/31/16	Current Portion
<b>2016</b>					
Prior Lien Bonds - fixed rate	\$ 1,970.8	\$ 309.6	\$ (262.3)	\$ 2,018.1	\$ 111.2
Prior Lien Bonds - variable rate	100.0	-	-	100.0	-
	<u>\$ 2,070.8</u>	<u>\$ 309.6</u>	<u>\$ (262.3)</u>	<u>\$ 2,118.1</u>	<u>\$ 111.2</u>

**Prior Lien Bonds**—In January 2017 the Department issued \$100.0 million of tax exempt Municipal Light and Power (ML&P) Multi-Modal Revenue Bonds (2017A&B Bonds) and in September 2017 issued \$385.5 million of tax exempt Municipal Light and Power (ML&P) Improvement and Refunding Revenue Bonds (2017C Bonds). The 2017A&B Bonds had coupon interest rates ranging from .97% to 1.38% during 2017 and mature serially from November 1, 2017 to November 1, 2046. The 2017A&B Multi-Modal Bonds bear interest rates at variable rates that fluctuate based on the London Interbank Offered Rate (LIBOR) plus a certain number of basis points. The 2017C Bonds had coupon interest rates ranging from 4.00% to 5.00% and mature serially from September 1, 2018 through September 1, 2043 with term bonds maturing annually from September 1, 2044 to September 1, 2047. The arbitrage yield was 4.033% for the 2017A&B Bonds and 2.63% for the 2017C Bonds. Arbitrage yield, when used in computing the present worth of all payments of principal and interest on the Bonds in the manner prescribed by the Internal Revenue Code, produces an amount equal to the issue price of the Bonds. Proceeds from the 2017A&B Bonds were used to finance certain capital improvement and conservation programs. Proceeds from the 2017C Bonds were used to refund \$145.1 million of the 2011A Bonds, to finance certain capital improvement and conservation programs, and to make a deposit to the reserve fund.

The debt service on the 2017A&B Bonds requires a cash flow over the life of the bonds of \$172.6 million, including \$72.6 million in interest, and the debt service on the 2017C Bonds requires a cash flow over the life of the bonds of \$656.7 million including \$271.2 million in interest. The difference between the cash flows required to service the old and new debt and to complete the refunding for the 2017C Bonds totaled \$21.5 million and the aggregate economic gain on refunding totaled \$18.9 million at present value. The accounting loss on refunding for the 2017C Bonds was \$11.0 million.

In January 2016 the Department issued \$31.9 million of taxable Municipal Light and Power (ML&P) Clean Renewable Energy Bonds (2016A Bonds) and \$116.9 million of tax exempt Municipal Light and Power (ML&P) Refunding Revenue Bonds (2016B Bonds). In September 2016, the Department issued \$160.8 million of tax exempt Municipal Light and Power (ML&P) Improvement and Refunding Revenue Bonds (2016C Bonds). The 2016A Bonds had a fixed coupon interest rate of 4.05% and mature serially from January 1, 2036 to January 1, 2041. The 2016B Bonds had coupon interest rates ranging from 4.00% to 5.00% and mature serially from October 1, 2016 through April 1, 2029. The 2016C Bonds had interest rates ranging from 4.00% to 5.00% and mature serially from October 1, 2017 through October 1, 2037 with term bonds maturing annually from October 1, 2038 to October 1, 2046. The arbitrage yield was 1.01% for the 2016A Bonds, 1.88% for the 2016B Bonds, and 2.29% for the 2016C Bonds. Arbitrage yield, when used in computing the present worth of all payments of principal and interest on the Bonds in the manner prescribed by the Internal Revenue Code, produces an amount equal to the issue price of the Bonds. Proceeds from the 2016A Bonds were used to finance certain capital improvement and

# THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

## NOTES TO FINANCIAL STATEMENTS

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conservation programs. Proceeds from the 2016B Bonds were used to refund \$122.8 million of the 2008 Bonds. Proceeds from the 2016C Bonds were used to finance certain capital improvement and conservation programs and to refund \$32.0 million of the 2010B Bonds.

The debt service on the 2016A Bonds requires a cash flow over the life of the bonds of \$60.9 million, including \$29.0 million in interest, and the debt service on the 2016B Bonds requires a cash flow over the life of the bonds of \$166.8 million including \$50.0 million in interest. The difference between the cash flows required to service the old and new debt and to complete the refunding for the 2016A&B Bonds and the 2016C Bonds totaled \$22.1 million and \$1.8 million, and the aggregate economic gain on refunding totaled \$19.4 million and \$2.0 million at present value, respectively. The debt service of the 2016C Bonds requires a cash flow over the life of the bonds of \$268.8 million, including \$108.0 million in interest. The accounting loss on refunding for the 2016B Bonds was \$16.1 million and was \$3.0 million for the 2016C Bonds.

The Department has certain bonds outstanding that provide a refundable tax credit, or federal subsidy, paid to state or local governmental issuers by the U.S. Treasury. The amount of the federal subsidy is equal to the lesser of the amount of interest payable based on the coupon interest rate or a percentage of the amount of interest payable based on the tax credit rate on the sale date with respect to those bonds. This federal subsidy ultimately results in a net decrease to debt service, although debt service payments are paid gross. The federal subsidies are recorded as nonoperating revenues on the statements of revenues, expenses, and changes in net position.

*Federal Sequestration*—The sequestration provisions of the Budget Control Act of 2011 went into effect on March 1, 2013. The only direct impact of sequestration on the Department for 2017 was a 6.9% reduction through the end of the federal fiscal year ending September 30, 2017 at which time the automatic reductions were adjusted to 6.6% in the amount the Department expects to receive from the federal government in connection with its Municipal Light and Power Revenue Bonds, 2010A (Taxable Build America Bonds—Direct Payment); Municipal Light and Power Revenue Bonds; 2010C (Taxable Recovery Zone Economic Development Bonds—Direct Payment); Municipal Light and Power Improvement Revenue Bonds, 2011B (Taxable New Clean Renewable Energy Bonds—Direct Payment); Municipal Light and Power Improvement Revenue Bonds, 2012C (Taxable New Clean Renewable Energy Bonds—Direct Payment); and Municipal Light and Power Revenue Bonds, 2016A (Taxable New Clean Renewable Energy Bonds—Direct Payment). Because of this reduction, the Department received \$0.4 million less in interest subsidies than originally anticipated for 2017. The Department has sufficient revenues to pay the interest without these subsidies. The effect for the accrual of federal subsidies as of December 31, 2017 was inconsequential. The effect during 2018 is estimated to be lower federal subsidies by approximately \$0.4 million. The effect thereafter for federal subsidies is indeterminable. Sequestration was originally in effect through federal fiscal year (FFY) 2021 and has subsequently been extended through FFY 2024.

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Debt service requirements for prior lien bonds, excluding federal subsidies for the 2016, 2012, 2011 and 2010 bonds are shown in the table below. Future debt service requirements on the variable 2015B and 2017A&B Bonds are estimated based on actual interest rates in effect as of December 31, 2017.

(\$ in millions)

Years Ending December 31	Fixed Rate Bonds		Variable Rate Bonds		Total
	Principal Redemptions	Interest Requirements	Principal Redemptions	Interest Requirements	
2018	\$ 117.0	\$ 96.7	\$ 1.8	\$ 3.7	\$ 219.2
2019	112.7	92.3	1.9	3.7	210.6
2020	112.1	86.6	2.0	3.7	204.4
2021	111.3	81.5	2.1	3.7	198.6
2022	110.9	76.0	2.2	3.7	192.8
2023 – 2027	507.5	296.7	19.0	17.6	840.8
2028 – 2032	310.4	200.2	34.4	14.9	559.9
2033 – 2037	321.7	132.0	42.0	11.2	506.9
2038 – 2042	300.1	61.9	51.2	6.6	419.8
2043 – 2047	<u>143.6</u>	<u>13.8</u>	<u>41.6</u>	<u>1.4</u>	<u>200.4</u>
Total	<u>\$ 2,147.3</u>	<u>\$ 1,137.7</u>	<u>\$ 198.2</u>	<u>\$ 70.2</u>	<u>\$ 3,553.4</u>

*Reserve Fund*—The Department has created and is required under Ordinance No. 125198 (Bond Ordinance) to maintain a Reserve Fund for the purpose of securing the payment of the principal of and interest on all Parity Bonds outstanding and all amounts due under Parity Payment Agreements. The Reserve Fund is a pooled reserve and is an account within the books of the Department.

*Reserve Fund Requirement*—Under the Bond Ordinance, the aggregate Reserve Fund Requirement for all Parity Bonds is equal to the sum of the Reserve Fund Requirements established for each issue of Parity Bonds outstanding. The Bond Ordinance permits the City to establish the Reserve Fund Requirement (if any) for each issue of the Bonds or of Future Parity Bonds in connection with approving the sale of each such issue. Solely for purposes of setting the Reserve Fund Requirement, all series issued together under a single bond sale resolution are treated as a single “issue”. Upon issuance of the 2017C Bonds, the aggregate Reserve Fund Requirement for all Parity Bonds outstanding was \$142.3 million. The Reserve Fund Requirement is satisfied by cash deposits of \$67.6 million in cash held in the Reserve Fund and the surety bond (see below). Also included in the reserve fund was \$36.0 million and \$25.4 million at the end of 2017 and 2016 that is expected to be used toward the eventual replacement of the Surety Bond upon its expiration. Total reserve fund balance was \$103.6 million and \$87.0 million at December 31, 2017 and 2016, respectively.

*Surety Bond*—Under the Bond Legislation, the City is permitted to provide for the Reserve Fund Requirement with an Alternate Reserve Security consistent with the Bond Legislation requirements. Under the Bond Legislation, a surety bond qualifies as Qualified Insurance for purposes of satisfying the Reserve Fund Requirement if the provider’s ratings are in one of the top two rating categories at the time the policy is issued. The Bond Legislation does not require that the Reserve Fund be funded with cash or an Alternate Reserve Security if the provider of qualified insurance is subsequently downgraded. The City currently has a surety bond (the “Surety Bond”) purchased from Financial Security Assurance, Inc.

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(“FSA”), with a policy limit that is equal to \$74.7 million. This amount is used to satisfy a large proportion of the aggregate Reserve Fund Requirement.

The Surety Bond was issued by FSA in 2005; FSA was acquired by Assured Guaranty Corporation in 2009 and Assured Guaranty Corporation changed the name of its FSA subsidiary to Assured Guaranty Municipal Corporation (“AGM”). AGM is currently rated A2 and AA by Moody’s Investors Service and Standard & Poor’s Ratings Services, respectively.

***Irrevocable Trust Accounts***—\$145.1 million of the proceeds of the 2017C refunding revenue Bonds were placed in a separate irrevocable trust accounts to provide for all future debt service payments on certain prior lien bonds advance refunded or defeased. There were balances outstanding in the irrevocable trust account during 2017 for prior lien bonds advance refunded or defeased with the 2017 bonds and balances outstanding for prior lien bonds advance refunded prior to 2017. Neither the assets of the trust account nor the liabilities for the defeased bonds are reflected in the Department’s financial statements. The outstanding principal balance of all bonds defeased through 2017 was \$299.9 million as of December 31, 2017 and was \$154.8 million as of December 31, 2016. As of December 31, 2017, none of the defeased bonds were called and paid from the 2017 irrevocable trust account. Funds held in the 2017 irrevocable trust accounts at December 31, 2017 are sufficient to service and redeem the defeased bonds outstanding.

***Bond Ratings***—The 2017 and 2016 Bonds, along with other outstanding parity bonds, were rated “Aa2” and “AA”; and “Aa2” and “AA”, by Moody’s Investors Service, Inc. and Standard Poor’s Rating Services, respectively.

***Revenue Pledged***— Revenue bonds are special limited obligations payable from and secured solely by the gross revenues of the Department, less charges for maintenance and operations, and by money in the debt service account and Reserve Fund. Principal and interest paid during 2017 and 2016 was \$209.3 million and \$202.1 million, respectively. Total revenue available for debt service as defined for the same periods was \$376.8 million and \$331.9 million, respectively. Annual interest and principal payments are expected to require 58.0% of revenues available for debt service for 2018 and required 63.7% in 2017.

***Federal Arbitrage Regulations***—Revenue bonds are subject to federal arbitrage regulations and the Department has complied with these regulations. \$0.1 million in federal arbitrage rebate liability was recorded in 2017 and a \$0.3 million arbitrage rebate liability was recorded in 2016 with cumulative balances of \$318.2 million and \$392.4 million, respectively.

***Other***—There were no liens on property or revenue pertaining to parity bonds and all bond covenants were in compliance for the Department’s prior lien bonds as of December 31, 2017 and 2016, respectively.

***Fair Value***— Debt is recorded and presented in the financial statements at carrying value net of premiums and discounts and shown below with fair values as provided by the Department’s financial advisor, Piper Jaffray & Company. The fair value for the Department’s bonds are estimated based on the quoted market prices for the same or similar issues or on the current rates offered to the Department for debt of the same remaining maturities. Carrying amounts and fair values at December 31, 2017 and 2016, were as follows:

# THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

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(\$ in millions)	2017		2016	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-term debt:				
Prior lien bonds	\$ 2,536.2	\$ 2,551.3	\$ 2,276.5	\$ 2,298.1

**Amortization**—Discounts and premiums are amortized using the effective interest method over the term of the bonds.

The excess of costs incurred over the carrying value of bonds refunded on early extinguishment of debt is amortized as a component of interest expense using the effective interest method over the terms of the issues to which they pertain. Charges on advance refunding amortized to interest expense totaled \$4.9 million in 2017 and \$4.6 million in 2016. Charges on advance refunding in the amount of \$36.3 million and \$30.3 million are included as a component of Deferred Outflows of Resources on the 2017 and 2016 balance sheets, respectively.

**Noncurrent Liabilities**—The Department had the following activities during 2017 and 2016:

(\$ in millions)	Balance at 1/1/17	Additions	Reductions	Balance at 12/31/17
<b>2017</b>				
Net pension liability	\$ 317.8	\$ -	\$ (29.0)	\$ 288.8
Accumulated provision for injuries and damages	92.0	4.7	(0.6)	96.1
Compensated absences	15.8	-	(0.1)	15.7
Other	8.0	1.0	-	9.0
Total	<u>\$ 433.6</u>	<u>\$ 5.7</u>	<u>\$ (29.7)</u>	<u>\$ 409.6</u>
	Balance at 1/1/16	Additions	Reductions	Balance at 12/31/16
<b>2016</b>				
Net pension liability	\$ 271.8	\$ 70.9	\$ (24.9)	\$ 317.8
Accumulated provision for injuries and damages	42.3	49.8	(0.1)	92.0
Compensated absences	19.4	-	(3.6)	15.8
Other	8.0	0.1	(0.1)	8.0
Total	<u>\$ 341.5</u>	<u>\$ 120.8</u>	<u>\$ (28.7)</u>	<u>\$ 433.6</u>

Additional information on the Net pension liability can be found in Note 12 Seattle City Employees' Retirement System. Information about the provision for injuries and damages can be found in Note 10 Provision for Injuries and Damages and Note 14 Environmental Liabilities. Other includes primarily a liability for Other Postemployment Benefits; see Note 13 Other Postemployment Benefits.

## 10. PROVISION FOR INJURIES AND DAMAGES

The Department establishes liabilities for claims based on estimates of the ultimate projected cost of claims. Environmental related expenses are discussed in Note 14 Environmental Liabilities. The length of time for which such costs must be estimated varies depending on the nature of the claim. Actual claims costs depend on such factors as inflation, changes in doctrines of legal liability, damage awards, and specific incremental claim adjustment expenses. Claims liabilities are recomputed periodically using

# THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

## NOTES TO FINANCIAL STATEMENTS

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actuarial and statistical techniques to produce current estimates, which reflect recent settlements, claim frequency, industry averages, City-wide cost allocations, and economic and social factors. For 2017 and 2016, liabilities for lawsuits, claims, and workers' compensation were discounted over a period of 25 to 29 years at the City's average annual rate of return on investments, which was 1.45% and 1.13%, respectively.

To address the risk for certain losses arising from personal and property damage claims by third parties and for job-related illnesses and injuries to employees, the Department as part of the City of Seattle, has been self-insured for most of its general liability risks, for workers' compensation, and for employees' health care benefits. Effective June 1, 2016, the City had general liability insurance coverage for losses over a \$6.5 million self-insured retention per occurrence with a \$85.0 million limit per occurrence in the aggregate. The Department had no settled claims exceeding coverage in the last three years.

The City also purchased an all risk comprehensive property insurance policy that provides \$500.0 million in limits subject to various deductible levels depending on the type of asset and value of the building. This includes \$100.0 million in earthquake and flood limits. Hydroelectric and certain other utility producing and processing projects are not covered by the property policy. The City also purchased insurance for excess workers' compensation, fiduciary and crime liability, inland marine transportation, volunteers, and an assortment of commercial general liability, medical, accidental death and dismemberment, and miscellaneous policies. Bonds are purchased for public officials, public notaries, pension exposures, and specific projects and activities as necessary.

The changes in the provision for injuries and damages at December 31, 2017 and 2016 are as follows:

<i>(\$ in millions)</i>	<b>2017</b>	<b>2016</b>
Beginning unpaid claims liability	\$ 14.0	\$ 12.8
Payments	(4.7)	(4.3)
Incurred claims	<u>5.0</u>	<u>5.5</u>
Ending unpaid claims liability	<u>\$ 14.3</u>	<u>\$ 14.0</u>

The provision for injuries and damages included in current and noncurrent liabilities at December 31, 2017 and 2016 is as follows:

<i>(\$ in millions)</i>	<b>2017</b>	<b>2016</b>
Noncurrent liabilities	\$ 10.3	\$ 10.0
Accounts payable and other current liabilities	<u>4.0</u>	<u>4.0</u>
Total liability	<u>\$ 14.3</u>	<u>\$ 14.0</u>

# THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

## NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

### 11. ACCOUNTS PAYABLE

*Accounts Payable and Other Current Liabilities*—The composition of accounts payable and other current liabilities at December 31, 2017 and 2016, is as follows:

(\$ in millions)	2017	2016
Vouchers payable	\$ 34.8	\$ 42.9
Power accounts payable	23.1	24.2
Taxes payable	10.0	8.2
Claims payable	10.9	8.6
Guarantee deposit and contract retainer	20.8	10.3
Other accounts payable	<u>2.5</u>	<u>5.3</u>
Total	<u>\$ 102.1</u>	<u>\$ 99.5</u>

### 12. SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM

*Plan Description* - The Seattle City Employees' Retirement System (SCERS) is a cost-sharing multiple-employer defined benefit public employee retirement system, covering employees of the City and administered in accordance with Chapter 41.28 of the Revised Code of Washington and Chapter 4.36 of the Seattle Municipal Code. SCERS is a pension trust fund of the City. SCERS is administered by the Retirement System Board of Administration (the Board). The Board consists of seven members including the Chair of the Finance Committee of the Seattle City Council, the City of Seattle Finance Director, the City of Seattle Personnel Director, two active members and one retired member of the System who are elected by other system members, and one outside board member who is appointed by the other six board members. Elected and appointed board members serve for three-year terms.

All employees of the City are eligible for membership in SCERS with the exception of uniformed police and fire personnel who are covered under a retirement system administered by the State of Washington. Employees of the King County Departments of Transportation and Public Health who established membership in SCERS when these organizations were City departments were allowed to continue their SCERS membership.

Beginning with employees with hire dates of January 1, 2017 or later, all new members are enrolled in SCERS Plan II, which has contribution and benefit calculation rates different than the original SCERS I Plan.

Following is membership data for employees covered by the benefit terms as of the reporting date, December 31, 2017, and the measurement date, December 31, 2016 and the reporting date December 31, 2016, and the measurement date December 31, 2015:

	2017	2016
Active members	9,283	9,151
Retired members and beneficiaries receiving benefits	6,534	6,382
Vested terminated employees entitled to benefits	1,312	2,352



## THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

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**Summary of Significant Accounting Policies** – SCERS financial statements and schedules are presented using the economic resources measurement focus and the accrual basis of accounting. For purposes of measuring the net pension liability (NPL), deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of SCERS and additions to and deductions from SCERS fiduciary net position have been determined on the same basis as they are reported by SCERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value in accordance with GASB 72.

The NPL was measured as of December 31, 2016 and December 31, 2015, and the total pension liability used to calculate the NPL was based on an actuarial valuation as of January 1, 2016 and January 1, 2015, respectively.

**Pension Benefits** – Service retirement benefits are calculated on the basis of age, salary, and service credit.

**SCERS I** – Members are eligible for retirement benefits after 30 years of service, at age 52 after 20 years of service, at age 57 after 10 years of service, and at age 62 after 5 years of service. Annual retirement benefits are calculated as 2% multiplied by years of creditable service, multiplied by average salary, based on the highest 24 consecutive months, excluding overtime. Members who retire before meeting the age and/or years of service requirement receive a 0.1% reduction for each year that retirement precedes the date of eligibility. Retirement benefits vest after 5 years of credited service.

**SCERS II** – Members are eligible for retirement benefits at age 55 after 20 years of service, at age 57 after 10 years of service, and at age 60 after 5 years of service. Annual retirement benefits are calculated as 1.75% multiplied by years of creditable service, multiplied by average salary, based on the highest 60 consecutive months, excluding overtime. Members who retire before meeting the age and/or years of service requirement receive a 0.1% reduction for each year that retirement precedes the date of eligibility. Retirement benefits vest after 5 years of credited service.

**Disability Benefits** – An active member is eligible to receive disability benefits when: (a) member has achieved 10 years of credited service within the 15 years preceding disability retirement, or (b) the disability occurs in the course of City employment in which no service requirement exists. The amount of the disability benefit is the greater of (a) 1.5% times the final compensation times completed years of creditable service, or (b) 1.5% times final compensation total years of service that could have been earned to age 62, but not to exceed one-third of final compensation. Disability benefits vest after 10 years of credited service.

**Death Benefits** – Death benefits may be paid to a member's designated beneficiary. If a member's death occurs before retirement, the benefit options available are (a) payment to the beneficiary of accumulated contributions, including interest, or (b) if the member had completed 10 years of service at the time of death, a surviving spouse or registered domestic partner may elect to receive, in place of (a) above, either: (1) A monthly allowance for life equal to the benefit the spouse would have received had the member just retired with a 100% contingent annuitant option in force, or (2) A cash payment of no more than one-half of the member's accumulated contributions, along with a correspondingly reduced retirement allowance. If a member's death occurs after retirement, the death benefit received by the beneficiary (if any) is based on the retirement plan the member selected at retirement. Death benefits vest after 10 years of credited service.

# THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

## NOTES TO FINANCIAL STATEMENTS

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**Contributions** – Member and employer contributions rates are established by Seattle Municipal Code Chapter 4.436. The overall contribution rate is determined by the actuarial formula identified as the Entry Age Cost Method. Member contribution rates are also set via collective bargaining contracts. The overall formula determines the amount of contributions necessary to fund the current service cost, representing the estimated amount necessary to pay for benefits earned by the employees during the current service year and the amount of contributions necessary to pay for prior service costs. Total required contributions, including amounts necessary to pay administrative costs, are determined through annual actuarial valuations. Contribution rates and amounts were as follows as of the reporting dates, December 31, 2017 and December 31, 2016, and the measurement dates, December 31, 2016 and December 31, 2015:

	Contributions				
		Rates		Amounts	
		Employer	SCERS I Employee	SCERS II Employee	City
<b>2017</b>	15.29%	10.03%	7.00%	\$112.1	\$23.7
<b>2016</b>	15.29%	10.03%	N/A	\$108.5	\$25.3

**Net Pension Liability** –The Department reported a liability of \$288.8 million and \$317.8 million for its proportionate share of net pension liability as of December 31, 2017 and December 31, 2016, respectively. The Department’s proportion of the NPL as of December 31, 2017 and December 31, 2016 was based on contributions to SCERS during the fiscal year ended December 31, 2016 and December 31, 2015, respectively. The Department’s proportionate share percent was 22.13% and 24.46% for the years ended December 31, 2016 and December 31, 2015, respectively. The net pension liability was measured as of December 31, 2016 and December 31, 2015, and the total pension liability used to calculate the net pension liability was based on an actuarial valuation as of January 1, 2016 and January 1, 2015, respectively.

In April 2016, there was a transfer of 115 employees from Seattle City Light to the newly created Seattle Information Technology department. Employer pension contributions for transferred employees continued to be recognized as a Seattle City Light expense through December 31, 2016. This transfer affects Seattle City Light’s proportionate share of pension expense and net pension liability as of December 31, 2017 but did not affect the proportionate share or net pension liability as of December 31, 2016.

# THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

## NOTES TO FINANCIAL STATEMENTS

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	Changes in Net Pension Liability	
	(\$ In millions)	
	Fiscal Year Ended December 31	
	2017	2016
<u>Total Pension Liability</u>		
Service cost	\$ 23.6	\$ 24.5
Interest on total pension liability	59.3	62.3
Effect of economic/demographic gains or losses	(1.7)	0.5
Benefit payments	(37.4)	(39.0)
Refund of contributions	(3.7)	(3.9)
Net change in total pension liability	<u>40.1</u>	<u>44.4</u>
Total pension liability, beginning of period	883.5	841.5
Effect of change in proportionate share	(84.1)	(2.4)
Adjusted total pension liability, beginning of period	<u>799.4</u>	<u>839.1</u>
Total pension liability, end of period	<u>839.5</u>	<u>883.5</u>
<u>Plan fiduciary net position</u>		
Benefit payments	(37.4)	(39.0)
Refunds of contributions	(3.7)	(3.9)
Administrative expenses	(2.0)	(2.0)
Member contributions	15.9	16.1
Employer contributions	24.0	24.7
Net investment income	42.0	1.7
Net change in Plan fiduciary net position	<u>38.8</u>	<u>(2.4)</u>
Plan fiduciary net position, beginning of period	565.7	569.7
Effect of change in proportionate share	(53.8)	(1.6)
Adjusted fiduciary net position, beginning of period	<u>511.9</u>	<u>568.1</u>
Plan fiduciary net position, end of period	<u>550.7</u>	<u>565.7</u>
Net pension liability, end of period	<u>\$ 288.8</u>	<u>\$ 317.8</u>

The Department recognized pension expense of \$37.1 million and \$40.8 million for the years ended December 31, 2017, and 2016, respectively.

**Actuarial assumptions** – The total pension liability at December 31, 2017 and 2016, was based on actuarial valuations as of December 31, 2016 and 2015, respectively, using the following actuarial methods and assumptions:

Actuarial Cost Method	Individual Entry Age Normal
Amortization Method	
Level percent or level dollar	Level percent
Closed, open, or layered periods	Closed
Amortization Period and Start Date	30 years as of January 1, 2013 Valuation
Amortization Growth Rate	4.00%
Asset Valuation Method	

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## NOTES TO FINANCIAL STATEMENTS

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Smoothing period	5 years
Recognition method	Non-asymptotic
Corridor	None
Inflation	3.25%
Investment Rate of Return	7.50%
Post-retirement benefit increases	1.50%
Cost-of-living year-end bonus dividend	0.00%
Mortality	Various rates based on RP-2000 mortality tables and using generational projection of improvement using Projection Scale AA.

All other actuarial assumptions used in the December 31, 2016 valuation were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2013, including updates to salary increase, mortality and retirement rates.

**Discount Rate** – The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and the participating governmental entity contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods on projected benefit payment to determine the total pension liability.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and gross of administrative expenses) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The following table reflects long-term expected (30 year) real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. The expected inflation rate is projected at 3.25% for the same period.

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<b>Asset Category</b>	<b>Target Allocation</b>	<b>Geometric Expected Return</b>
Equity		
Public Equity	48.0%	4.99%
Private Equity	9.0%	6.25%
Fixed Income		
Broad Fixed Income	18.0%	0.62%
Credit Fixed Income	5.0%	3.79%
Real Assets		
Real Estate	12.0%	3.25%
Infrastructure	3.0%	2.75%
Diversifying Strategies	5.0%	3.25%

***Sensitivity of the Net Pension Liability to Changes in the Discount Rate*** –The following presents the Department’s proportionate share of the net pension liability of SCERS, calculated using a discount rate of 7.50%, as well as what the Department’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.50%) or 1 percentage point higher (8.50%):

**Discount Rate Sensitivity**

*(In millions)*

<u>Discount Rate</u>	<b>Net Pension Liability at December 31,</b>	
	<u>2017</u>	<u>2016</u>
1% decrease - 6.50%	\$ 390.9	\$ 425.6
Current discount Rate - 7.50%	288.8	317.8
1% increase - 8.50%	203.0	227.0

***Plan Fiduciary Net Position*** – Detailed information about the SCERS’s fiduciary net position is available in the separately issued, audited financial statements as of December 31, 2017, which are publicly available at <http://www.seattle.gov/retirement/about-us/board-of-administration>.

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*Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension* – The following table presents information about the pension-related deferred outflows of resources and deferred inflows of resources for the Department at December 31, 2017, and December 31, 2016:

	<u>2017</u>	<u>2016</u>
<u>Deferred outflows of resources</u>		
Differences between expected and actual experience	\$ 0.3	\$ 0.4
Net difference between projected and actual earnings	22.9	38.9
Contributions made subsequent to measurement date	23.7	25.3
Total deferred outflows of resources	<u>\$ 46.9</u>	<u>\$ 64.6</u>
<u>Deferred inflows of resources</u>		
Differences between expected and actual experience	\$ 1.4	\$ -
Differences between employer contributions and proportionate share of contributions	22.4	0.8
Total deferred inflows of resources	<u>\$ 23.8</u>	<u>\$ 0.8</u>

Department contributions made in 2017 in the amount of \$23.7 million are reported as deferred outflows of resources and will be recognized as a reduction of the net pension liability in the year ended December 31, 2018. These contributions along with the net difference between projected and actual earnings reported as deferred outflows of resources will be recognized as pension expense in the future as shown in the following table. Note that additional future deferred outflows and inflows of resources may impact these amounts.

Year Ending December 31 (\$ in millions)	Amortization
2018	\$ 3.3
2019	3.3
2020	1.4
2021	(6.0)
2022	(2.6)
Total	<u>\$ (0.6)</u>

# THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

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### 13. 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.

Employees retiring under the City may continue their health insurance coverage under the City's health insurance plans for active employees. When a retired participant dies, the spouse remains fully covered until age 65 and covered by the Medicare supplement plan thereafter. Employees that retire with disability retirement under the City may continue their health coverage through the City with same coverage provisions as other retirees. Eligible retirees self-pay 100 percent of the premium based on blended rates which were established by including the experience of retirees with the experience of active employees for underwriting purposes. The City provides an implicit subsidy of the post-retirement health insurance costs and funds the subsidy on a pay-as-you-go basis. The postemployment benefit provisions are established and may be amended by ordinance of the Seattle City Council and as provided in Seattle Municipal Code 4.50.020.

The City's expected contribution for employer-paid benefits was \$2.3 million and \$2.0 million in 2017 and 2016, respectively. The Department's portion of the expected contribution was \$0.3 million and \$0.3 million in years 2017 and 2016, respectively. The City recorded an expense and liability for OPEB of \$4.7 million in 2017 and \$4.7 million in 2016. The Department recorded an expense and increase in liability for OPEB of \$0.7 million in 2017, and a reduction to expense and a decrease in liability for OPEB of \$0.1 million in 2016. The department reported an OPEB liability of \$8.6M in 2017 and \$7.9M in 2016.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and on the pattern of sharing of costs between the employer and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future. Actuarial calculations reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Based on the latest biennial actuarial valuation date the significant methods and assumptions are as follows:

# THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

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### Actuarial data and assumptions

Valuation date	January 1, 2016
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Initial amortization period	30 years, open
Discount rate	3.09%
Health care cost trend rates—medical:	6.25% in 2017, decreasing to 6% in 2018, and decreasing by varying amounts until 2025 thereafter.
Participation	40% of Active Employees who retire participate
Mortality	General Service Actives and Retirees based on RP-2000 Table and RP-2000 Combined Healthy, respectively, with ages set back six years for male and female actives; set back two years for male retirees and one year for female retirees. Rates are generational for both males and females using Projection Scale AA.
Marital status	45% of members electing coverage: married or have a registered domestic partner. Male spouses two years older than their female spouses.
Health Care Claims Development	<p>The average medical/Rx per capita claims costs were developed from calendar year fully insured premium rates for Aetna plans or self-funded premium-equivalent rates for Group Health (acquired by Kaiser Permanente in 2017) plans. Premium or premium-equivalent rates were provided by the City of Seattle's health pricing actuary. The average medical/Rx per capita claims costs were trended to the mid-point of the annual period following the valuation date. Average medical/ Rx per capita claims costs were then age-adjusted based on the demographics of the population, and the assumed health care aging factors shown in the morbidity factors table below.</p> <p>For the Aetna plans only, the average medical/Rx per capita claims costs were blended with the average medical/Rx per capita claims costs developed from actual active claims experience and enrollment for the two-year period January 1, 2015 through December 31, 2016. Claims and enrollment information was provided by Aetna. Claims experience was adjusted for differences in plan design between the historical periods and the projection period using plan design relative values from Aon Hewitt's actuarial models. No adjustment was made for large claims. The average medical/Rx per capita claims costs from each respective historical base period were trended to the mid-point of the annual period following the measurement date. In order to improve the credibility of a single projection estimate, a combination of estimates from the distinct historical periods was used, placing 50% credibility on the most recent period and 50% on the next most recent.</p>
Morbidity Factors	



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The claim costs for medical and prescription drugs were assumed to increase with age according to the table below.

<b>Age</b>	<b>Medical</b>	<b>RX</b>	<b>Composite</b>
40-44	3.0%	4.8%	3.3%
45-49	3.7%	4.7%	3.8%
50-54	4.2%	4.7%	4.3%
55-59	4.4%	4.6%	4.4%
60-64	3.7%	4.6%	3.8%
65-69	2.7%	3.8%	3.1%
70-74	1.8%	2.5%	2.1%
75-79	2.2%	0.8%	1.4%
80-84	2.8%	0.2%	1.3%
85-89	1.4%	0.1%	0.6%
90+	0.0%	0.0%	0.0%

Other considerations

Active employees with current spouse and/or dependent coverage elect same plan and coverage. After retirement, it is assumed that children will have aged off of coverage and will have \$0 liability.

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Based on the actuarial valuation date of January 1, 2017, the City's annual cost for fiscal years ended December 31, 2017 and 2016, the amount of expected contribution to the plan, and changes in net obligation are as follows:

(\$ in millions)	2017	2016
Annual required contribution	\$ 8.1	\$ 7.7
Interest on net OPEB obligation	1.7	1.5
Adjustment to annual required contribution	(2.8)	(2.5)
Annual OPEB cost (expense)	7.0	6.7
Expected contribution (employer-paid benefits)	(2.3)	(2.0)
Increase in net OPEB obligation	4.7	4.7
Net OPEB obligation - beginning of the year	54.1	49.4
Net OPEB obligation - end of year	<u>\$ 58.8</u>	<u>\$ 54.1</u>

The schedules of funding progress (\$ in millions) (unaudited) are as follows:

Actuarial Valuation Date January 1	Actuarial Value of Assets (A)	Actuarial Accrued Liabilities (AAL) Entry Age (B)	Unfunded AAL (UAAL) (B-A)	Funding Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
2012	\$ -	\$ 74.7	\$ 74.7	- %	\$ 891.6	8.4 %
2014	-	41.8	41.8	-	1,004.0	4.2
2016	-	65.7	65.7	-	1,125.7	5.8

The Health Care Subfund of the General Fund is reported in The City of Seattle's Comprehensive Annual Financial Report.

### 14. ENVIRONMENTAL LIABILITIES

Environmental liabilities were \$92.7 million and \$86.7 million, at December 31, 2017, and 2016, respectively.

The following is a brief description of the significant Superfund sites:

- The Harbor Island Superfund Site*—In 1983, the U.S. Environmental Protection Agency (EPA) designated this site as a federal Superfund site. The Department and other entities are sharing costs equally for investigating contamination in the East Waterway alongside Harbor Island. The City share is split between the Department 45% and Seattle Public Utilities (SPU) 55%. The Department's involvement stems from its sale of transformers to a company on Harbor Island. The City of Seattle is one of four parties who are conducting a remedial investigation and feasibility study that will delineate cleanup actions. A draft final feasibility study was submitted to EPA in October 2016. Nine alternative actions were presented with costs ranging from \$256.0 million to \$411.0 million with an estimated time to complete construction on active cleanup components ranging from 9 to 13 years. EPA however, has not identified the cleanup construction timing and cost estimate at this time. The project manager has estimated that total remediation liability may be up to \$300.0 million, of which \$100.0 million is the City share. The Department recorded its share of the estimated liability of \$45.0 million

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in October 2016 in accordance with GASB Statement No. 49. The Feasibility Study (FS) was completed in 2017. EPA is expected to issue a Proposed Plan in late 2018 followed by a Cleanup Action Plan. The Department's ultimate liability is indeterminate.

- *The Lower Duwamish Waterway Superfund Site*—In 2001, the EPA designated this site as a federal Superfund site for contaminated sediments. The Department's involvement is attributable to its land ownership or use of property along the river. The City of Seattle is one of four parties who signed an Administrative Order on Consent (AOC) with the EPA and Washington State Department of Ecology (DOE) to conduct a remedial investigation and feasibility study to prepare a site remedy. The EPA approved the feasibility study in November 2012. In February 2013, the EPA issued the Proposed Plan for cleanup of the Lower Duwamish Waterway. In December 2014, the EPA issued its final Record of Decision (ROD) indicating its preferred alternative clean-up with an estimated cost of \$342.0 million. There have been three amendments to the (AOC). The first amendment required Lower Duwamish Waterway Group (LDWG) to complete the Fisher Study which was completed in 2016; the second amendment required the completion of carbon study which was constructed in the first quarter of 2017 and will continue through 2020; and the third amendment which required additional pre-design activities. The workplan for pre-design work was approved by EPA in August 2017 and is expected to continue through 2020. The extent and cost of additional investigation work required prior to implementation of remedy is still unknown. The Department's ultimate liability is indeterminate.

In November 2012, the EPA issued general notification letters to parties informing them of their potential liability for the Lower Duwamish Waterway cleanup. The City and other three parties who signed the AOC with the EPA agreed to invite some of those parties to participate in an alternative dispute resolution process (the "allocation process") to resolve their respective shares of past and future costs. There are 44 parties participating in allocation. The City hired an allocator and the allocation process officially began in April 2014. The Department agreed to administer the allocator's contract, estimated to cost about \$4.0 million over a four-year period. Parties participating in the allocation process will share the cost of the allocator and the process.

The City is also responsible for investigation and cleanup at the Port of Seattle Terminal 117 Streets, Uplands and Sediments sites. The South Park street is not owned by the Department, but the City has jurisdiction over the streets and right-of-ways. Remediation activities for streets was completed in August 2016. The City's share for the uplands and sediments site is paid 100% by the Department. The City's share for the adjacent streets is split between the Department and SPU according to a Memorandum of Agreement (MOA) signed in August 2014. According to this MOA, SPU will pay 2.5% for some portions of the construction and up to 100% for other parts of the cleanup and restoration. The final construction closeout and project closeout with EPA has extended into 2018. The Port is currently negotiating with EPA and DOE regarding Stormwater management on the Upland site. This negotiation has the potential to prolong the completion of the upland and sediment portion of the site.

- *South Park Marina*—The Washington Department of Ecology has notified the City that it is a Potentially Liable Party for contamination at South Park Marina, which is adjacent to Terminal 117. The Department is the lead for the City at this site. Negotiations with the property owner and with Washington State Department of Ecology is underway. The Department's ultimate liability is indeterminate.
- *North Boeing Field/Georgetown Steam Plant*—The City, King County, and Boeing signed an Administrative Order issued by the Washington State Department of Ecology (Ecology) requiring

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them to investigate and possibly remove contamination in an area that encompasses North Boeing Field, the Department's Georgetown Steam Plant, and the King County Airport. This site was also the subject of the lawsuit brought by the City against Boeing. Boeing agreed to pay 67% of the costs for Ecology's implementation of the current order. The order requires completion and then implementation of a remedial investigation and feasibility. The final Remedial Investigation (RI) work plan was issued in November 2013. In January 2015, all parties executed the First Amendment to the North Boeing Field/Georgetown Steam Plant Agreed Order, making the PRPs responsible for conducting and completing remedial action at the site. The City is responsible for 1/3 of the costs, with the Department's share at 90% and SPU's share at 10%. The draft RI was submitted in June 2016. DOE provided comments on the draft report on August 2016. The revised draft RI will be submitted to DOE in 2018. Total estimated costs for the current order are \$6.0 million. Costs to date are approximately \$6.8 million with an additional \$383K projected through completion of the FS. Boeing and the City will each pay 100% of costs for remedial action at their own facilities. The final liability is indeterminate.

The Department has included in its estimated liability those portions of the environmental remediation work that are currently deemed to be reasonably estimable. Cost estimates were developed using the expected cash flow technique in accordance with GASB Statement No. 49. Estimated outlays were based on current cost and no adjustments were made for discounting or inflation. Cost scenarios were developed that defined a particular solution for a given site. Scenarios considered relevant potential requirements and alternatives for remediation of a site. Costs were calculated on a weighted average that was based on the probabilities of each scenario being selected and reflected cost-sharing agreements in effect. In addition, certain estimates were derived from independent engineers and consultants. The estimates were made with the latest information available; as new information becomes available, estimates may vary significantly due to price increases or reductions, technology, or applicable laws or regulations.

The Department is aggressively pursuing other third parties that may have contributed to the contamination of superfund sites for appropriate cost sharing. The Department's estimate for realized recoveries was \$3.8 million and \$3.0 million at December 31, 2017, and 2016, respectively, primarily representing an interfund receivable from SPU for recovery of remediation costs incurred related to the lower Duwamish Waterway site. The Department's estimate for not yet realized recoveries from other parties for their share of remediation work performed that partially offset the Department's estimated environmental liabilities was zero at December 31, 2017, and 2016. As of December 31, 2017, and 2016, environmental costs of \$93.1 million and \$83.1 million were deferred primarily for cleanup estimates of the Department's responsibility for the Lower Duwamish Waterway and East Waterway Superfund Sites; and these costs will be recovered through future rates in accordance with GASB Statement No. 62.

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The changes in the provision for environmental liabilities at December 31, 2017, and 2016 are as follows:

<i>(\$ in millions)</i>	<b>2017</b>	<b>2016</b>
Beginning environmental liability, net of recoveries	\$ 86.7	\$ 45.9
Payments	(5.0)	(10.0)
Incurred environmental liability	<u>11.0</u>	<u>50.8</u>
Ending environmental liability, net of recoveries	<u>\$ 92.7</u>	<u>\$ 86.7</u>

The provision for environmental liabilities included in current and noncurrent liabilities at December 31, 2017 and 2016, is as follows:

<i>(\$ in millions)</i>	<b>2017</b>	<b>2016</b>
Noncurrent liabilities	\$ 85.8	\$ 82.0
Accounts payable and other current liabilities	<u>6.9</u>	<u>4.7</u>
Ending liability	<u>\$ 92.7</u>	<u>\$ 86.7</u>

### 15. OTHER LIABILITIES

Other liabilities include unearned capital fees which are amortized to revenues as earned, deposits that are returned to customers, and certain other unearned revenues which expire at contract completion.

Other liabilities at December 31, 2017 and 2016 consisted of the following:

<i>(\$ in millions)</i>	<b>2017</b>	<b>2016</b>
Other liabilities:		
Unearned capital fees	\$ 27.8	\$ 30.2
Customer deposits—sundry sales	7.9	6.4
Unearned operations and maintenance revenues	0.2	0.2
Unearned revenues—other	<u>0.4</u>	<u>0.4</u>
Total	<u>\$ 36.3</u>	<u>\$ 37.2</u>

### 16. DEFERRED INFLOWS OF RESOURCES

Seattle City Council passed resolutions authorizing the reporting of certain credits as regulatory liabilities in accordance with Statement No. 62 of the GASB, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB & AICPA Pronouncements*.

The unearned revenue for the Rate Stabilization Account for 2017 and 2016 is the result of spreading retail electric revenues and related activity over multiple periods to reduce the need for rapid and substantial rate

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increases (see Note 3 Rate Stabilization Account). Payments received from Bonneville's Energy Conservation Agreement are amortized to revenues over 20 years.

Recognized as deferred inflows of resources are decreases in Net Pension Liability resulting from changes in employer proportion and differences between contributions and proportionate share of pension expense, which are amortized over a closed five-year period. See Note 12 Seattle City Employees' Retirement System for more information.

Bonneville Slice contract true-up credits are reported as regulatory liabilities in the year invoiced and recognized as revenue in the following year. Seattle City Council affirmed the Department's practice of recognizing the effects of reporting the fair value of exchange contracts in future periods for rate making purposes and maintaining regulatory accounts to spread the accounting impact of these accounting adjustments, in Resolution No. 30942 adopted January 16, 2007 (see Note 18 Long-Term Purchased Power, Exchanges, and Transmission).

Deferred inflows of resources at December 31, 2017 and 2016 consisted of the following:

<i>(\$ in millions)</i>	<b>2017</b>	<b>2016</b>
Deferred inflows of resources:		
Unearned revenue—rate stabilization account	\$ 68.4	\$ 66.1
Changes in Net Pension Liability - changes in employer proportion and differences between contributions and proportionate share of pension expense	23.8	0.8
Bonneville energy conservation agreement	29.3	25.7
Bonneville Slice true-up credit	1.4	0.4
Exchange energy: regulatory gain	<u>0.7</u>	<u>1.2</u>
Total	<u>\$ 123.6</u>	<u>\$ 94.2</u>

### 17. SHORT-TERM ENERGY CONTRACTS AND DERIVATIVE INSTRUMENTS

The Department engages in an ongoing process of resource optimization, which involves the economic selection from available energy resources to serve the Department's load obligations and using these resources to capture available economic value. The Department makes frequent projections of electric loads at various points in time based on, among other things, estimates of factors such as customer usage and weather, as well as historical data and contract terms. The Department also makes recurring projections of resource availability at these points in time based on variables such as estimates of stream flows, availability of generating units, historic and forward market information, contract terms, and experience. Based on these projections, the Department purchases and sells wholesale electric capacity and energy to match expected resources to expected electric load requirements, and to realize earnings from surplus energy resources. These transactions can be up to 24 months forward. Under these forward contracts, the Department commits to purchase or sell a specified amount of energy at a specified time, or during a specified time in the future. Except for limited intraday and interday trading to take advantage of owned hydro storage, the Department does not take market positions in anticipation of generating profit. Energy transactions in response to forecasted seasonal resource and demand variations require approval by the Department's Risk Oversight Council.

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It is the Department's policy to apply the normal purchase and normal sales exception of Statement No. 53 of the GASB, *Accounting and Financial Reporting for Derivative Instruments*, as appropriate. Certain forward purchase and sale of electricity contracts meet the definition of a derivative instrument but are intended to result in the purchase or sale of electricity delivered and used in the normal course of operations. Accordingly, the Department considers these forward contracts as normal purchases and normal sales under GASB Statement No. 53. These transactions are not required to be recorded at fair value in the financial statements.

The undiscounted aggregate contract amounts, fair value, and unrealized gain or (loss) of the Department's commodity derivative instruments qualifying as normal purchases and normal sales at December 31, 2017 and 2016 consisted of the following:

(\$ in millions)

	Aggregate Contract Amount	Aggregate Fair Value	Unrealized Gain (Loss)
<b>2017</b>			
Sales	\$ 20.0	\$ 19.1	\$ 0.9
Purchases	3.3	3.1	(0.2)
Total	<u>\$ 23.3</u>	<u>\$ 22.2</u>	<u>\$ 0.7</u>
<b>2016</b>			
Sales	\$ 23.3	\$ 26.6	\$ (3.3)
Purchases	2.2	2.4	0.2
Total	<u>\$ 25.5</u>	<u>\$ 29.0</u>	<u>\$ (3.1)</u>

All derivative instruments not considered as normal purchases and normal sales are to be recorded within the financial statements using derivative accounting according to GASB Statement No. 53. In 2010, the Seattle City Council adopted a resolution granting the Department authority to enter into certain physical put and call options that would not be considered normal purchases and normal sales under GASB Statement No. 53. The Department did not have any such activity for 2017 and 2016. In addition, the Seattle City Council has deferred recognition of the effects of reporting the fair value of derivative financial instruments for rate-making purposes, and the Department maintains regulatory accounts to defer the accounting impact of these accounting adjustments in accordance with GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* (see Note 7 Other Assets and Note 16 Deferred Inflows of Resources).

**Market Risk**—Market risk is, in general, the risk of fluctuation in the market price of the commodity being traded and is influenced primarily by supply and demand. Market risk includes the fluctuation in the market price of associated derivative commodity instruments. Market risk may also be influenced by the number of active, creditworthy market participants, and to the extent that nonperformance by market participants of their contractual obligations and commitments affects the supply of, or demand for, the commodity. Because the Department is active in the wholesale energy market, it is subject to market risk.

**Credit Risk**—Credit risk relates to the potential losses that the Department would incur as a result of nonperformance by counterparties of their contractual obligations to deliver energy or make financial

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settlements. Changes in market prices may dramatically alter the size of credit risk with counterparties, even when conservative credit limits are established. The Department seeks to mitigate credit risk by: entering into bilateral contracts that specify credit terms and protections against default; applying credit limits and duration criteria to existing and prospective counterparties; and actively monitoring current credit exposures. The Department also seeks assurances of performance through collateral requirements in the form of letters of credit, parent company guarantees, or prepayment.

The Department has concentrations of suppliers and customers in the electric industry including: electric utilities; electric generators and transmission providers; financial institutions; and energy marketing and trading companies. In addition, the Department has concentrations of credit risk related to geographic location as it operates in the western United States. These concentrations of counterparties and concentrations of geographic location may impact the Department's overall exposure to credit risk, either positively or negatively, because the counterparties may be similarly affected by changes in conditions.

**Other Operational and Event Risk**—There are other operational and event risks that can affect the supply of the commodity, and the Department's operations. Due to the Department's primary reliance on hydroelectric generation, the weather, including spring time snow melt, runoff, and rainfall, can significantly affect the Department's operations. Other risks include regional planned and unplanned generation outages, transmission constraints or disruptions, environmental regulations that influence the availability of generation resources, and overall economic trends.

### 18. LONG-TERM PURCHASED POWER, EXCHANGES, AND TRANSMISSION

**Bonneville Power Administration**—The Department purchases electric energy from the U.S. Department of Energy, Bonneville Power Administration (Bonneville) under the Block and Slice Power Sales Agreement, a 17-year contract, for the period October 1, 2011 through September 30, 2028. Effective October 1, 2017 there was an amendment to the agreement whereby the Department no longer participates as a Slice customer and will now exclusively purchase Block. Block quantities are expected to be recalculated periodically during the term of the contract. Rates will be developed and finalized every two years. Accordingly, certain estimates and assumptions were used in the calculations in the estimated future payments table below.

The terms of the Slice product specify that the Department will receive a percentage of the actual output of the Federal Columbia River Power System (the System). The percentage is adjusted annually with a Slice Adjustment Ratio no greater than 1.0 times the 3.65663 initial slice percentage, no later than 15 days prior to the first day of each federal fiscal year, beginning with fiscal year 2012. The current 2017 Slice percentage is 3.62643%, the same as the previous fiscal year. The cost of Slice power is based on the Department's same percentage of the expected costs of the System and is subject to true-up adjustments based on actual costs with specified exceptions.

Bonneville's Residential Exchange Program (REP) was established as a mechanism to distribute financial benefits of the Federal Columbia River Power System to residential customers of the region's investor owned utilities (IOUs). In May 2007, the Ninth Circuit Court (the Court) rulings found the 2000 REP Settlement Agreements with IOUs inconsistent with the Northwest Power Act. To remedy this inconsistency, the Court ruled that refunds be issued to non-IOUs through 2019. The Department received \$5.7 million in both 2017 and 2016 in billing credits related to both the Block and Slice agreements as a result of the Court decision.



## THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

### NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

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**Lucky Peak**—In 1984, the Department entered into a purchase power agreement with four irrigation districts to acquire 100% of the net surplus output of a hydroelectric facility that began commercial operation in 1988 at the existing Army Corps of Engineers Lucky Peak Dam on the Boise River near Boise, Idaho. The irrigation districts are owners and license holders of the project, and the FERC license expires in 2030. The agreement, which expires in 2038, obligates the Department to pay all ownership and operating costs, including debt service, over the term of the contract, whether or not the plant is operating or operable.

The Department incurred \$9.3 million and \$6.9 million in 2017 and 2016, respectively, including operations costs and royalty payments to the irrigation districts. The Department provided and billed Lucky Peak \$0.3 million for operational and administrative services in both 2017 and 2016. These amounts are recorded as offsets to purchased power expense.

The Department's receivables from Lucky Peak were less than \$0.1 million at December 31, 2017, and 2016, respectively. The Department's payables to Lucky Peak were \$0.8 million and \$0.1 million at December 31, 2017, and 2016, respectively.

**British Columbia—High Ross Agreement**—In 1984, an agreement was reached between the Province of British Columbia and the City under which British Columbia will provide the Department with energy equivalent to that which would have resulted from an addition to the height of Ross Dam. Delivery of this energy began in 1986 and is to be received for 80 years. In addition to the direct costs of energy under the agreement, the Department incurred costs of approximately \$8.0 million in prior years related to the proposed addition and was obligated to help fund the Skagit Environmental Endowment Commission through four annual \$1.0 million payments. These other costs are included in utility plant-in-service as an intangible asset and are being amortized to purchase power expense over 35 years through 2035 (see Note 3 Utility Plant).

# THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

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Expenses incurred, and energy received under these and other long-term purchased power agreements at December 31, 2017 and 2016 were as follows:

(\$ in millions)	Expense		Average Megawatts	
	2017	2016	2017	2016
Bonneville Block	\$ 103.8	\$ 80.0	347.7	264.7
Bonneville Slice	64.3	80.7	278.2	320.3
Long-term purchase power-Bonneville	168.1	160.7	625.9	585.0
Lucky Peak	9.3	6.9	52.9	38.8
British Columbia - High Ross Agreement	13.4	13.4	35.8	35.1
Grant County Public Utility District	1.9	2.3	2.8	2.9
Columbia Basin Hydropower	6.8	6.2	26.1	28.9
Bonneville South Fork Tolt billing credit	(3.3)	(3.3)	-	-
Renewable energy - State Line Wind	22.1	24.8	37.7	42.5
Renewable energy - Other	7.7	8.7	13.5	15.4
Exchanges and loss returns energy at fair value	3.7	5.5	50.1	56.0
Long-term purchased power booked out	(4.9)	(5.4)	(28.9)	(32.7)
Long-term purchase power-other	56.7	59.1	190.0	186.9
Total	\$ 224.8	\$ 219.8	815.9	771.9

**Renewable Energy Purchase and/or Exchanges**—The Energy Independence Act, Chapter 19.285 Revised Code of Washington, requires all qualifying utilities in Washington State to meet certain annual targets of eligible new renewable resources and/or equivalent renewable energy credits (RECs) as a percentage of total energy delivered to retail customers. The annual targets are: at least 9% by 2016, and at least 15% by 2020. The Department’s 2017 and 2016 resource portfolio is adequate to meet the 9% target.

**Energy Exchange**—Northern California Power Agency (NCPA) and the Department executed a long-term Capacity and Energy Exchange Agreement in March 1993. The Department delivers energy to NCPA from June through October 15. NCPA returns energy under conditions specified in the contract at a 1.2:1 ratio of exchange power, from November through April. The agreement includes financial settlement and termination options. In a letter NCPA dated May 17, 2011, NCPA gave seven year’s advance written notice to the Department terminating the agreement effective no later than May 31, 2018.

**Fair Value of Exchange Energy**—Exchange energy receivable and the related regulatory gains at December 31, 2017 and 2016, were valued using Kiindex Forward Curves, and Dow Jones U.S. Daily Electricity Price Indices for settled deliveries. An income valuation technique that uses interest rate forecasts from HIS Global Insight is used to discount for present value based on the interest rate for U.S. Government Treasury constant maturities, bond-equivalent yields by the future month of the transactions (see Note 2 Fair Value Measurement and Note 16 Deferred Inflows of Resources).

# THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

## NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

*Estimated Future Payments Under Purchased Power, Transmission and Related Contracts*—The Department’s estimated payments for purchased power and transmission, RECs, and other contracts for the period from 2018 through 2065, undiscounted, are as follows:

Years Ending December 31 (\$ in millions)	Estimated Payments
2018 <sup>(a)</sup>	\$ 282.0
2019 <sup>(a)</sup>	290.7
2020 <sup>(b)</sup>	304.7
2021	287.6
2022	281.5
2023-2027 <sup>(c)</sup>	1,317.8
2028-2032 <sup>(d)</sup>	262.7
Thereafter (through 2065)	<u>142.1</u>
Total	<u>\$ 3,169.1</u>

<sup>(a)</sup> 2018 to 2019 includes estimated REP recoveries from Bonneville.

<sup>(b)</sup> British Columbia - High Ross direct cost payments end in 2020.

<sup>(c)</sup> Bonneville transmission contract expires July 31, 2025.

<sup>(d)</sup> Bonneville Block and Slice contract expires Sept 30, 2028.

## 19. COMMITMENTS AND CONTINGENCIES

*Operating Leases*—While the Department owns several buildings including those at the Skagit and Boundary hydroelectric projects, service centers, and the System Control Center, the Department leases some administrative office space from the City. Such lease payments to the City are made through a central cost allocation process, similar to all other payments for tenancy of City property. These payments are not included in the operating leases table below. The Department also leases certain office equipment and smaller facilities for various purposes through long-term operating lease agreements. Expenses for all operating leases totaled \$1.9 million in 2017 and \$1.7 million in 2016.

Minimum payments under the operating leases are:

Year Ending December 31 (\$ in millions)	Minimum Payments
2018	\$ 1.6
2019	1.5
2020	<u>-</u>
Total	<u>\$ 3.1</u>

*2018 Capital Program*—The budget for the Department’s 2018 program for capital improvement, conservation, and deferred operations and maintenance including required expenditures on assets owned by others is \$439.9 million. At December 31, 2017, the Department had approximately \$157.9 million in

# THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

## NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

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commitments relating thereto. Department overhead costs and other allocations associated with the capital program are not included in the budget amount.

**2018 Operations and Maintenance Budget**—The Department’s 2018 Operating and Maintenance budget is \$971.6 million for labor and related benefits, purchased power, outside services, supplies, taxes, injuries and damages, interest, debt-related costs, maintenance of Department assets, and other non-capital expenditures incurred in the normal course of operations.

**Federal Energy Regulatory Commission Fees**—Estimated Federal land use and administrative fees related to hydroelectric licenses total \$157.0 million through 2055; these estimates are subject to change. The estimated portion of fees attributed to the Skagit and Tolt licenses are excluded after 2025, when their existing FERC licenses expire. The estimated portion of Boundary fees is included through 2055, the year the current license issued by FERC expires. The Boundary FERC license and related issues are discussed below.

**New Boundary License**—The Department’s FERC license for the Boundary Project expired on September 30, 2011 and a new license was issued on March 20, 2013 with a 42-year life and a total cost of \$48.6 million. The terms and conditions of the new license have been evaluated and the Department is in the license implementation process, which imposes mitigation of endangered species including water quality standards and conservation management.

As part of the application process, the Department negotiated a settlement with external parties such as owners of other hydroelectric projects, Indian tribes, conservation groups and other government agencies. The settlement sought to preserve the Department’s operational flexibility at Boundary Dam while providing for natural resource protection, mitigation and enhancement measures.

The cost projections for such mitigation over the expected 42-year life of the license, included in the Department’s license application, were estimated to be \$379.9 million adjusted to 2017 dollars, of which \$59.2 million were expended through 2017. Projected mitigation cost estimates are subject to revision as more information becomes available.

**Skagit and South Fork Tolt Licensing Mitigation and Compliance**—In 1995, the FERC issued a license for operation of the Skagit hydroelectric facilities through April 30, 2025. On July 20, 1989, the FERC license for operation of the South Fork Tolt hydroelectric facilities through July 19, 2029, became effective. As a condition for both licenses, the Department has taken and will continue to take required mitigating and compliance measures.

Total Skagit license mitigation costs from the effective date until expiration of the federal operating license were estimated at December 31, 2017, to be \$136.3 million, of which \$122.1 million had been expended. Total South Fork Tolt license mitigation costs were estimated at \$1.9 million, of which \$1.3 million were expended through 2017. In addition to the costs listed for South Fork Tolt mitigation, the license and associated settlement agreements required certain other actions related to wildlife studies and wetland mitigation for which no set dollar amount was listed. Requirements for these actions have been met, and no further expenditures need to be incurred for these items.

Capital improvement, other deferred costs, and operations and maintenance costs are included in the estimates related to the settlement agreements for both licenses. Amounts estimated are adjusted to 2017 dollars. Department labor and other overhead costs associated with the activities required by the settlement agreements for the licenses are not included in the estimates.

## THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

### NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

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Hydroelectric projects must satisfy the requirements of the Endangered Species Act (ESA) and the Clean Water Act in order to obtain a FERC license. ESA and related issues are discussed below.

***Endangered Species*** – Several fish species that inhabit waters where hydroelectric projects are owned by the Department, or where the Department purchases power, have been listed under the ESA as threatened or endangered. Although the species were listed after FERC licenses were issued for all of the Department’s hydroelectric projects, the ESA listings still affect operations of the Department’s Boundary, Skagit, Tolt, and Cedar Falls hydroelectric projects.

Federal Regulations in response to the listing of species affect flow in the entire Columbia River system. As a result of these regulations, the Department’s power generation at its Boundary Project is reduced in the fall and winter when the region experiences its highest sustained energy demand. The Boundary Project’s firm capability is also reduced.

The Department, with the support of City Council, elected to take a proactive approach to address issues identified within the ESA. The Department is carrying out an ESA Early Action program in cooperation with agencies, tribes, local governments, and watershed groups for bull trout, Chinook salmon, and steelhead in the South Fork Tolt and Skagit Watersheds. The ESA Early Action program is authorized by City Council but is separate from any current FERC license requirements. The program includes habitat acquisition, management and restoration. The ESA Early Action has been successful in protecting listed species. Total costs for the Department’s share of the Early Action program from inception in 1999 through December 31, 2017, are estimated to be \$13.2 million, and \$1.1 million has been allocated for the program in the 2018 budget.

***Project Impact Payments***—Effective August 2010, the Department renewed its contract with Pend Oreille County and committed to pay a total of \$19.0 million over 10 years ending in 2019 to Pend Oreille County for impacts on county governments from the operations of the Department’s hydroelectric projects. Effective February 2009, the Department renewed its contract with Whatcom County committing to pay a total of \$15.8 million over 15 years ending in 2023. The payments compensate the counties, and certain school districts and towns located in these counties, for loss of revenues and additional financial burdens associated with the projects. The Boundary Project, located on the Pend Oreille River, affects Pend Oreille County, and Skagit River hydroelectric projects affect Whatcom County. The impact payments totaled \$1.8 million and \$1.7 million to Pend Oreille County, and \$1.1 million to Whatcom County in 2017 and 2016.

***Gamble v. City*** – A Department employee contends that the Department has failed properly to accommodate her disability. An adverse result in litigation could result in awards of back pay, compensatory damages, and attorneys’ fees. Trial concluded in April 2017, with a verdict in favor of the Department. The plaintiff has appealed to the Washington Court of Appeals. The Department’s ultimate liability is indeterminate.

***Central Puget Sound Regional Transit Authority Condemnation Cases***— The Department is a defendant in a series of condemnation actions by the Central Puget Sound Regional Transit Authority (“Sound Transit”). Sound Transit is working in concert with the City of Bellevue on multiple transportation projects which negatively affect the Department’s East Side Lines transmission corridor, which is a 100 plus mile corridor between 150’-160’ wide that runs contiguously from Maple Valley to the Department’s Skagit Project in Skagit and Whatcom Counties. There are currently five condemnation actions for the specific area along 124<sup>th</sup> Street in Bellevue. The Department has contested Sound Transit’s ability to condemn publicly owned property, but in each of the five condemnation actions, the trial courts determined that Sound Transit had

# THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

## NOTES TO FINANCIAL STATEMENTS

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demonstrated public use and necessity over portions of the Department's easement area. All of those decisions are on appeal, and the Washington Supreme Court has granted direct review of the first trial court's order denying the Department's motion for summary judgment. Three of the four remaining actions have been consolidated for review by the Supreme Court. The Department has also sought direct review by the Washington Supreme Court in the fifth action, but briefing is not yet complete. The Washington Supreme Court heard oral argument on March 15, 2018 on the four consolidated cases. A decision is expected within the next 60 to 180 days. In the event the appeal is unsuccessful, the value of the land sought to be condemned by Sound Transit from the Department is significant, but indeterminate.

***Tao v. City*** – A Department employee alleges that she is a victim of discrimination on the basis of race, gender, and age. Employee also alleges that she has been retaliated against for engaging in protected activities opposing discrimination. Employees asserts that the Department failed to promote her and created a hostile work environment through, *inter alia*, investigating allegations of misconduct. An adverse result could include awards of back pay, compensatory damages, and attorneys' fees. The Department's ultimate liability is indeterminate.

***Deformation Mitigation in N. Thomas Street*** -- The Department is moving five 13.8 kV and 26kV feeders in Thomas Street at 6<sup>th</sup> Avenue to protect them for deformation caused by the tunneling activities, including the work necessary to extract the tunnel boring machine cutter head when it reaches the North Portal. The Department anticipates that the total costs for this work is estimated at \$3.1 million. The Department has requested that the Washington State Department of Transportation (WSDOT) reimburse it for those costs and has sent a proposed task order for that purpose, but, to date, WSDOT has not agreed to reimburse City Light. City Light's ultimate recovery amount is unknown.

***Other Contingencies***—In addition to those noted above, in the normal course of business, the Department has various other legal claims and contingent matters outstanding. The Department believes that any ultimate liability arising from these actions will not have a material adverse impact on the Department's financial position, operations, or cash flows.

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# THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

## REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

### SCERS

The Department's schedule of the employer's proportionate share of the net pension liability for the years ended December 31 (dollar amounts in millions):

	<b>2017</b>	<b>2016</b>	<b>2015</b>
Employer's proportion of the net pension liability	22.13%	24.46%	24.53%
Employer's proportionate share of total pension liability	\$ 839.5	\$ 883.5	\$ 841.5
Employer's proportionate share of plan fiduciary net position	\$ 550.7	\$ 565.7	\$ 569.7
Employer's proportionate share of the net pension liability	\$ 288.8	\$ 317.8	\$ 271.8
Employer's covered-employee payroll	\$ 156.5	\$ 157.0	\$ 152.3
Employer's proportionate share of net pension liability as a percentage of its covered-employee payroll	184.49%	202.44%	178.48%
Plan fiduciary net position as a percentage of the total pension liability	65.60%	64.03%	67.70%

Note:

This schedule is intended to show information for 10 years. Since 2015 was the first year of this presentation, data on years preceding 2015 are not available. Additional years' data will be included as they become available.

The Department's proportionate schedule of employer's contributions (dollar amounts in millions):

	<b>2017</b>	<b>2016</b>	<b>2015</b>
Contractually required contribution	\$ 23.7	\$ 25.3	\$ 24.9
Contributions in relation to contractually required contribution	23.7	25.3	24.9
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 153.6	\$ 164.0	\$ 165.0
Contributions as a percentage of covered-employee payroll	15.43%	15.43%	15.09%

Note:

This schedule is intended to show information for 10 years. Since 2015 was the first year of this presentation, data on years preceding 2015 are not available. Additional years' data will be included as they become available.

# THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

## REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

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### SCHEDULES OF FUNDING PROGRESS

The Department's schedule of funding progress for the other post-employment benefit healthcare plans is presented below for the most recent actuarial valuation and the two preceding valuations for which the Department has available data (dollar amounts in millions):

<b>Actuarial Valuation Date January 1</b>	<b>Actuarial Value of Assets (A)</b>	<b>Actuarial Liabilities (AAL) Entry Age (B)</b>	<b>Unfunded AAL (UAAL) (B-A)</b>	<b>Funding Ratio (A/B)</b>	<b>Covered Payroll (C)</b>	<b>UAAL as a Percentage of Covered Payroll ((B-A)/C)</b>
2012	\$ -	\$ 74.7	\$ 74.7	- %	\$ 891.6	8.4 %
2014	-	41.8	41.8	-	1,004.0	4.2
2016	-	65.7	65.7	-	1,125.7	5.8



# THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

## OTHER INFORMATION (UNAUDITED)

### DEBT SERVICE COVERAGE

Following is a table that provides information for the Department's debt service coverage for years 2017, 2016, and 2015. The target level for debt service coverage was 1.8x on all bonds for 2017, 2016 and 2015 in accordance with current financial policies (which include a Rate Stabilization Account that will result in greater compliance of actual debt service coverage with the policy-specified level).

(\$ in millions)

#### Debt Service Coverage

	December 31		
	2017	2016	2015
OPERATING REVENUES:			
Retail power revenues	\$ 875.2	\$ 788.0	\$ 736.6
Short-term wholesale power revenues	60.9	62.9	61.2
Other power-related revenues (a)(b)(c)	35.8	32.6	36.8
Transfers from/(to) rate stabilization account (d)	(2.3)	(0.1)	23.4
Other operating revenues	20.1	19.8	24.9
Total operating revenues	<u>\$ 989.7</u>	<u>\$ 903.2</u>	<u>\$ 882.9</u>
OPERATING EXPENSES:			
Long-term purchased power—Bonneville and other (b)	\$ 224.8	\$ 219.8	\$ 213.6
Short-term wholesale power purchases	15.2	15.1	26.8
Other power expenses (b)	65.4	60.1	59.6
Transmission (e)	52.5	53.5	54.3
Distribution	60.4	63.5	65.1
Customer service	49.4	42.6	38.3
Conservation	32.5	30.2	29.1
Administrative and general	128.7	105.0	92.1
Taxes	94.8	85.2	81.1
Depreciation and amortization	128.8	120.8	112.0
Total operating expenses	<u>\$ 852.5</u>	<u>\$ 795.8</u>	<u>\$ 772.0</u>
NET OPERATING REVENUE (f)	<u>\$ 137.2</u>	<u>\$ 107.4</u>	<u>\$ 110.9</u>
Adjustments to Net Operating Revenue (g)			
City Taxes (h)	\$ 54.4	\$ 48.4	\$ 45.5
Depreciation and amortization	128.8	120.8	112.0
Depreciation & amortization included in operating & maintenance expenses (i)	32.4	29.9	27.1
Pension expense (j)	37.1	40.8	27.9
Pension contributions (j)	(23.7)	(25.3)	(24.9)
Valuation on exchange power, net (b)(c)	0.0	0.0	0.6
BPA Conservation Augmentation/Agreement revenue (k)	(1.6)	(1.2)	(0.9)
Investment income (l)	7.4	7.3	6.7
Non-cash expenses (m)	2.4	1.8	(0.3)
Other (n)	2.4	2.0	2.0
Total adjustments	<u>\$ 239.6</u>	<u>\$ 224.5</u>	<u>\$ 195.7</u>
Net Revenue Available for Debt Service	<u>\$ 376.8</u>	<u>\$ 331.9</u>	<u>\$ 306.6</u>
Total Debt Service (o)	<u>\$ 203.3</u>	<u>\$ 196.5</u>	<u>\$ 189.6</u>
Ratio of Available Net Revenue to Debt Service	<u>1.85x</u>	<u>1.69x</u>	<u>1.62x</u>

Notes

# THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

## OTHER INFORMATION (UNAUDITED)

- (a) Includes conservation and renewable credits under the power sales contract with BPA, the recognition of payments from BPA for the purchase of conservation savings, revenue from deliveries of power to Pend Oreille PUD pursuant to the Boundary Project's FERC license, and other energy credits.
- (b) Effective January 1, 2016, the Department adopted GASB Statement No. 72, *Fair Value Measurement and Application*. Non-monetary transactions are measured at fair value and are valued at market. Disclosures required by GASB Statement No. 72 are available in Note 2 Fair Value Measurement.
- (c) Includes significant activity for the valuation of energy delivered under seasonal exchanges, basis sales, and other power exchange contracts. Energy exchanges have both revenue and expense components; therefore, a net revenue or expense adjustment is made for a given year.
- (d) Transfers from/(to) the RSA in accordance with Ordinance No. 123260, primarily to address fluctuations in surplus power sales.
- (e) Includes revenue from the short-term sale of excess transmission capacity.
- (f) Operating Income per audited financial statements.
- (g) Significant non-cash transactions are adjusted from Net Operating Revenue to calculate Revenue Available for Debt Service. Furthermore, some types of revenue in addition to Operating Revenue are included to calculate Revenue Available for Debt Service. These adjustments are listed in the remaining lines within the table.
- (h) City taxes are excluded because the lien on such taxes is junior to debt service in accordance with the Bond Legislation.
- (i) The majority of the depreciation and amortization (non-cash) expenses included in Operating and Maintenance Expense are for amortization of conservation expenses that are recognized over a 20-year period.
- (j) Pension expense is the amount recorded for compliance with GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, implemented in 2015, a non-cash item. Pension contributions are the Department cash contributions to the Seattle City Employee's Retirement System.
- (k) Payments received for conservation measures are initially recorded as unearned revenue. The adjustment represents the amount of revenue amortized and recognized over future periods for financial reporting, a non-cash transaction.
- (l) Investment income is not included in Total Revenue in this table; therefore, an adjustment is made to Net Operating Revenue, consisting primarily of interest earnings from City's cash pool and interest receipts from suburban underground charges. This amount excludes unrealized gains and losses, which are non-cash adjustments.
- (m) Primarily includes claim expenses and capital project expenditures from prior year which were determined not to be capital expenditures.
- (n) Includes proceeds from sale of properties, principal receipts from suburban underground charges from local jurisdictions, and miscellaneous items.
- (o) Net of federal bond subsidies.

### DEBT SERVICE COVERAGE: ALL BONDS

Year Ending December 31 (\$ in millions)	Revenue Available for Debt Service	Debt Service Requirements	Debt Service Coverage
2017	\$ 376.8	\$ 203.3	1.85
2016	331.9	196.5	1.69
2015	306.6	189.6	1.62
2014	341.4	184.8	1.85
2013	319.6	172.8	1.85

# THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

## OTHER INFORMATION (UNAUDITED)

### INTEREST REQUIREMENTS AND PRINCIPAL REDEMPTION ON LONG-TERM DEBT

Year Ending December 31 (\$ in millions)	Fixed Rate Bonds			Variable Rate Bonds			Total <sup>(a)</sup>
	Principal	Interest	Subtotal	Principal	Interest	Subtotal	
2018	\$ 117.0	\$ 96.7	\$ 213.7	\$ 1.8	\$ 3.7	\$ 5.5	\$ 219.2
2019	112.7	92.3	205.0	2.0	3.7	5.7	210.6
2020	112.1	86.6	198.7	2.0	3.7	5.7	204.4
2021	111.3	81.5	192.8	2.1	3.7	5.8	198.6
2022	110.9	76.0	186.9	2.2	3.7	5.9	192.8
2023	112.9	70.4	183.3	2.3	3.6	5.9	189.2
2024	116.1	64.7	180.8	2.3	3.6	5.9	186.7
2025	105.7	58.7	164.4	2.5	3.5	6.0	170.4
2026	99.1	53.7	152.8	5.8	3.5	9.3	162.1
2027	73.7	49.2	122.9	6.1	3.4	9.5	132.4
2028	74.9	45.9	120.8	6.3	3.3	9.6	130.4
2029	68.5	42.6	111.1	6.6	3.1	9.7	120.9
2030	53.5	39.8	93.3	6.9	3.0	9.9	103.2
2031	55.6	37.3	92.9	7.2	2.8	10.0	102.9
2032	57.8	34.6	92.4	7.4	2.7	10.1	102.5
2033	60.1	31.9	92.0	7.7	2.6	10.3	102.3
2034	62.4	29.3	91.7	8.0	2.4	10.4	102.1
2035	64.9	26.6	91.5	8.4	2.2	10.6	102.1
2036	72.6	23.7	96.3	8.7	2.1	10.8	107.1
2037	61.8	20.5	82.3	9.1	1.9	11.0	93.3
2038	64.1	17.8	81.9	9.5	1.7	11.2	93.1
2039	66.4	15.1	81.5	9.8	1.5	11.3	92.8
2040	69.0	12.1	81.1	10.2	1.3	11.5	92.6
2041	57.5	9.5	67.0	10.6	1.1	11.7	78.7
2042	43.1	7.4	50.5	11.1	0.9	12.0	62.6
2043	45.0	5.6	50.6	11.5	0.7	12.2	62.8
2044	35.8	3.8	39.6	12.0	0.5	12.5	52.1
2045	28.0	2.4	30.4	12.5	0.2	12.7	43.1
2046	20.8	1.4	22.2	5.6	0.1	5.7	27.8
2047	14.0	0.6	14.6	-	-	-	14.6
Total	\$ 2,147.3	\$ 1,137.7	\$ 3,285.0	\$ 198.2	\$ 70.2	\$ 268.4	\$ 3,553.4

<sup>(a)</sup> Maximum debt service of \$219.2 is due in 2018. See Note 9 Long-term debt.

Note: All parity bonds of the Department are fixed rate bonds except the 2015B and the 2017 A&B bonds which are variable rate bonds.

# THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

## OTHER INFORMATION (UNAUDITED)

### STATEMENT OF LONG-TERM DEBT

As of December 31, 2017  
(\$ in millions)

Bond Series	When Due	Interest Rate (%)	Amount Issued	Amount Outstanding	Amount Due Within One Year	Accrued Interest
Series 2008	2018	5.000	\$ 36.7	\$ 11.0	\$ 11.0	\$ 0.2
Series 2008	2019-2020	5.250	20.6	10.0	-	0.1
Series 2010A	2018-2021	4.447	4.6	4.6	-	0.1
Series 2010A	2022	4.597	7.2	7.2	-	0.1
Series 2010A	2023	4.747	7.5	7.5	-	0.1
Series 2010A	2024	4.947	7.7	7.7	-	0.2
Series 2010A	2025	5.047	8.0	8.0	-	0.2
Series 2010A	2026	5.147	8.2	8.2	-	0.2
Series 2010A	2027	5.247	8.5	8.5	-	0.2
Series 2010A	2028-2030	5.470	27.4	27.4	-	0.6
Series 2010A	2031-2040	5.570	102.6	102.5	-	2.4
Series 2010B	2018	4.000	5.0	5.0	5.0	0.1
Series 2010B	2018	5.000	38.8	38.8	38.8	0.8
Series 2010B	2019	4.000	1.5	1.5	-	-
Series 2010B	2019	5.000	42.7	42.7	-	0.9
Series 2010B	2020	4.000	2.6	2.6	-	-
Series 2010B	2020	5.000	43.9	43.9	-	0.9
Series 2010B	2021-2026	5.000	187.8	155.8	-	3.3
Series 2010C	2018-2040	5.590	13.3	13.3	-	0.3
Series 2011A	2018-2030	5.500	20.4	4.9	4.9	0.1
Series 2011A	2031-2036	5.250	75.8	75.8	6.6	1.6
Series 2011B	2027	5.750	10.0	10.0	-	0.2
Series 2012A	2018-2027	5.000	198.0	157.2	18.1	0.6
Series 2012A	2028	3.250	12.4	12.4	-	-
Series 2012A	2034-2036	4.000	25.1	25.1	-	0.1
Series 2012A	2037-2041	4.000	49.1	49.1	-	0.2
Series 2012C	2028	3.400	4.3	4.3	-	-
Series 2012C	2029	3.500	7.7	7.7	-	-
Series 2012C	2030	3.500	7.7	7.7	-	-
Series 2012C	2031-2033	3.750	23.4	23.4	-	0.1
Series 2013	2018-2033	5.000	97.4	91.3	3.3	2.2
Series 2013	2034-2035	4.000	14.7	14.7	-	0.3
Series 2013	2036-2038	4.125	24.4	24.4	-	0.6
Series 2013	2039-2043	4.500	48.3	48.3	-	1.1
Series 2014	2018-2029	5.000	163.2	130.1	15.7	2.0
Series 2014	2030-2038	4.000	53.9	53.9	-	0.8
Series 2014	2039-2040	4.000	14.8	14.8	-	0.2
Series 2014	2041-2044	4.000	33.3	33.3	-	0.5
Series 2015A	2018-2026	5.000	62.9	52.1	6.2	0.4
Series 2015A	2027-2045	4.000	109.0	109.0	-	0.8
Series 2015B B.1	2026-2045	1.30 - 2.39 <sup>A</sup>	50.0	50.0	-	0.1
Series 2015B B.2	2026-2045	1.30 - 2.39 <sup>A</sup>	50.0	50.0	-	0.1
Series 2016A	2036-2041	4.050	31.9	31.9	-	0.6
Series 2016B	2020-2028	5.000	103.0	101.5	-	1.2
Series 2016B	2029	4.000	13.9	13.9	-	0.2
Series 2016C	2018-2026	5.000	56.9	54.8	2.3	0.5
Series 2016C	2027-2046	4.000	103.9	103.9	-	1.2
Series 2017A	2018-2046	0.974 - 1.383 <sup>A</sup>	50.0	49.1	0.9	0.1
Series 2017B	2018-2046	0.974 - 1.383 <sup>A</sup>	50.0	49.1	0.9	0.1
Series 2017C	2018-2032	5.000	174.2	174.2	5.1	2.0
Series 2017C	2033-2047	4.000	211.3	211.3	-	2.4
Total			<u>\$ 2,525.5</u>	<u>\$ 2,345.5</u>	<u>\$ 118.8</u>	<u>\$ 31.0</u>

<sup>A</sup> Range of adjustable rates in effect during 2017.

Note: All parity bonds of the Department are fixed rate bonds except the 2015B and 2017A&B bonds, which are variable rate bonds.

# THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

## OTHER INFORMATION (UNAUDITED)

### POWER COSTS AND STATISTICS

Year ending December 31 (\$ in millions)	2017	2016	2015	2014	2013
<b>POWER COSTS</b>					
Hydroelectric generation <sup>(a)(c)</sup>	\$ 41.6	\$ 53.0	\$ 50.1	\$ 49.9	\$ 54.0
Long-term purchased power <sup>(b)</sup>	224.8	219.8	213.6	214.3	203.1
Wholesale power purchases <sup>(c)(e)</sup>	15.2	15.1	26.8	14.9	19.8
Fair valuation & other power purchases <sup>(b)(c)</sup>	11.4	10.5	11.8	17.7	14.1
Owned transmission <sup>(a)</sup>	10.3	15.9	17.2	15.3	15.1
Wheeling expenses	42.9	42.9	42.0	42.1	37.4
Other power expenses	13.9	12.8	12.9	13.2	12.2
Total power costs	<u>360.1</u>	<u>370.0</u>	<u>374.4</u>	<u>367.4</u>	<u>355.7</u>
Less short-term wholesale power sales <sup>(c)</sup>	(60.9)	(62.9)	(61.2)	(96.8)	(63.0)
Less other power-related revenues	(20.8)	(16.7)	(19.9)	(25.5)	(21.5)
Less fair valuation other power-related <sup>(b)</sup>	<u>(15.0)</u>	<u>(15.9)</u>	<u>(16.9)</u>	<u>(25.3)</u>	<u>(18.9)</u>
Net power costs	<u>\$ 263.4</u>	<u>\$ 274.5</u>	<u>\$ 276.4</u>	<u>\$ 219.8</u>	<u>\$ 252.2</u>
<b>POWER STATISTICS (MWh)</b>					
Hydroelectric generation <sup>(c)</sup>	6,396,563	6,707,264	5,979,884	7,091,368	6,108,908
Long-term purchased power <sup>(b)</sup>	7,521,767	7,215,308	6,900,647	6,658,689	6,482,960
Wholesale power purchases <sup>(c)(e)</sup>	904,362	936,289	1,379,168	900,527	2,072,066
Wholesale power sales <sup>(c)(e)</sup>	(3,695,173)	(4,044,452)	(3,548,507)	(4,083,391)	(3,854,352)
Other <sup>(d)</sup>	<u>(1,154,419)</u>	<u>(1,117,826)</u>	<u>(1,023,970)</u>	<u>(655,569)</u>	<u>(760,882)</u>
Total power available	<u>9,973,100</u>	<u>9,696,583</u>	<u>9,687,222</u>	<u>9,911,624</u>	<u>10,048,700</u>
Less self consumed energy	(26,691)	(24,912)	(25,195)	(29,717)	(30,910)
Less system losses	<u>(537,750)</u>	<u>(491,233)</u>	<u>(504,533)</u>	<u>(541,323)</u>	<u>(511,390)</u>
Total power delivered to retail customers	<u>9,408,659</u>	<u>9,180,438</u>	<u>9,157,494</u>	<u>9,340,584</u>	<u>9,506,400</u>
Net power cost per MWh delivered	<u>\$ 28.00</u>	<u>\$ 29.90</u>	<u>\$ 30.18</u>	<u>\$ 23.53</u>	<u>\$ 26.53</u>

(a) Including depreciation.

(b) Long-term purchased power, fair valuation & other power purchases, and fair valuation other power-related include energy exchanged under seasonal and other exchange contracts are valued at market. Disclosures required by GASB Statement No. 72, *Fair Value Measurement and Application*, are available in Note 2 Fair Value Measurements.

(c) The level of generation (and consequently the amount of power purchased and sold on the wholesale market) can fluctuate widely from year to year depending upon water conditions in the Northwest region.

(d) "Other" includes seasonal exchange power delivered and miscellaneous power transactions.

(e) Bookout purchases are excluded from wholesale power purchases and are reported on a net basis in wholesale power sales, however MWh are presented gross.

# THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

## OTHER INFORMATION (UNAUDITED)

### HISTORICAL ENERGY RESOURCES (in MWh)

	2017	2016	2015	2014	2013
Department-Owned Generation					
Boundary Project	3,825,302	3,888,316	3,469,855	4,249,957	3,465,890
Skagit Hydroelectric Project:				-	-
Gorge	998,676	1,036,540	953,628	1,057,865	955,265
Diablo	692,828	870,216	775,025	857,757	828,200
Ross	741,493	791,415	684,687	796,513	726,560
Cedar Falls/Newhalem	83,461	68,429	47,571	65,687	77,397
South Fork Tolt	<u>54,803</u>	<u>52,348</u>	<u>49,118</u>	<u>63,589</u>	<u>55,596</u>
Subtotal	<u>6,396,563</u>	<u>6,707,264</u>	<u>5,979,884</u>	<u>7,091,368</u>	<u>6,108,908</u>
Energy Purchases					
Bonneville	5,482,904	5,138,417	4,971,459	5,155,271	5,079,991
Priest Rapids	24,532	25,249	23,698	21,961	33,205
Columbia Basin Hydropower	228,789	253,628	258,678	272,842	254,568
High Ross	313,973	308,478	310,102	307,873	312,350
Lucky Peak	463,403	340,474	278,001	308,334	215,587
Stateline Wind Project	330,161	373,389	299,551	357,325	363,099
Columbia Ridge	96,096	99,487	94,271	68,920	51,577
Seasonal and Other Exchange(a)	581,909	676,186	664,887	411,555	69,940
Wholesale Market Purchases(b)	<u>904,362</u>	<u>936,289</u>	<u>1,379,168</u>	<u>900,527</u>	<u>2,072,066</u>
Subtotal	<u>8,426,129</u>	<u>8,151,597</u>	<u>8,279,815</u>	<u>7,804,608</u>	<u>8,452,383</u>
Total Department Resources	<u>14,822,692</u>	<u>14,858,861</u>	<u>14,259,699</u>	<u>14,895,976</u>	<u>14,561,291</u>
Minus Offsetting Energy Sales					
Firm Energy Sales and Marketing Losses <sup>(c)</sup>	328,666	344,383	331,897	393,844	421,375
Seasonal and Other Exchange <sup>(b)</sup>	825,753	773,443	692,073	507,117	236,864
Wholesale Market Sales	<u>3,695,173</u>	<u>4,044,452</u>	<u>3,548,507</u>	<u>4,083,391</u>	<u>3,854,352</u>
Total Energy Resources	<u>9,973,100</u>	<u>9,696,583</u>	<u>9,687,222</u>	<u>9,911,624</u>	<u>10,048,700</u>

(a) Includes exchange contracts with the Northern California Power Authority (NCPA), Sacramento Municipal Utility District (SMUD), Grant County and the Lucky Peak Project.

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

(c) Energy provided to Public Utility District of Pend Oreille County under the Boundary Project's FERC license and include incremental losses due to expanded activity in the wholesale market.

# THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

## OTHER INFORMATION (UNAUDITED)

### CUSTOMER STATISTICS

Years ended December 31,	2017	2016	2015	2014	2013
Average number of customers:					
Residential	403,890	397,074	381,419	374,619	367,837
Non-residential	50,610	50,258	41,391	40,437	40,218
Total	<u>454,500</u>	<u>447,332</u>	<u>422,810</u>	<u>415,056</u>	<u>408,055</u>
Megawatt-hours <sup>(a)</sup> :					
Residential	33% 3,132,079	32% 2,917,984	32% 2,914,563	32% 2,987,711	33% 3,158,629
Non-residential	67% 6,276,580	68% 6,262,454	68% 6,242,931	68% 6,352,873	67% 6,347,771
Total	100% <u>9,408,659</u>	100% <u>9,180,438</u>	100% <u>9,157,494</u>	<u>9,340,584</u>	100% <u>9,506,400</u>
Average annual revenue per customer <sup>(a)</sup> :					
Residential	812	717	\$ 691	\$ 695	\$ 710
Non-residential	10,757	9,983	\$ 11,390	\$ 11,448	\$ 10,820

\* Seattle City Light changed customer counts to Service Agreement effective September 2016 with the implementation of the new retail electric billing system. Service Agreement determines how Seattle City Light and Seattle Public Utilities charge customers for services provided. An account can have several Service Agreements for the different types of services. No revisions were made to prior year customer counts.

Years ended December 31,	2017	2016	2015	2014	2013
Average annual consumption per customer (kWhs) <sup>(a)(b)</sup> :					
Residential - Seattle	7,755	7,349	7,641	7,975	8,587
- National	n/a	10,766	10,816	10,936	10,908
Non-residential - Seattle	124,018	124,606	150,828	157,107	157,834
- National	n/a	124,518	125,592	126,114	125,778
Average rate per kilowatt-hour (cents) <sup>(a)(b)</sup> :					
Residential - Seattle	10.47	9.75	9.05	8.71	8.27
- National	n/a	12.55	12.65	12.52	12.12
Non-residential - Seattle	8.67	8.01	7.55	7.29	6.86
- National	n/a	8.91	9.08	9.2	8.84

(a) Source of national data: Department of Energy ([www.eia.doe.gov/electricity/annual/](http://www.eia.doe.gov/electricity/annual/)). 2017 National average annual consumption data and average rate data not available. Certain 2016-2013 national average annual consumption and national average rate data were updated with revised actuals.

(b) Seattle amounts include an allocation for the net change in unbilled revenue. Unbilled revenue excludes retail customer voluntary payments for conservation and solar energy as well as revenue from diverted electricity.

NOTE 1: A comprehensive rate change of 5.6% became effective January 1, 2017.

NOTE 2: A Rate Stabilization Account (RSA) surcharge of 1.5% is currently in effect to all residential and non-residential rates schedules.

NOTE 3: Notice of public hearings on future rate actions may be obtained on request to:

The Office of the City Clerk, 600-4th Ave, Floor Three, Seattle, WA 98104. Phone number 206-684-8344.

Additional information about city of Seattle Council meetings can be found on the Web at [www.seattle.gov/council/calendar](http://www.seattle.gov/council/calendar).

REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND  
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Independent Auditors' Report

To the Housing, Health, Energy and Workers' Rights Committee  
The City of Seattle - City Light Department  
Seattle, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the City of Seattle, City Light Department (the "Department") as of and for the year ended December 31, 2017, and have issued our report thereon dated April 30, 2018.

***Internal Control Over Financial Reporting***

In planning and performing our audit of the financial statements, we considered the Department's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



### ***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the financial statements of the Department are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Department in a separate letter dated April 30, 2018.

### ***Purpose of this Report***

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Baker Tilly Virchow Krause, LLP*

Madison, Wisconsin  
April 30, 2018