



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

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

December 31, 2024 and 2023



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## **Report of Independent Auditors**

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

### **Report on the Audit of the Financial Statements**

#### ***Opinion***

We have audited the financial statements of Seattle Public Utilities – Drainage and Wastewater Fund (the Fund), which comprise the statements of net position as of December 31, 2024 and 2023, and the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as of December 31, 2024 and 2023, and the changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

#### ***Basis for Opinion***

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Fund and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### ***Financial Reporting Entity***

As discussed in Note 1, the financial statements present only the Fund and do not purport to, and do not, present fairly the financial position of City of Seattle, Washington, as of December 31, 2024 and 2023, the changes in its financial position, or, where applicable, its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

#### ***Responsibilities of Management for the Financial Statements***

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

### ***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings and certain internal control-related matters that we identified during the audit.

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

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of Seattle Public Utilities' proportionate share of the net pension liability, schedule of Seattle Public Utilities' pension contributions, and the schedule of Seattle Public Utilities' proportionate share of the OPEB liability and related ratios (collectively, required supplementary information) be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the financial statements, is required by the GASB, 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 basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information, because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Other Information***

Management is responsible for the other information as listed in the table of contents. The other information comprises the debt service coverage calculation, wastewater system operating statistics, accounts and billed revenues, major wastewater customers' annual billed revenues and percentage of revenue, major drainage customers' annual billed revenues and percentage of revenue, and wastewater and drainage rates but does not include the basic financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated April 30, 2025, on our consideration of the Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Fund's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fund's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Moss Adams LLP".

Seattle, Washington  
April 30, 2025

## **Management's Discussion and Analysis**

# Seattle Public Utilities – Drainage and Wastewater Fund

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

### Management's Discussion and Analysis

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As management of Seattle Public Utilities (SPU), a department of the City of Seattle (the City), we offer readers of SPU's financial statements this narrative overview and analysis of the financial activities of the Drainage and Wastewater Fund (the Fund) for the fiscal years ended December 31, 2024 and 2023. The revenues, expenses, assets, deferred outflows and inflows of resources, and liabilities of the City of Seattle's drainage and wastewater system are recorded in the Fund, the functions of which are primarily supported by user fees and charges to customers. The financial situation of other aspects of Seattle City government, including other utility services and general government operations, is reported elsewhere.

#### Overview of the Financial Statements

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

**Basic financial statements** – The basic financial statements of the Fund report information similar to the presentation used by private sector companies. These statements offer short-term and long-term financial information about the Fund's activities. The basic financial statements begin on page 15 of this report and are comprised of three components: (1) statements of net position, (2) statements of revenues, expenses, and changes in net position, and (3) statements of cash flows.

The statements of net position present information, as of December 31, 2024 and 2023, on all of the Fund's assets, deferred outflows of resources, liabilities, and deferred inflows of resources. The difference between assets combined with deferred outflows of resources and liabilities combined with deferred inflows of resources is reported as net position. They also provide information about the nature and amounts of investments in resources (assets and deferred outflows of resources), obligations to the Fund's creditors (liabilities and deferred inflows of resources) and provide the basis for assessing the liquidity and financial flexibility of the Fund.

The statements of revenues, expenses, and changes in net position present changes in the Fund's net position for the years ended December 31, 2024 and 2023. All changes in net position are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. These statements reflect the results of the Fund's operations for the years identified to provide information about the Fund's creditworthiness and its ability to recover all its costs through service fees and other charges.

The statements of cash flows are required to provide information about the Fund's cash receipts and cash payments during the years ended December 31, 2024 and 2023. To provide answers to questions about sources, uses, and impacts on cash, these statements report cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities for the reporting period.

**Notes to the financial statements** – The notes are an integral part of the financial statements. They provide additional disclosures that are essential to a full understanding of the data provided in the financial statements, such as certain estimates and financing details. The notes to the financial statements begin on page 20 of this report.

# Seattle Public Utilities – Drainage and Wastewater Fund

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

### Management’s Discussion and Analysis

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#### Financial Analysis

Increases or decreases in net position may serve over time as a useful indicator of whether the Fund’s financial position is improving or deteriorating. At December 31, 2024 and 2023, the Fund’s assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources, resulting in a net position of \$964.9 million and \$772.6 million, respectively. In 2024, the Fund’s overall net position increased \$192.3 million (24.9%) as compared to an increase in net position of \$36.6 million (5.0%) in 2023. The following summary statements of net position present the assets and deferred outflows of resources of the Fund, and show the mix of liabilities, deferred inflows of resources, and net position used to acquire these assets and deferred outflows of resources:

#### Summary Statements of Net Position

	2024	2023	2022
<b>ASSETS</b>			
Current assets	\$ 515,178,025	\$ 435,034,343	\$ 361,248,141
Capital assets, net	1,830,371,804	1,690,340,508	1,571,052,126
Other	233,104,715	203,379,794	127,761,219
Total assets	2,578,654,544	2,328,754,645	2,060,061,486
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	30,459,765	37,955,552	24,412,378
Total assets and deferred outflows of resources	<u>\$ 2,609,114,309</u>	<u>\$ 2,366,710,197</u>	<u>\$ 2,084,473,864</u>
<b>LIABILITIES</b>			
Current liabilities	\$ 111,399,191	\$ 107,718,459	\$ 98,003,503
Revenue bonds	822,735,876	860,313,974	788,031,573
Other	692,157,098	607,834,530	415,430,458
Total liabilities	1,626,292,165	1,575,866,963	1,301,465,534
<b>DEFERRED INFLOWS OF RESOURCES</b>	17,909,659	18,222,394	46,954,498
<b>NET POSITION</b>			
Net investment in capital assets	761,367,794	725,635,833	694,682,356
Restricted	17,707,930	20,013,475	21,340,558
Unrestricted	185,836,761	26,971,532	20,030,918
Total net position	964,912,485	772,620,840	736,053,832
Total liabilities, deferred inflows of resources, and net position	<u>\$ 2,609,114,309</u>	<u>\$ 2,366,710,197</u>	<u>\$ 2,084,473,864</u>



# Seattle Public Utilities – Drainage and Wastewater Fund

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

### Management's Discussion and Analysis

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#### 2024 Compared to 2023

**Assets** – Current assets increased \$80.1 million (18.4%) over the prior year primarily due to increases of \$82.7 million in operating cash and equity in pooled investments, an increase of \$6.76 million in unbilled revenues, and an increase in supplies inventory. This increase was offset by a decrease of \$7.9 million in due from other governments, and a decrease of \$1.6 million in net accounts receivable. The increase in operating cash and equity in pooled investments is primarily due to the lower percentage of capital projects funded with operating cash.

Capital assets increased \$139.9 million (8.3%) from 2023. Construction in progress and plant assets increased \$168.7 million. The increase is mostly due to investments in infrastructure, rehabilitation, and improvements. The capital asset increase was offset by a \$28.8 million increase in accumulated depreciation and amortization (Note 3).

Other assets increased \$29.7 million (14.6%) from 2023. This is mostly attributable to a \$33.8 million increase in restricted cash and equity in pooled investment, due to the receipt of \$115.5 million in the settlement of the lawsuit against Monsanto for the pollution of the Duwamish. This is offset by the decrease in construction cash of \$81.5 million and a \$3.8 million decrease in other charges. The decrease was offset by a \$0.7 million increase in environmental costs and recoveries.

**Deferred outflows of resources** – Deferred outflows of resources decreased \$7.5 million (-19.7%) from 2023. This decrease is attributable to a \$7.2 million reduction in pension contributions and changes in assumptions related to pension and other post-employment benefits (OPEB), and a \$0.3 million reduction in unamortized loss on refunded debt.

**Liabilities** – Current liabilities increased \$3.7 million (3.4%) from 2023. This is mostly attributable to a \$6.8 million increase in environmental liabilities, a \$3.7 million increase in due to other funds, a \$1.6 million increase in claims payable, a \$1.6 million increase in bonds payable within one year, and a \$0.9 million increase in due to other governments. This increase was offset by a decrease of \$8.8 million in accounts payable and a \$2.4 million decrease in salaries payable.

Noncurrent liabilities increased \$46.7 million (3.2%) from 2023. This increase is mostly attributable to a \$57.5 million increase in loans, a \$36.8 million increase in environmental liabilities, a \$1.1 million increase in claims payable, and a \$0.5 million increase in compensated absences payable. These increases were offset by a \$37.5 million decrease in bonds payable, an \$11.5 million decrease in net pension liabilities, and unfunded other post-employment benefits.

**Deferred inflows of resources** – Deferred inflows of resources decreased \$0.3 million (-1.7%) from 2023. This decrease is mostly due to a \$0.8 million decrease in unamortized gain on advanced refunding, which was offset by a \$0.5 million increase in assumptions related to pension accounting and the difference between expected and actual expenses in OPEB.

## Seattle Public Utilities – Drainage and Wastewater Fund (An Enterprise Fund of the City of Seattle) Management's Discussion and Analysis

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**Net position** – The largest portion of the Fund's net position (\$761.4 million or 78.9%) reflects the Fund's net investment in capital assets such as land, buildings, and equipment, less accumulated depreciation and amortization, and any related outstanding debt used to acquire those assets. The Fund uses these assets to provide services to customers; consequently, these assets are not available for future spending. Although the Fund's investment in its capital assets is reported net of related debt, the resources needed to repay the debt are provided by fees paid by customers for services provided by these assets. In 2024, net investment in capital assets increased \$35.7 million from 2023 due to an increase in capital assets placed in service, net of depreciation, offset by the related debt.

The Fund's restricted net position (\$17.7 million or 1.8%) represents resources that are subject to restrictions on how they may be used. This portion of net position decreased \$2.3 million from 2023.

The remaining portion of the Fund's net position (\$185.8 million or 19.3%) represents resources that are unrestricted. The unrestricted portion of net position increased \$158.9 million from the prior year mainly due to the receipt of the \$115.5 million Monsanto settlement and a lower percentage of capital projects funded with operating cash compared to the prior year.

### 2023 Compared to 2022

**Assets** – Current assets increased \$73.8 million (20.4%) over the prior year primarily due to increases of \$76.5 million in operating cash and equity in pooled investments. This increase was offset by a decrease of \$2.7 million in due from other governments. The increase in operating cash and equity in pooled investments is primarily due to the lower percentage of capital projects funded with operating cash.

Capital assets increased \$119.3 million (7.6%) from 2022. Construction in progress and plant assets increased \$150.7 million, other property increased \$0.9 million and land and land rights increased \$0.8 million. The increase is mostly due to investments in infrastructure, rehabilitation, and improvements. The capital asset increase was offset by a \$33.3 million increase in accumulated depreciation (Note 3).

Other assets increased \$75.6 million (59.2%) from 2022. This is mostly attributable to an \$80.7 million increase in restricted cash and equity in pooled investments, due to the issuance of bonds for construction and a \$3.6 million decrease in other charges. The decrease was offset by a \$0.4 million increase in environmental costs and recoveries.

**Deferred outflows of resources** – Deferred outflows of resources increased \$13.5 million (55.5%) from 2022. This increase is attributable to a \$13.8 million increase in pension contributions and changes in assumptions related to pension and other post-employment benefits (OPEB). The increase was offset by a \$0.2 million reduction in unamortized loss on refunded debt.

**Liabilities** – Current liabilities increased \$9.7 million (9.9%) from 2022. This is mostly attributable to a \$3.2 million increase in environmental liabilities, a \$1.6 million increase in accounts payable, and a \$1.6 million increase in due to other governments. This increase was offset by a decrease of \$2.1 million in other current liabilities and a decrease of \$0.5 million in due to other funds.

# Seattle Public Utilities – Drainage and Wastewater Fund

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

### Management’s Discussion and Analysis

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Noncurrent liabilities increased \$264.7 million (22.0%) from 2022. This increase is mostly attributable to an \$81.8 million increase in loans, a \$72.3 million increase in revenue bonds and related liabilities, a \$53.9 million increase in environmental liabilities, a \$45.4 million increase in net pension liabilities, a \$10.5 million increase in other noncurrent liabilities, and a \$0.9 million increase in claims payable. These increases were offset by a \$0.4 million decrease in unfunded other post-employment benefits. The environmental liability increase is mainly due to updated estimates.

**Deferred inflows of resources** – Deferred inflows of resources decreased \$28.7 million (-61.2%) from 2022. This decrease is mostly due to a \$27.9 million decrease in assumptions related to pension accounting, and the difference between expected and actual expenses in OPEB.

**Net position** – The largest portion of the Fund’s net position (\$725.6 million or 93.9%) reflects the Fund’s investment in capital assets such as land, buildings, and equipment, less accumulated depreciation and any related outstanding debt used to acquire those assets. The Fund uses these assets to provide services to customers; consequently, these assets are not available for future spending. Although the Fund’s investment in its capital assets is reported net of related debt, the resources needed to repay the debt are provided by fees paid by customers for services provided by these assets. In 2023, net investment in capital assets increased \$31.0 million from 2022 due to an increase in capital assets placed in service, net of depreciation, offset by the related debt.

The Fund’s restricted net position (\$20.0 million or 2.6%) represents resources that are subject to restrictions on how they may be used. This portion of net position decreased \$1.3 million from 2022.

The remaining portion of the Fund’s net position (\$27.0 million or 3.5%) represents resources that are unrestricted. The unrestricted portion of net position increased \$7.0 million from the prior year mainly due to a lower percentage of capital projects funded with operating cash compared to the prior year.

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

	2024	2023	2022
Operating revenues	\$ 576,840,377	\$ 542,933,537	\$ 519,028,628
Operating expenses	<u>(475,123,315)</u>	<u>(462,989,467)</u>	<u>(392,181,826)</u>
Operating income	101,717,062	79,944,070	126,846,802
Non-operating revenues and expenses	130,994,273	5,184,034	(21,017,272)
Capital contributions, grants and environmental, net remediation	<u>(40,419,690)</u>	<u>(48,561,096)</u>	<u>(12,615,237)</u>
Change in net position	<u><u>\$ 192,291,645</u></u>	<u><u>\$ 36,567,008</u></u>	<u><u>\$ 93,214,293</u></u>

#### 2024 Compared to 2023

The current year operating revenues increased \$33.9 million (6.2%) from 2023. This is due to an average rate increase of 5% for wastewater and 5% for drainage, resulting in additional revenues of \$21 million and \$12.1 million, respectively. Other operating revenues increased \$0.7 million.

## **Seattle Public Utilities – Drainage and Wastewater Fund** **(An Enterprise Fund of the City of Seattle)** **Management’s Discussion and Analysis**

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The current year operating expenses increased \$12.1 million (2.6%) from 2023. The increase can be attributed to an \$18.5 million increase in intergovernmental payments, a \$2.7 million increase in other operating expenses, and a \$1.1 million increase in depreciation and amortization. The increase was offset by a \$4.5 million decrease in salaries, wages, and personnel benefits, a \$4.1 million decrease in supplies, and a \$1.6 million decrease in services. The \$18.5 million increase in intergovernmental payments is mainly due to King County wastewater treatment fee increases and an increase in taxes.

Nonoperating revenues net of expenses in 2024 increased \$125.8 million compared to 2023. This increase is mostly due to a \$116.2 million increase in other judgments and settlements (of which \$115.5 million is from the Monsanto lawsuit), a \$5 million increase in investment income, a \$2 million increase in recoveries, a \$1.3 million decrease in interest expense, and a \$1.6 million decrease in gain/loss on disposal of assets.

The Fund had environmental remediation expense of \$46.7 million in 2024 compared to \$60.2 million in 2023 (Note 9), mostly due to the revised estimates and the updated cost sharing from the Unilateral Administrative Order, signed July 18, 2024, which is in effect until the Consent Decree is issued.

### **2023 Compared to 2022**

The current year operating revenues increased \$23.9 million (4.6%) from 2022. This is due to an average rate increase of 3.6% for wastewater and 6.4% for drainage, resulting in additional revenues of \$12.3 million and \$10.6 million, respectively. Other operating revenues increased \$0.7 million.

The current year operating expenses increased \$70.8 million (18.1%) from 2022. The increase can be attributed to a \$24.1 million increase in salaries, wages, and personnel benefits, a \$20.5 million increase in intergovernmental payments, a \$15.3 million increase in services, a \$5.4 million increase in supplies, a \$3.2 million increase in other operating expenses, and a \$2.3 million increase in depreciation and amortization. The \$20.5 million increase in intergovernmental payments is mainly due to King County wastewater treatment fee increases and an increase in taxes. The increase in salaries is largely driven by an accrual for the tentative agreement between the unions and the City.

Nonoperating revenues net of expenses in 2023 increased \$26.2 million compared to 2022. This increase is mostly due to a \$26.7 million increase in investment income. This was offset by a \$1.5 million decrease in interest expense, and a \$1.9 million decrease in other revenue and expenses, net.

The Fund had environmental remediation expense of \$60.2 million in 2023 compared to \$32.9 million in 2022 (Note 9), mostly from updated estimates.

# Seattle Public Utilities – Drainage and Wastewater Fund

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

### Management’s Discussion and Analysis

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#### Capital Assets

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

#### Summary of Capital Assets, Net of Accumulated Depreciation and Amortization

	2024	2023	2022
Land and land rights	\$ 47,433,829	\$ 47,433,829	\$ 46,662,046
Buildings	10,847,824	11,834,651	12,828,618
Infrastructure	1,063,637,137	1,036,921,066	959,084,033
Machinery and equipment	57,054,873	54,433,503	55,965,163
Computer systems	14,135,343	20,163,663	22,850,501
Construction in progress	631,013,356	513,223,964	468,354,639
Artwork	5,958,750	5,806,464	4,945,548
Intangible right-to-use	290,692	523,368	361,578
Capital assets, net of accumulated depreciation and amortization	<u>\$ 1,830,371,804</u>	<u>\$ 1,690,340,508</u>	<u>\$ 1,571,052,126</u>

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

#### 2024 Compared to 2023

The Fund’s investment in capital assets, net of accumulated depreciation and amortization, for the year ended December 31, 2024, was \$1.8 billion. This represented an increase of approximately \$139.9 million (8.3%) compared to 2023.

Highlights of the Fund’s major capital assets placed in service during 2024 include the following:

- \$40.6 million for drainage, sewer, and combined pipe rehabilitation and improvements
- \$7.6 million for drainage and wastewater pump station rehabilitation and improvements
- \$6.8 million for heavy equipment
- \$1.2 million for South Operation Center Security
- \$1.1 million for rainwater absorption and runoff reduction systems
- \$0.9 million for green stormwater infrastructure

Highlights of the Fund’s major construction projects in progress at the end of 2024 include the following:

- \$357.3 million for construction of a combined sewer overflow storage facility for the Ballard, Fremont, and Wallingford combined sewer overflow basins (Ship Canal Water Quality Project)
- \$54.6 million for pump station improvements
- \$77.5 million for sewer and stormwater system improvements and rehabilitations
- \$46 million for natural drainage systems
- \$30.6 million for controlling combined sewer overflow control
- \$14 million for fish habitat restoration on Taylor Creek
- \$10 million for the South Park Stormwater Treatment Facility

## **Seattle Public Utilities – Drainage and Wastewater Fund** **(An Enterprise Fund of the City of Seattle)** **Management’s Discussion and Analysis**

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- \$9 million for Piper Creek land acquisition

### **2023 Compared to 2022**

The Fund’s investment in capital assets, net of accumulated depreciation, for the year ended December 31, 2023, was \$1.7 billion. This represented an increase of approximately \$119.3 million (7.6%) compared to 2022.

Highlights of the Fund’s major capital assets placed in service during 2023 include the following:

- \$68.4 million for drainage, sewer and combined pipe rehabilitation and improvements
- \$20.8 million for the South Park stormwater drainage conveyance system
- \$5.1 million for natural drainage systems
- \$4.7 million for heavy equipment
- \$1.3 million for private property rain water absorption and runoff reduction systems
- \$1.1 million for a land and real property rights information management system

Highlights of the Fund’s major construction projects in progress at the end of 2023 include the following:

- \$300.2 million for construction of a combined sewer overflow storage facility for the Ballard, Fremont, and Wallingford combined sewer overflow basins (Ship Canal Water Quality Project)
- \$49.1 million for pump station improvements
- \$41.7 million for sewer and stormwater system improvements and rehabilitations
- \$28.2 million for controlling combined sewer overflow control
- \$27.4 million for natural drainage systems
- \$12.9 million for fish habitat restoration on Taylor Creek
- \$6.0 million for the South Park Stormwater Treatment Facility
- \$3.3 million for construction project artwork

### **Debt Administration**

The Fund’s debt primarily consists of bonded debt and loans. Bonded debt is secured solely by drainage and wastewater revenues and provides financing for capital improvements. Loans issued by various Washington State Agencies for certain capital improvements are unsecured. The Fund’s credit ratings on its bonds were Aa1 and AA+ by Moody’s Investors Service Inc. and Standard & Poor’s Rating Services, respectively. Additional details about the Fund’s revenue bonds and loans are in Notes 4 and 10 of this report.

### **2024 Compared to 2023**

At the end of 2024, the Fund had \$767.3 million in bonded debt, as compared to \$799.4 million in 2023, all of which was secured solely by drainage and wastewater system revenues. This decrease of \$32.1 million is attributed to the payment of debt principal (Note 4).

## **Seattle Public Utilities – Drainage and Wastewater Fund** **(An Enterprise Fund of the City of Seattle)** **Management’s Discussion and Analysis**

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At the end of 2024, the Fund had an outstanding loan balance of \$281.3 million compared to \$224 million in 2023. This increase is due to a total of \$61.9 million drawdowns from loans with the Washington State Department of Ecology. The increase was offset by a \$4.5 million payment of debt principal.

### **2023 Compared to 2022**

At the end of 2023, the Fund had \$799.4 million in bonded debt, as compared to \$730.7 million in 2022, all of which was secured solely by drainage and wastewater system revenues. This increase of \$68.7 million is attributed to the issuance of a new revenue and refunding bond (Note 4) and payment of debt principal.

At the end of 2023, the Fund had an outstanding loan balance of \$224.0 million compared to \$142.0 million in 2022. This increase is due to a total of \$86.3 million drawdowns from loans with the Washington State Department of Ecology. The increase was offset by a \$4.3 million payment of debt principal.

### **Requests for Information**

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

## **Financial Statements**



**Seattle Public Utilities – Drainage and Wastewater Fund**  
**(An Enterprise Fund of the City of Seattle)**  
**Statements of Net Position**  
**December 31, 2024 and 2023**

	2024	2023
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Operating cash and equity in pooled investments	\$ 429,624,912	\$ 346,885,578
Receivables		
Accounts, net of allowance	34,009,370	35,612,678
Interest and dividends	994,330	997,512
Unbilled revenues	34,497,764	28,246,994
Due from other funds	2,006,074	1,818,175
Due from other governments	11,368,988	19,302,118
Materials and supplies inventory	2,642,072	2,136,773
Prepayments and other current assets	34,515	34,515
Total current assets	515,178,025	435,034,343
<b>NONCURRENT ASSETS</b>		
Restricted cash and equity in pooled investments	192,406,615	158,637,496
Prepayments long-term	345,956	380,471
Long-term receivable due from another city department	-	350,694
Environmental costs and recoveries	4,331,154	3,581,673
External infrastructure costs, net	16,399,561	16,692,410
Regulatory assets - bond issue costs	5,418,055	5,741,283
Other charges	14,203,374	17,995,767
Capital assets		
Land and land rights	47,433,829	47,433,829
Plant in service, excluding land	1,705,528,442	1,654,684,299
Less accumulated depreciation and amortization	(559,562,573)	(530,808,048)
Construction in progress	631,013,356	513,223,964
Other property, net	5,958,750	5,806,464
Total noncurrent assets	2,063,476,519	1,893,720,302
Total assets	2,578,654,544	2,328,754,645
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Unamortized loss on refunded debt	3,388,110	3,638,127
Pension and OPEB contributions and changes in assumptions	27,071,655	34,317,425
Total deferred outflows of resources	30,459,765	37,955,552
Total assets and deferred outflow of resources	\$ 2,609,114,309	\$ 2,366,710,197

See accompanying notes.

**Seattle Public Utilities – Drainage and Wastewater Fund**  
**(An Enterprise Fund of the City of Seattle)**  
**Statements of Net Position**  
**December 31, 2024 and 2023**

	2024	2023
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 15,188,326	\$ 23,974,579
Salaries, benefits, and payroll taxes payable	-	2,436,395
Compensated absences payable	377,986	350,730
Due to other funds	3,654,584	-
Due to other governments	16,899,981	15,967,432
Interest payable	15,588,604	14,383,828
Taxes payable	381,885	378,398
Revenue bonds, due within one year	33,680,000	32,100,000
Claims payable	4,548,799	2,907,466
Environmental liabilities	13,683,946	6,884,332
Loans payable, due within one year	4,358,851	4,482,740
Lease and subscription liabilities, due within one year	182,715	156,232
Other	2,853,514	3,696,327
Total current liabilities	111,399,191	107,718,459
<b>NONCURRENT LIABILITIES</b>		
Compensated absences payable	7,181,734	6,663,862
Revenue bonds	767,325,000	799,425,000
Less bonds due within one year	(33,680,000)	(32,100,000)
Bond discount and premium, net	89,090,876	92,988,974
Claims payable	11,042,460	9,927,147
Environmental liabilities	302,672,892	265,845,403
Loans payable, net of current portion	276,968,522	219,468,791
Lease and subscription liabilities, net of current portion	242,815	427,099
Total OPEB liability	4,262,644	2,406,650
Net pension liability	76,925,098	90,297,842
Other noncurrent liabilities	12,860,933	12,797,736
Total noncurrent liabilities	1,514,892,974	1,468,148,504
Total liabilities	1,626,292,165	1,575,866,963
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Unamortized gain on advanced refunding	13,438,727	14,244,149
Deferred inflows - pension and OPEB	4,470,932	3,978,245
Total deferred inflows of resources	17,909,659	18,222,394
<b>NET POSITION</b>		
Net investment in capital assets	761,367,794	725,635,833
Restricted for		
External infrastructure costs	8,062,030	8,263,111
Other charges	9,645,900	11,750,364
Unrestricted	185,836,761	26,971,532
Total net position	964,912,485	772,620,840
Total liabilities, deferred inflows of resources, and net position	\$ 2,609,114,309	\$ 2,366,710,197

See accompanying notes.

**Seattle Public Utilities – Drainage and Wastewater Fund**  
**(An Enterprise Fund of the City of Seattle)**  
**Statements of Revenues, Expenses, and Changes in Net Position**  
**Years Ended December 31, 2024 and 2023**

	2024	2023
OPERATING REVENUES		
Charges for services and other revenues	\$ 576,840,377	\$ 542,933,537
OPERATING EXPENSES		
Salaries, wages, and personnel benefits	71,184,602	75,685,986
Supplies	4,520,194	8,660,824
Services	61,033,069	62,620,610
Intergovernmental payments	280,893,226	262,402,745
Depreciation and amortization	46,139,575	45,003,944
Other operating expenses	11,352,649	8,615,358
Total operating expenses	475,123,315	462,989,467
OPERATING INCOME	101,717,062	79,944,070
NONOPERATING REVENUES (EXPENSES)		
Investment income	22,942,747	17,883,261
Interest expense	(11,915,839)	(13,260,919)
Contributions and grants	568,745	734,776
Other, net	119,398,620	(173,084)
Total nonoperating revenues	130,994,273	5,184,034
INCOME BEFORE CAPITAL CONTRIBUTIONS AND GRANTS, AND SPECIAL ITEMS	232,711,335	85,128,104
CAPITAL CONTRIBUTIONS AND GRANTS	6,263,088	11,610,556
SPECIAL ITEM - ENVIRONMENTAL REMEDIATION	(46,682,778)	(60,171,652)
CHANGE IN NET POSITION	192,291,645	36,567,008
NET POSITION		
Beginning of year	772,620,840	736,053,832
End of year	\$ 964,912,485	\$ 772,620,840

See accompanying notes.

**Seattle Public Utilities – Drainage and Wastewater Fund**  
**(An Enterprise Fund of the City of Seattle)**  
**Statements of Cash Flows**  
**Years Ended December 31, 2024 and 2023**

	2024	2023
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from customers	\$ 584,750,095	\$ 549,062,805
Cash paid to suppliers	(284,637,538)	(255,496,387)
Cash paid to employees	(78,642,440)	(73,844,849)
Cash paid for taxes	(75,977,565)	(72,349,424)
Net cash provided by operating activities	<u>145,492,552</u>	<u>147,372,145</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Proceeds from Settlement	115,524,225	-
Noncapital grants received	4,984,837	734,776
Payments for environmental liabilities	(3,805,158)	(3,409,188)
Net cash provided by (used in) noncapital financing activities	<u>116,703,904</u>	<u>(2,674,412)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Proceeds from long-term debt	61,858,582	194,027,320
Principal payments on long-term debt	(36,582,740)	(33,567,952)
Capital expenditures and other charges paid	(175,443,335)	(170,837,477)
Interest paid on long-term debt	(37,126,595)	(34,231,731)
Build America Bonds federal interest subsidy	1,088,007	1,476,901
Capital fees, reimbursements and grants	18,374,597	37,957,662
Proceeds from sale of capital assets	288,741	1,244,798
Net cash used in capital and related financing activities	<u>(167,542,743)</u>	<u>(3,930,479)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Net gain on investments	20,633,549	16,406,360
Interest received on investment	1,221,191	-
Net cash provided by investing activities	<u>21,854,740</u>	<u>16,406,360</u>
<b>NET CHANGE IN CASH AND EQUITY IN POOLED INVESTMENTS</b>	116,508,453	157,173,614
<b>CASH AND EQUITY IN POOLED INVESTMENTS</b>		
Beginning of year	<u>505,523,074</u>	<u>348,349,460</u>
End of year	<u>\$ 622,031,527</u>	<u>\$ 505,523,074</u>
<b>CASH AT THE END OF THE YEAR CONSISTS OF</b>		
Operating cash and equity in pooled investments	\$ 429,624,912	\$ 346,885,578
Noncurrent restricted cash and equity in pooled investments	<u>192,406,615</u>	<u>158,637,496</u>
Total cash and equity in pooled investments at the end of the year	<u>\$ 622,031,527</u>	<u>\$ 505,523,074</u>

See accompanying notes.

**Seattle Public Utilities – Drainage and Wastewater Fund**  
**(An Enterprise Fund of the City of Seattle)**  
**Statements of Cash Flows**  
**Years Ended December 31, 2024 and 2023**

	2024	2023
RECONCILIATION OF OPERATING INCOME		
TO NET CASH FROM OPERATING ACTIVITIES		
Operating income	\$ 101,717,062	\$ 79,944,070
Adjustments to reconcile operating income to		
net cash from operating activities		
Adjustment for net pension liability	(5,634,287)	3,692,719
Depreciation and amortization	46,139,575	45,003,944
Other cash receipts	2,727,502	2,492,062
Changes in operating assets and liabilities		
Accounts receivable	1,603,308	(458,334)
Unbilled revenues	(6,250,770)	1,710,150
Due from other funds	(187,899)	(660,597)
Due from other governments	7,933,130	2,688,413
Materials and supplies inventory	(505,299)	154,573
Prepayments and other assets	388,391	1,239,160
Accounts payable	(8,786,253)	1,595,905
Salaries, benefits, and payroll taxes payable	(2,436,395)	24,274
Compensated absences payable	545,128	150,083
Due to other funds	3,654,584	(549,934)
Due to other governments	932,549	1,579,634
Claims payable	2,756,646	919,421
Taxes payable	3,487	(242,951)
Other liabilities	892,093	8,089,553
Total adjustments	43,775,490	67,428,075
Net cash from operating activities	\$ 145,492,552	\$ 147,372,145

See accompanying notes.

# Seattle Public Utilities – Drainage and Wastewater Fund

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

### Notes to Financial Statements

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

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

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

SPU receives certain services from other departments and agencies of the City, including information technology and others that are normally considered to be general and administrative. The Fund is charged a share of these costs and during 2024 and 2023, paid \$30,363,234 and \$31,595,534, respectively, to the City for its share of these services. Additionally, the Fund pays a business and occupation utility tax to the City's General Fund. The Fund paid \$67,227,627 and \$64,158,046 for these taxes in 2024 and 2023, respectively. These amounts are recorded within intergovernmental payments on the accompanying statements of revenues, expenses, and changes in net position.

The utility billing function is co-managed by SPU, Seattle City Light (SCL), and the Seattle Information Technology Department (ITD). SPU provides customer service through the call center and walk-in center. ITD maintains the Customer Information System (CIS). SPU and SCL bill and reimburse each other for these services. SPU reimburses ITD for the information technology services mentioned above. Within SPU, the costs and reimbursements were shared among its three utility funds (Water, Drainage and Wastewater, and Solid Waste). The Fund received reimbursements related to the call center and walk-in center of \$2,395,644 and \$2,349,645 in 2024 and 2023, respectively. The Fund paid \$10,114 and \$75,012 for the utility billing services in 2024 and 2023, respectively.

Wastewater disposal and drainage services provided to other City departments and agencies are billed at rates prescribed by City ordinances. The Fund collected \$4,470,390 in 2024 and \$4,499,245 in 2023 from the City for wastewater services provided. The Fund also collected \$13,004,447 in 2024 and \$12,220,585 in 2023 from the City for drainage services.

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

# Seattle Public Utilities – Drainage and Wastewater Fund

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

### Notes to Financial Statements

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

**Cash and equity in pooled investments** – Cash resources of the Fund are combined with cash resources of the City in a pooled investment portfolio that is managed by the City's Finance and Administration Services Department. The City's investment portfolio consists of fixed income securities authorized by the Revised Code of Washington and other applicable law. The pool operates like a demand deposit account in that all City departments may deposit cash at any time and withdraw cash out of the pool without prior notice or penalty. Interest earned on the pooled investments is prorated to individual funds at the end of each month on the basis of their average daily cash balances during the month when interest was earned. Cash and equity in pooled investments are reported at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, and GASB Statement No. 72, *Fair Value Measurement and Application*. The Fund's share of the pool is included in the accompanying statements of net position under the caption "cash and equity in pooled investments." Accordingly, the statements of cash flows reconcile to cash and equity in pooled investments. The restricted cash and equity in pooled investments consist of unexpended bond proceeds, bond reserve funds, and vendor's escrow deposits.

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

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

**Allowance for doubtful accounts** – A reserve has been established for uncollectible accounts receivable based on actual historical write-off trends and knowledge of specific circumstances that indicate collection of an account may be unlikely. As of December 31, 2024 and 2023, the Fund's allowance for doubtful accounts was \$3,382,751 and \$2,811,206, respectively.

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

## Seattle Public Utilities – Drainage and Wastewater Fund

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

#### Notes to Financial Statements

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**Environmental costs and recoveries** – The Fund is involved in several remediation efforts around the City (Note 9). When estimated remediation costs are approved to be recovered through rates, the costs, net of recoveries, associated with these efforts are deferred when accrued as a regulatory asset and are amortized over the rate recovery period. Certain environmental remediation costs that are infrequent in occurrence are treated as a special item in the statements of revenues, expenses, and changes in net position.

**Regulatory assets** – GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989, FASB and AICPA Pronouncements*, allows for certain costs to be capitalized as a regulatory asset instead of charged to expense. A regulatory asset is recorded when it is probable that future revenue in an amount at least equal to the capitalized costs will be recovered through customer rates over some future period. The Fund uses regulatory accounting for debt issuance costs because these costs are included in the rate structure and, as such, will continue to be amortized over the life of the associated bond issues. GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, would have required these costs to be expensed in the period incurred if the Fund had not utilized regulatory accounting for these costs. The Fund uses regulatory accounting for interest costs incurred during the construction of capital assets because these costs are included in the rate structure and, as such, will continue to be amortized over the life of the associated capital assets. GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, would have required these costs to be expensed in the period incurred if the Fund had not utilized regulatory accounting for these costs.

**Other charges** – Other charges primarily represent costs related to the long-term control plan, which direct the Fund's construction and monitoring of several combined sewer overflow projects. The Fund amortizes these charges over a 5 to 30-year period.

**Capital assets** – Capital assets are stated at cost or, if contributed, at fair value at the date of contribution. Costs include direct material, labor, and indirect costs such as engineering, supervision, payroll taxes, pension benefits, and interest relating to the financing of projects under construction. The cost of current repairs and maintenance is charged to expense, while the cost of additions and improvements is capitalized. SPU's policy is to generally capitalize assets with a cost of \$5,000 or more. The Fund received donated assets, such as sewer and drainage pipes, from developers and other government agencies. These donated assets are recorded under capital contributions and grants in the statements of revenues, expenses, and changes in net position.

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



**Seattle Public Utilities – Drainage and Wastewater Fund**  
**(An Enterprise Fund of the City of Seattle)**  
**Notes to Financial Statements**

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

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

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

Asset depreciation begins in the month the asset is placed in service.

**Deferred outflows/inflows of resources** – In addition to assets, the statements of net position, when applicable, will report a separate section for deferred outflows of resources. It represents a consumption of net position that applies to a future period or periods and so will not be recognized as an outflow of resources (expense) until then. The Fund had a deferred loss on refunding debt that qualifies for reporting in this category. A deferred loss on refunding debt results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The Fund has also recorded deferred outflows of resources for certain pension activities, including the difference between projected and actual experience, the difference between projected and actual earnings on investments, and contributions made subsequent to the measurement date (Notes 5 and 8).

In addition to liabilities, the statements of net position, when applicable, will report a separate section for deferred inflows of resources. It represents an acquisition of net position that applies to a future period or period and so will not be recognized as an inflow of resources (revenue) until then. The Fund has also recorded deferred inflows of resources for the difference between projected and actual experience, changes in proportion, and differences between employer contributions and proportionate share of contributions, and unamortized gain on advanced refunding (Notes 5 and 8).

## Seattle Public Utilities – Drainage and Wastewater Fund

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

#### Notes to Financial Statements

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

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

Most pollution remediation outlays do not qualify for capitalization, and the Fund does not anticipate significant capitalized costs in the future. See Note 9 for site descriptions.

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

**Postemployment Benefits Other Than Pensions (OPEB)** – For purposes of measuring the total OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the benefit have been determined on the same basis as they are reported by the City. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms.

**Compensated absences** – Employees earn vacation based upon their date of hire and years of service and may accumulate vested vacation up to a maximum of 480 hours. Unused vacation at retirement or upon leaving city employment, is payable to the employee, in cash or a noncash settlement, such as conversion to defined postemployment benefits. Earned but unused vacation is accrued as a liability of the Fund using the employees' current pay rate. Employees also earn up to 12 days of sick leave per year and may accumulate sick leave balances without limit.

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

# **Seattle Public Utilities – Drainage and Wastewater Fund**

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

### **Notes to Financial Statements**

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

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

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

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

**Operating expenses** – The Fund's operating expenses include the cost of sales and services, administrative expenses, depreciation on capital assets, and amortization of deferred assets.

**Taxes** – The Fund is charged a public utility tax by the City at a rate of 12.0% for wastewater revenues and 11.5% for drainage revenues, net of certain credits. In addition, the Fund paid a 3.85% public utility tax to the state on a certain portion of revenues identified as sewer collection revenues. The Fund also paid business and occupation tax to the state on certain drainage and other non-utility revenues at the rate of 1.75%.

**Nonoperating revenues and expenses** – This includes the nonoperating revenues and expenses that arise from transactions not related directly to the major income-earning operations of the utility and are of a recurring nature. Major items are the investment and interest income, interest expense, amortization of debt expenses, amortization of debt discounts, premiums and refunding losses, sale of capital assets, and rental income.

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

# Seattle Public Utilities – Drainage and Wastewater Fund

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

### Notes to Financial Statements

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Net investment in capital assets consists of capital assets, net of accumulated depreciation and amortization, reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Net position is restricted when constraints placed on net position use are either (1) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or (2) imposed by law through constitutional provisions or enabling legislation. The Fund's restricted net position as of December 31, 2024 and 2023, is related to external infrastructure costs, certain other charges, and retainage. Unrestricted net position is the portion that is not "net investment in capital assets" or "restricted."

**Arbitrage rebate requirement** – The Fund is subject to the Internal Revenue Code (IRC), Section 148(f), related to its tax-exempt revenue bonds. The IRC requires that earnings on gross proceeds of any revenue bonds that are in excess of the amount prescribed be surrendered to the Internal Revenue Service. As such, the Fund would record such a rebate as a liability. The Fund had no liability for arbitrage as of December 31, 2024 and 2023.

**Accounting standard changes** – In June 2022, GASB issued Statement No. 100 (GASB 100), *Accounting Changes and Error Corrections*, and it was effective for reporting periods beginning after June 15, 2023. This standard prescribes the accounting and financial reporting requirements for accounting changes and error corrections. There is no impact to the Fund as a result of adopting this standard.

In June 2022, GASB issued Statement No. 101 (GASB 101), *Compensated Absences*, and it was effective for reporting periods beginning after December 15, 2023. This standard requires the fund to record a liability for leave that accumulates, is attributable to services already rendered, and is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. There is no impact to the Fund as a result of adopting this standard.

**Use of estimates** – The preparation of the financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect amounts reported in the financial statements. Estimates and assumptions are used to record unbilled revenues, allowance for doubtful accounts, fair value of cash and equity in pooled investments, accrued sick leave, capitalized interest, intangible lease and subscription assets and liabilities, depreciation and amortization, environmental liabilities, risk liabilities, pension liability, and other contingencies. Changes in these estimates and assumptions may have a material impact on the financial statements.

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

**Reclassifications** – Certain reclassifications have been made to the financial statements and related footnote presentations. These reclassifications had no effect on the operating results or net position of the Fund.

**Seattle Public Utilities – Drainage and Wastewater Fund**  
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**Note 2 – Cash and Equity in Pooled Investments**

Per Seattle Municipal Code, SMC 5.06.010 Investment Authority, the City's Director of Finance and Administrative Services (FAS) is authorized to invest all moneys in the City Treasury. Cash resources of the Fund are combined with cash resources of the City to form a pool of cash that is managed by the City's Department of FAS. Under the City's investment policy, all temporary cash surpluses in the pool are invested. The Fund's share of the pool is included on the statements of net position 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 Fund, may deposit cash at any time and can also withdraw cash out of the pool, up to the amount of the Fund's fund balance, without prior notice or penalty. Accordingly, the statements of cash flows reconcile to cash and equity in pooled investments.

**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, 2024 and 2023, the City did not have custodial credit risk. The City's deposits are covered by insurance provided by the Federal Deposit Insurance Corporation (FDIC) and the National Credit Union Association (NCUA), as well as protection provided by the Washington State Public Deposit Protection Commission (PDPC) as established in RCW 39.58. The PDPC makes and enforces regulations and administers a program to ensure public funds deposited in banks and thrifts are protected if a financial institution becomes insolvent. The PDPC approves which banks, credit unions, and thrifts can hold state and local government deposits and monitors collateral pledged to secure uninsured public deposits. This secures public treasurers' deposits when they exceed the amount insured by the FDIC or NCUA by requiring banks, credit unions, and thrifts to pledge securities as collateral.

As of December 31, 2024 and 2023, the City held sufficient cash in its vault for operations. 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 Consolidated Cash Pooled Investment Portfolio (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.

**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 Principal Custody Solutions 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.

# Seattle Public Utilities – Drainage and Wastewater Fund

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

### Notes to Financial Statements

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**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% of the Pool’s market value. Credit investments must be diversified by sector and industry. No single issuer shall exceed 3% 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% of the Pool’s market value. No single issuer rated in the single-A category may exceed 2% 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% of the Pool’s market value.

**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 12 to 18 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.

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.

# Seattle Public Utilities – Drainage and Wastewater Fund

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

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**Investments** – The Fund’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 Fund. As of December 31, 2024 and 2023, the Fund did not have any dedicated investments. The City’s Statement of Investment Policy was modified on January 1, 2018, with an effective date of March 8, 2018. There have been no subsequent changes to the policy.

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.
- *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 City Finance Director and Office of City Finance 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 person may engage in an investment transaction except as provided under the terms of the City Statement of Investment Policy and the procedures established therein.

**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*. 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.

As of December 31, 2024 and 2023, the City held \$468.3 million and \$406.4 million, respectfully on 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.

# Seattle Public Utilities – Drainage and Wastewater Fund

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Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction amongst 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 City uses a combination of the market and cost approach for the valuation of pooled investments.

The City's overnight repurchase agreement with Wells Fargo Bank, N.A., is accounted for at cost.

The City is authorized by Seattle Municipal Code Section 5.06.010 and Chapter 43.250 of the Revised Code of Washington to participate in the State of Washington Local Government Investment Pool (LGIP), which is managed and operated by the Washington State Treasurer. The State Treasurer is responsible for establishing the investment policy for the pool and reviews the policy annually and proposed changes are reviewed by the LGIP advisory Committee. Investments in the LGIP, a qualified external investment pool, are reported at amortized cost which approximates fair value. The LGIP is an unrated external investment pool. The LGIP is invested in a manner that meets the maturity, quality, diversification and liquidity requirements set forth by GASB 79 for external investment pools that elect to measure, for financial reporting purposes, investments at amortized cost. The LGIP does not have any legally binding guarantees of share values. The LGIP does not impose liquidity fees or redemption gates on participant withdrawals.

The Office of the State Treasurer prepares a stand-alone LGIP financial report. A copy of the report is available from the Office of the State Treasurer, PO Box 40200, Olympia, Washington 98504-0200, online at <http://www.tre.wa.gov>.

The remainder of City's investments are purchased in the over-the-counter U.S. bond market and accounted for at fair value.

The City uses market pricing for its over-the-counter investments as provided by its contractual custodial agent, Principal Financial Services Inc., and the City's third-party investment accounting vendor Clearwater Analytics LLC. Prices are obtained from the City's safekeeping bank, Principal. Principal's primary pricing vendor is Intercontinental Exchange (ICE). Level 1 – Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Fund can access at the measurement date.

**Level 1** – Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Fund 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.



# Seattle Public Utilities – Drainage and Wastewater Fund

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**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 City's investments in U.S. Treasuries are valued as Level 1. The City's remaining investments are valued as Level 2 or measured at amortized cost. The City does not invest in securities that require Level 3 inputs.

As of December 31, 2024, the City's pooled investments were categorized within the fair value hierarchy as follows (in thousands):

Investments	Fair Value as of December 31, 2024	Fair Value Measurements Using			Weighted Average Maturity (Days)
		Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	
U.S. Government Agency Securities	\$ 784,234	\$ -	\$ 784,234	\$ -	599
U.S. Treasury and U.S. Government-Backed Securities	1,924,517	1,924,517	-	-	710
Local Government Investment Pool	468,340	468,340	-	-	-
U.S. Government Agency Mortgage-Backed Securities	290,315	-	290,315	-	1,508
Municipal Bonds	94,385	-	94,385	-	591
Commercial Paper	48,995	-	48,995	-	164
Corporate Bonds	32,863	-	32,863	-	544
International Bank for Reconstruction and Development	130,251	-	130,251	-	942
Repurchase Agreements	11,256	11,256	-	-	9,131
	<u>\$ 3,785,156</u>	<u>\$ 2,404,113</u>	<u>\$ 1,381,043</u>	<u>\$ -</u>	

Weighted Average Maturity of the City's Pooled Investments

682

As of December 31, 2023, the City's pooled investments were categorized within the fair value hierarchy as follows (in thousands):

Investments	Fair Value as of December 31, 2023	Fair Value Measurements Using			Weighted Average Maturity (Days)
		Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	
U.S. Government Agency Securities	\$ 1,417,009	\$ -	\$ 1,417,009	\$ -	404
U.S. Treasury and U.S. Government-Backed Securities	1,240,539	1,240,539	-	-	679
Local Government Investment Pool	406,431	406,431	-	-	-
U.S. Government Agency Mortgage-Backed Securities	312,777	-	312,777	-	1,754
Municipal Bonds	150,811	-	150,811	-	772
Corporate Bonds	67,267	-	67,267	-	537
International Bank for Reconstruction and Development	48,924	-	48,924	-	247
Repurchase Agreements	17,297	17,297	-	-	9,497
	<u>\$ 3,661,055</u>	<u>\$ 1,664,267</u>	<u>\$ 1,996,788</u>	<u>\$ -</u>	

Weighted Average Maturity of the City's Pooled Investments

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**Seattle Public Utilities – Drainage and Wastewater Fund**  
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**Notes to Financial Statements**

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The Fund's share of the City pool was as follows as of December 31:

	2024	2023
Operating cash and equity in pooled investments	\$ 429,624,912	\$ 346,885,578
Restricted cash and equity in pooled investments	192,406,615	158,637,496
<b>Total</b>	<b>\$ 622,031,527</b>	<b>\$ 505,523,074</b>
Balance as a percentage of City pool cash and investments	16.4%	13.8%

**Concentration of credit 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 and 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 are as follows:

Issuer	2024		2023	
	Fair Value	Percent of Total Investments	Fair Value	Percent of Total Investments
United States Government	\$ 1,924,517	51%	\$ 1,240,539	34%
Federal Home Loan Bank	193,947	5%	572,730	16%
Local Government Investment Pool	468,340	12%	406,431	11%
Federal National Mortgage Association	280,777	7%	293,713	8%
Federal Farm Credit Bank	219,703	6%	291,404	8%
Federal Home Loan Mortgage Corp	215,628	6%	287,136	8%
Federal Agriculture Mortgage Corp	-	-	248,019	7%

**Seattle Public Utilities – Drainage and Wastewater Fund**  
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**Note 3 – Capital Assets**

Capital asset activity consisted of the following for the year ended December 31, 2024:

	Beginning Balance	Additions and Transfers In	Retirements and Transfers Out	Ending Balance
Buildings	\$ 26,372,558	\$ -	\$ (287,428)	\$ 26,085,130
Infrastructure	1,424,282,422	52,409,877	(1,449,910)	1,475,242,389
Machinery and equipment	129,209,707	9,454,951	(2,399,197)	136,265,461
Computer systems	73,895,375	295,292	(7,080,311)	67,110,356
Intangible right-to-use	924,237	304,112	(403,243)	825,106
Total capital assets, excluding land	1,654,684,299	62,464,232	(11,620,089)	1,705,528,442
Less accumulated depreciation and amortization	(530,808,048)	(39,869,466)	11,114,941	(559,562,573)
	1,123,876,251	22,594,766	(505,148)	1,145,965,869
Construction in progress	513,223,964	180,882,962	(63,093,570)	631,013,356
Land and land rights	47,433,829	-	-	47,433,829
Artwork	5,806,464	663,579	(511,293)	5,958,750
Capital assets, net	<u>\$ 1,690,340,508</u>	<u>\$ 204,141,307</u>	<u>\$ (64,110,011)</u>	<u>\$ 1,830,371,804</u>

Capital asset activity consisted of the following for the year ended December 31, 2023:

	Beginning Balance	Additions and Transfers In	Retirements and Transfers Out	Ending Balance
Buildings	\$ 26,372,558	\$ -	\$ -	\$ 26,372,558
Infrastructure	1,327,277,336	105,488,527	(8,483,441)	1,424,282,422
Machinery and equipment	123,749,013	5,505,333	(44,639)	129,209,707
Computer systems	70,734,370	3,306,782	(145,777)	73,895,375
Intangible right-to-use	484,114	440,123	-	924,237
Total capital assets, excluding land	1,548,617,391	114,740,765	(8,673,857)	1,654,684,299
Less accumulated depreciation and amortization	(497,527,498)	(38,784,454)	5,503,904	(530,808,048)
	1,051,089,893	75,956,311	(3,169,953)	1,123,876,251
Construction in progress	468,354,639	191,143,734	(146,274,409)	513,223,964
Land and land rights	46,662,046	772,059	(276)	47,433,829
Artwork	4,945,548	860,916	-	5,806,464
Capital assets, net	<u>\$ 1,571,052,126</u>	<u>\$ 268,733,020</u>	<u>\$ (149,444,638)</u>	<u>\$ 1,690,340,508</u>

During 2024 and 2023, the Fund capitalized interest costs as a regulatory asset relating to construction of \$21,967,229 and \$19,658,094, respectively.

**Seattle Public Utilities – Drainage and Wastewater Fund**  
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The Fund, as lessee, has entered into various leases for building and equipment with lease terms expiring between 2025 and 2027. Leases that have a maximum possible lease term that are non-cancelable by both lessee and lessor, have a term of more than 12 months, and a present value greater than \$5,000 are considered to be “right-to-use” assets. Unless explicitly stated in the lease agreement, the discount rate used to calculate lease right-of-use assets and liabilities in which the Fund acts as lessee is the City’s incremental borrowing rate based on the expiring date. The discount rate used for leases during the years ended December 31, 2024 and 2023, was 0.38%.

The Fund has two subscription-based information technology arrangements (SBITAs) with the terms ending in 2026. Any software arrangement that is negotiated by Seattle IT that is for the benefit of multiple departments, will be accounted for at the City level by Seattle IT and is excluded by the Fund. The discount rate used for the software arrangement during the years ended December 31, 2024 and 2023, was 2.70%.

Minimum payments under the leases and SBITAs are as follows:

Years Ending December 31,	Principal	Interest	Total
2025	\$ 182,715	\$ 11,455	\$ 194,170
2026	165,815	6,794	172,609
2027	77,000	2,042	79,042
	<u>\$ 425,530</u>	<u>\$ 20,291</u>	<u>\$ 445,821</u>

**Note 4 – Revenue Bonds**

The Fund issues bonds to provide financing for capital improvements. Payment of debt service on the bonds is derived solely from the revenues generated by the Fund. The Fund has \$30,872,471 in a debt service reserve fund and has obtained reserve insurance policies to meet the remainder of its reserve requirements. The total bonds outstanding as of December 31, 2024 and 2023, were \$767,325,000 and \$799,425,000, respectively. Revenue bonds outstanding as of December 31, 2024 and 2023, consisted of the following Municipal Drainage and Wastewater bonds:

Name of Issue	Issuance Date	Maturity Years	Interest Rates	Original Issue Amount	Bonds Outstanding	
					2024	2023
2009 Improvement, Series A (Taxable)	12/17/09	2017-2039	4.2-5.5%	\$ 102,535,000	\$ 75,675,000	\$ 79,415,000
2014 Improvement and Refunding	7/10/14	2015-2044	3.0-5.0%	133,180,000	79,120,000	84,350,000
2016 Improvement and Refunding	6/22/16	2016-2046	4.0-5.0%	160,910,000	132,085,000	136,860,000
2017 Improvement and Refunding	6/28/17	2018-2047	4.0-5.0%	234,125,000	189,350,000	195,600,000
2021 Improvement and Refunding	6/8/21	2022-2051	4.0-5.0%	111,010,000	104,625,000	106,865,000
2022 Improvement and Refunding	6/22/22	2022-2042	4.0-5.0%	117,165,000	89,970,000	98,395,000
2023 Improvement Revenue	6/8/23	2024-2053	5.0%	97,940,000	96,500,000	97,940,000
				<u>\$ 956,865,000</u>	<u>\$ 767,325,000</u>	<u>\$ 799,425,000</u>

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

Years Ending December 31,	Principal	Interest	Total
2025	\$ 33,680,000	\$ 33,861,971	\$ 67,541,971
2026	34,200,000	32,259,221	66,459,221
2027	35,575,000	30,627,059	66,202,059
2028	34,050,000	28,852,984	62,902,984
2029	36,380,000	27,210,371	63,590,371
2030 - 2034	174,080,000	112,192,200	286,272,200
2035 - 2039	173,165,000	73,457,180	246,622,180
2040 - 2044	137,490,000	39,486,200	176,976,200
2045 - 2049	78,460,000	14,908,925	93,368,925
2050 - 2054	30,245,000	2,803,250	33,048,250
	<u>\$ 767,325,000</u>	<u>\$ 395,659,361</u>	<u>\$ 1,162,984,361</u>

The following table shows the revenue bond activity during the year ended December 31, 2024:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable					
Revenue bonds	\$ 799,425,000	\$ -	(32,100,000)	\$ 767,325,000	\$ 33,680,000
Add (deduct) deferred amounts					
Issuance premiums	93,345,380	-	(3,921,858)	89,423,522	-
Issuance discounts	(356,406)	-	23,760	(332,646)	-
Total bonds payable	<u>\$ 892,413,974</u>	<u>\$ -</u>	<u>\$ (35,998,098)</u>	<u>\$ 856,415,876</u>	<u>\$ 33,680,000</u>

The following table shows the revenue bond activity during the year ended December 31, 2023:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable					
Revenue bonds	\$ 730,710,000	\$ 97,940,000	(29,225,000)	\$ 799,425,000	\$ 32,100,000
Add (deduct) deferred amounts					
Issuance premiums	86,926,740	10,189,291	(3,770,651)	93,345,380	-
Issuance discounts	(380,166)	-	23,760	(356,406)	-
Total bonds payable	<u>\$ 817,256,574</u>	<u>\$ 108,129,291</u>	<u>\$ (32,971,891)</u>	<u>\$ 892,413,974</u>	<u>\$ 32,100,000</u>

**Financial covenants** – The revenue bonds contain certain financial covenants, the most significant of which requires the Fund to maintain Reserve Subaccount at the least of (i) Maximum Annual Debt Service on all parity bonds outstanding at the time of calculation, (ii) 1.25 times adjusted annual debt service on all parity bonds outstanding at the calculation, or (iii) the sum of 10% of the proceeds of each series of parity bonds then outstanding. Management believes the Fund was in compliance with all debt covenants as of December 31, 2024. For more information, see Other Information (page 55).

#### Note 5 – Postemployment Benefit Plans

**Deferred compensation** – The City offers all of its employees a deferred compensation plan (the Plan) created in accordance with IRC Section 457. The Plan permits employees to defer a portion of their salaries until future years. The deferred compensation is paid to employees upon termination, retirement, death, or unforeseen emergency.

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The Plan is an eligible deferred compensation plan under Section 457 of the IRC of 1986, as amended, and a trust exempt from tax under IRC Sections 457(g) and 501(a). The Plan is operated for the exclusive benefit of participants and their beneficiaries. No part of the corpus or income of the Plan shall revert to the City or be used for, or diverted to, purposes other than the exclusive benefit of participants and their beneficiaries. The Plan is not reported in the financial statements of the City or the Fund.

It is the opinion of the City's legal counsel that the City has no liability for investment losses under the Plan. Under the Plan, participants select investments from alternatives offered by the Plan Administrator, who is under contract with the City to manage the Plan. Investment selection by a participant may be changed from time to time. The City does not manage any of the investment selections. By making the selection, participants accept and assume all risks inherent in the Plan and its administration.

**Other postemployment benefits plan description** – Health care plans for active and retired employees are administered by the City of Seattle as single-employer defined benefit public employee health care plans.

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

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.

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Based on the latest biennial actuarial valuation date the significant methods and assumptions are as follows:

**Actuarial data and assumptions** – The demographic assumptions of mortality, termination, retirement, and disability are set equal to the assumptions used for City pension actuarial valuations based on a Seattle City Employees' Retirement System Experience Report for the period 2018–2021.

<b>Actuarial data and assumptions</b>	<b>2024</b>
Valuation date	January 1, 2024
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Discount rate	3.26%
Health care cost trend rates – medical	6.47% in 2024, increasing to 8.00% in 2025 and decreasing by varying amounts until 2035 thereafter
Health care cost trend rates – Rx	7.56% in 2024 and 13.00% in 2025 and decreasing by varying amounts until 2035 thereafter
Participation	25% of active employees who retire participate

**Mortality**

General Service (Actives)

PubG-2010 Employee Table multiplied by 95%

Rates are projected generationally using Scale MP-2021 ultimate rates

General Service (Retirees)

PubG-2010 Retired Mortality Table multiplied by 95%

Rates are projected generationally using Scale MP-2021 ultimate rates

**Marital status** – 25% of members electing coverage: married or have a registered domestic partner. Male spouses two years older than their female spouses.

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**Health care claims development** – The sample per capita claim cost assumptions shown below by age, benefit, and plan represent the true underlying baseline experience estimated for the City of Seattle’s sponsored postretirement benefits and costs.

Age	Pre-65 Medical, RX, and Admin Combined						Kaiser MAPD Pre65
	Aetna Preventive Plan	Aetna Traditional	Aetna Medicare Pre65	Kaiser Standard	Kaiser Deductible		
50	\$ 18,062	\$ 16,082	\$ 13,016	\$ 10,627	\$ 8,253		\$ 6,857
55	22,293	19,850	16,066	13,117	10,186		8,464
60	27,649	24,619	19,925	16,268	12,633		10,497

The average medical and prescription drug per capita claims costs were developed from 2025 calendar year self-funded premium rates. Premium-equivalent rates were provided by City of Seattle’s health pricing actuary. The average medical and prescription drug per capita “adult-equivalent” claims costs were based on the respective pre-65 enrollment weighted average of the 2025 four-tier rate structure including the add-on cost of dependent children and trended back from 2025 to 2024 to be centered at the mid-point of the annual period following the valuation date. Average medical/Rx per capita claims costs were then age-adjusted based on the demographics of the rating population, and the assumed health care aging factors shown in the table below.

Models are used to estimate underlying per capita medical and drug claims costs, subsequently utilized as assumption inputs for valuation models used to develop the liabilities for the 2025 and future valuations.

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

Age	Medical	Rx	Composite
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%

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



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**OPEB liability** – The Fund reported an OPEB liability of approximately \$4.3 million in 2024 and \$2.4 million in 2023. The Fund's proportionate share of the OPEB liability was 5.12% and 5.63% for the years ended December 31, 2024 and 2023, respectively. Based on the actuarial valuation date of January 1, 2024, details regarding the Fund's total OPEB liability, plan fiduciary net position, and net OPEB liability as of December 31, are shown below.

	Total OPEB Liability at December 31,	
	2024	2023
Changes recognized for the fiscal year:		
Service cost	\$ 132,424	\$ 200,438
Interest on the total OPEB liability	97,808	67,271
Differences between expected and actual experience	(62,417)	-
Changes of assumptions	1,838,548	(450,575)
Contributions from the employer	(125,611)	(137,043)
Other changes	(24,758)	(38,211)
Net changes	1,855,994	(358,120)
Balance recognized at December 31, 2023	2,406,650	2,764,770
Balance recognized at December 31, 2024	<u>\$ 4,262,644</u>	<u>\$ 2,406,650</u>

The Fund recorded an expense for OPEB of \$229,161 in 2024 and \$51,476 in 2023. The Health Care Subfund of the General Fund is reported in The City of Seattle's Annual Comprehensive Financial Report.

**Discount rate and healthcare cost trend rates** – The discount rate used to measure the total OPEB liability is 3.26% for 2024 and 3.72% for 2023. The following tables present the sensitivity of total OPEB liability calculation to a 1% increase and a 1% decrease in the discount rate used to measure the total OPEB liability:

	Discount Rate Sensitivity OPEB Liability at December 31,	
	2024	2023
Discount rate		
1% decrease	\$ 4,693,752	\$ 2,669,747
Current discount rate	4,262,644	2,406,650
1% increase	3,871,141	2,168,313

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The following table presents the sensitivity of total Health Plan OPEB liability calculation to a 1% increase and a 1% decrease in the health care cost trend rates used to measure the total health plan OPEB liability:

	OPEB Liability at December 31,	
	2024	2023
Discount rate		
1% decrease	\$ 3,754,275	\$ 2,078,685
Current trend rate	4,262,644	2,406,650
1% increase	4,867,231	2,797,256

**Deferred outflows of resources and deferred inflows of resources related to OPEB** – The following table presents information about the OPEB-related deferred outflows of resources and deferred inflows of resources for the Fund at December 31, 2024:

	Deferred Outflows	Deferred Inflows
Difference between actual and expected experience	\$ 290,033	\$ 633,460
Assumption changes	1,750,529	851,044
Contributions made in 2024 after measurement date	172,198	-
Total	<u>\$ 2,212,760</u>	<u>\$ 1,484,504</u>

The following table presents information about the OPEB-related deferred outflows of resources and deferred inflows of resources for the Fund at December 31, 2023:

	Deferred Outflows	Deferred Inflows
Difference between actual and expected experience	\$ 408,400	\$ 672,971
Assumption changes	136,137	1,104,362
Contributions made in 2023 after measurement date	138,100	-
Total	<u>\$ 682,637</u>	<u>\$ 1,777,333</u>

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The Fund's contributions made in 2024 in the amount of \$172,198 are reported as deferred outflows of resources and will be recognized as a reduction of the total OPEB liability in the year ending December 31, 2025. Other inflows and outflows related to OPEB will be recognized in the future as shown in the following table. Note that additional future deferred outflows and inflows of resources may impact these amounts.

Year Ending December 31,	<u>Amortization</u>
2025	\$ (1,039)
2026	(1,039)
2027	41,901
2028	61,578
2029	69,914
Thereafter	<u>384,743</u>
Total	<u><u>\$ 556,058</u></u>

The Health Care Subfund of the General Fund is reported in the City's Annual Comprehensive Financial Report which can be obtained by writing the Department of Finance, City of Seattle, PO Box 94747, Seattle, WA 98124-4747 or [www.seattle.gov/investor-relations](http://www.seattle.gov/investor-relations).

**Note 6 – Claims Payable**

The City and the Fund are self-insured for certain losses arising from personal and property damage claims by third parties and for casualty losses to the Fund's property. Liabilities for identified claims and claims incurred but not reported have been recorded by the Fund.

For 2024 and 2023, liabilities for workers' compensation claims, as well as other claims, are discounted over a 15-year period at the City's rate of return on investments of 3.61% and 3.12%, respectively. Claims expected to be paid within one year are \$4,548,799 and \$2,907,466 as of December 31, 2024 and 2023, respectively.

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

	<u>2024</u>	<u>2023</u>
Beginning liability, discounted	\$ 12,834,613	\$ 11,915,192
Payments	(2,907,263)	(3,745,172)
Incurred claims and change in estimate	<u>5,663,909</u>	<u>4,664,593</u>
Ending liability, discounted	<u><u>\$ 15,591,259</u></u>	<u><u>\$ 12,834,613</u></u>

The Fund is involved in litigation from time to time as a result of operations.

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**Note 7 – Compensated Absences**

The Fund has recorded a liability for vested but unused compensatory and vacation leave, as well as estimated sick leave payments calculated based on the economic resources measurement focus for leave that is more likely than not to be settled by cash payments or noncash settlement, such as conversion to defined postemployment benefits. The schedules below show the compensated absences activity during the years ended December 31, 2024 and 2023:

	2024	2023
Beginning liability	\$ 7,014,592	\$ 6,864,509
Net Additions/Reductions	545,128	150,083
Ending liability	<u>\$ 7,559,720</u>	<u>\$ 7,014,592</u>

**Note 8 – Pension Benefit Plan**

**Plan description** – The Seattle City Employees' Retirement System (the System) is a cost-sharing multiple employer pension plan covering employees of the City of Seattle and is administered in accordance with Chapter 4.36 of the Seattle Municipal Code.

The System is governed by the Retirement System Board of Administration (the Board). The Board consists of seven members including the Chair of the Finance Committee of the Seattle City Council, the City of Seattle Finance Director, the City of Seattle Personnel Director, two active members and one retired member of the System who are elected by other System members, and one outside board member who is appointed by the other six board members. Elected and appointed board members serve for three-year terms.

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. All Fund employees are eligible to participate in the system.

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

**SCERS I** – The System provides retirement, death, and disability benefits. Retirement benefits vest after five years of credited service, while death and disability benefits vest after 10 years of service. 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 five 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 five years of credited service.

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**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 five years of credited service.

Member and employer contributions – member and employer contributions are:

	YEAR	SCERS I	SCERS II
Member Contribution	2024	10.03%	7.00%
	2023	10.03%	7.00%
Employer Contribution	2024	15.31%	14.91%
	2023	15.91%	15.56%

Member and employer rates are established by the Seattle Municipal Code Chapter 4.36. The Fund's contributions to the System for the years ended December 31, 2024 and 2023, were \$11,134,323 and \$9,411,900, respectively.

The System issues stand-alone financial statements, which may be obtained by writing to the Seattle City Employees' Retirement System, 720 Third Avenue, Suite 900, Seattle, Washington, 98104, and telephone: (206) 386-1293, or email at [retirecity@seattle.gov](mailto:retirecity@seattle.gov) or <https://www.seattle.gov/retirement/forms-and-publications/publications>.

**Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions** – At December 31, 2024 and 2023, the Fund reported a liability of \$76,925,098 and \$90,297,842, respectively, of its proportionate share of the System's net pension liability. The net pension liability was measured as of December 31, 2023 and 2022, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2024 and 2023. The Fund's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating parties, actuarially determined. At December 31, 2024 and 2023, the Fund's proportion was 6.21% and 6.96%, respectively.

For the years ended December 31, 2024 and 2023, the Fund recognized pension expense of approximately \$8,047,000 and \$13,187,000, respectively.

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The Fund's deferred outflows and inflows of resources are as follows at December 31, 2024:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 535,141	\$ 591,250
Change of assumptions	3,407,405	-
Difference between projected and actual earnings	9,782,026	-
Contributions made subsequent to measurement date	11,134,323	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	2,395,178
Total	<u>\$ 24,858,895</u>	<u>\$ 2,986,428</u>

The Fund's deferred outflows and inflows of resources are as follows at December 31, 2023:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 140,991	\$ 1,132,225
Change of assumptions	5,685,901	-
Difference between projected and actual earnings	18,395,996	-
Contributions made subsequent to measurement date	9,411,900	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	1,068,687
Total	<u>\$ 33,634,788</u>	<u>\$ 2,200,912</u>

The Fund's contributions made subsequent to the measurement date 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, 2025. Amounts currently reported as deferred outflows of resources relate to actual experience and difference in actual earnings on pension investments from projected earnings and will be recognized in pension expense as follows for years ending December 31:

Year	Amortization
2025	\$ 824,284
2026	4,388,285
2027	6,789,261
2028	(2,812,609)
2029	1,548,923
Total	<u>\$ 10,738,144</u>

# Seattle Public Utilities – Drainage and Wastewater Fund

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**Actuarial assumptions** – The total pension liability as of December 31, 2024, was determined using the following actuarial assumptions:

Valuation date	January 1, 2023
Measurement date	December 31, 2023
Actuarial cost method	Individual Entry Age Normal
Amortization method	Level Percent, Closed
Remaining amortization period	30 years as of January 1, 2013 valuation
Asset valuation method	5-Year Non-asymptotic
Inflation	2.60%
Investment rate of return	6.75% compounded annually, net of expenses
Discount rate	6.75%
Projected general wage inflation	2.6%
Postretirement benefit increases	1.5%
Mortality	Various rates based on PubG-2010 mortality tables and using generational projection of improvement using MP-2021 Ultimate projection scale. See 2022 Investigation of Experience report for details.

The actuarial assumptions that determined the net pension liability as of the measurement date were based on the results of an actuarial experience study for the period January 1, 2018, – December 31, 2021.

The discount rate used to measure the pension liability is based on a projection of cash flows assuming that plan member contributions will be made at the current contribution rate and that participating employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the System's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods on projected benefit payment to determine total pension liability.

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

# Seattle Public Utilities – Drainage and Wastewater Fund

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Best estimates of geometric real rates of return for each major asset class included in the System's target asset allocation as of December 31, 2024, are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return
Equity: Public	4.70%
Equity: Private	7.50%
Fixed Income: Broad	2.30%
Fixed Income: Credit	5.80%
Real Assets: Real Estate	4.20%
Real Assets: Infrastructure	4.50%

**Sensitivity analysis** – The following presents the Fund's proportionate share of the net pension liability calculated using the discounted rate of 6.75%, as well as what the employer's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (5.75%) or one percentage point higher (7.75%) than the current rate.

1% Decrease 5.75%	Current Discount Rate 6.75%	1% Increase 7.75%
\$ 125,305,331	\$ 76,925,098	\$ 48,324,248

#### Note 9 – Environmental Liabilities

Following is a brief description of the significant sites that require environmental remediation:

**Lower Duwamish Waterway (LDW) Superfund site** – The U.S. Environmental Protection Agency (EPA) has indicated that it will require the remediation of the LDW site under its Superfund authority. In order to manage the liability, the City has worked with the EPA and other PRPs to complete a Remedial Investigation (RI) and Feasibility Study (FS). On November 2, 2012, the EPA and Ecology approved the Lower Duwamish Waterway Group's FS. The EPA announced their proposed cleanup plan in February 2013 for public comment. The remaining scope of cleanup by PRPs has been decided by the EPA in the 2014 Record of Decision. The Fund recorded an estimate of its share of the estimated total cost. Remedial design work began in 2019. Pre-design work has been completed and design work for the upper and middle reaches of the waterway are underway pursuant to amendments to the existing EPA order.

Specific "early action sites" have been cleaned up separately under Administrative Orders on Consent (AOC). The Fund, together with other PRPs, has completed two early action sites identified during the RI under EPA issued AOC: Slip 4 and T-117.



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**East Waterway Site** – In 2006 the EPA issued an AOC for a Supplemental RI and FS for the East Waterway, an operable unit of the Harbor Island Superfund Site. The Port of Seattle (the Port) alone signed the AOC. Both the City and King County signed a Memorandum of Agreement with the Port to participate as cost share partners in the RI/FS work required by the EPA. The RI and FS are complete. The FS identifies a range of alternatives for cleanup construction that range in cost from \$256 million to \$411 million (2016 dollars). EPA released their Proposed Plan in 2023. The interim Record of Decision was issued by the EPA in 2024. Remedial design activities are expected to start in late 2025. The Fund recorded an estimate of its share of the estimated total cost.

**Gas Works Park Sediment Site** – In April 2002, the Department of Ecology (DOE) named the City and another party, Puget Sound Energy (PSE), as PRPs for contamination at the Gas Works Sediments Site in North Lake Union. The City and PSE signed an Agreed Order with the DOE in 2005 to initiate two RIs and FSs for the sediment site: one in the western portion of the site led by the City, and another in the eastern portion of the site led by PSE. Subsequently, in fall of 2012, the City and PSE entered into a Settlement, Release, and Cost Allocation Agreement that puts Puget Sound Energy in the lead for all additional cleanup work at the site and eliminated the east-west split. Based on the 2012 Agreement, the City pays for 20% of the Shared Costs incurred by PSE for the cleanup work. DOE approved the site RI/FS in January 2023. A Clean-up Action Plan, which is the State's equivalent to a Record of Decision under the Model Toxics Control Act, was developed in 2023 and, will be an exhibit to a Consent Decree. The Consent Decree was filed in January 2024 for design and construction of the sediment cleanup and signed by the City and PSE.

**North Boeing Field/Georgetown Steam Plant** – The City, King County, and Boeing have signed an Administrative Order with the DOE requiring them to investigate and possibly remove contamination in an area that encompasses North Boeing Field, the Georgetown Steam Plant, and the King County Airport. A RI is currently in preparation.

**Terminal 108** – EPA notified the City in 2019 that it is a Potentially Responsible Party for a site adjacent to the Lower Duwamish Waterway that is known as Terminal 108 or T108. The City's potential liability arises from a former sewage treatment plant that was located there. Other PRPs include the Port of Seattle, which is the current owner of the site, King County, the United States and several private entities. In 2020, the Port of Seattle, City of Seattle (SPU), and King County entered into an agreed Administrative Order with EPA and a cost-sharing agreement among themselves to complete an Engineering Evaluation and Cost Analysis (EE/CA). Work has begun on the investigative phase of the EE/CA at the T108 site in accordance with the Administrative Order, which will lead to a recommended removal or cleanup action. Preparation of the draft EE/CA report began in late 2024 and continue into 2025. Liabilities are estimated through the EE/CA. The Fund's ultimate liability is indeterminate.

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**South Park Marina** – The Washington Department of Ecology notified the City in 2016 that it is a Potentially Liable Party for contamination at the South Park Marina, which is adjacent to Terminal 117. The City Light Department is the lead department for the City at this site. The Potentially Liable Parties (PLPs), which are the City, the Port, and South Park Marina (SPM), signed a final Agreed Order for a Remedial Investigation (RI) in April 2019. A Common Interest and Cost Sharing Agreement among the PLPs was signed in 2019 with an interim cost share of one-third each. In 2019, the City contracted with a consultant to complete the RI. The City's share is split between City Light (97.5%) and SPU (2.5%). The Department's ultimate liability is indeterminate. Ecology is likely to issue an order for the next phase of work in 2025.

The Fund has included in its estimated liability those portions of the environmental remediation work that are currently deemed to be reasonably estimable. Cost estimates were developed using the expected cash flow technique in accordance with GASB 49. For most of the sites, estimated outlays were based on current cost and no adjustments were made for discounting or inflation. The Duwamish site cost estimates were adjusted to remove discounting and to record the costs in 2024 dollars. Cost scenarios were developed for a given site based on data available at the time of estimation and will be adjusted for changes in circumstance. Scenarios consider the relevant potential requirements and are adjusted when benchmarks are met or when new information revises estimated outlays, such as changes in the remediation plan or operating conditions. Costs reflect cost-sharing agreements in effect. In addition, certain estimates were derived from independent engineers and consultants. The estimates were made with the latest information available; however, as new information becomes available, estimates may vary significantly due to scope changes, price fluctuations, technological advances, or applicable laws.

The Fund is aggressively pursuing other third parties that may have contributed to the contamination of the sites noted. The Fund's estimate for not yet realized recoveries from other parties for their share of remediation work that offset the Fund's estimated environmental liability was \$4.3 million as of December 31, 2024, and \$3.6 million as of December 31, 2023.

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

	<u>2024</u>	<u>2023</u>
Beginning environmental liability, net of recovery	\$ 272,729,735	\$ 215,604,015
Payments or amortization	(8,721,591)	(5,233,517)
Incurred environmental liability	<u>52,348,694</u>	<u>62,359,237</u>
Ending environmental liability, net of recovery	<u>\$ 316,356,838</u>	<u>\$ 272,729,735</u>

The following table represents the current and long term portions for the environmental liabilities:

	<u>2024</u>	<u>2023</u>
Environmental liability, current	\$ 13,683,946	\$ 6,884,332
Environmental liability, noncurrent	<u>302,672,892</u>	<u>265,845,403</u>
Ending liability	<u>\$ 316,356,838</u>	<u>\$ 272,729,735</u>

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**Note 10 – Loans**

The Fund has various construction projects that are financed by low interest loans issued by the State of Washington. The loan agreements require that the Fund finance a portion of these projects from other sources. These loans have been used to enhance the drainage system.

In 2017, the Fund entered into a loan agreement with the Washington State Department of Ecology to borrow up to \$39.4 million to support the construction and improvements for the Henderson North Combined Sewer Overflow. Amounts borrowed under this agreement accrue interest at a rate of 2.4% per annum and are to be repaid by August 2037.

In 2019, the Fund entered into a 20-year loan agreement with the Washington State Department of Ecology to borrow up to \$25.0 million to support the Ship Canal Water Quality Project. Amounts borrowed under this agreement accrue interest at the rate of 2.0% per annum and are to be repaid by June 2042. As of December 31, 2022, the Fund had drawn \$23.3 million on the loan. The final draw of \$0.3 million was completed on April 26, 2022, bringing the final loan balance to \$24 million with accrued interest. As of December 31, 2024, the loan had an outstanding balance of \$21.5 million.

In 2020, the Fund entered into a 20-year loan agreement with the Washington State Department of Commerce Public Work Board to borrow up to \$10 million for Pearl Street Drainage & Wastewater Improvement. Amounts borrowed under this agreement accrue interest at the rate of 1.58%. As of December 31, 2024, the loan had an outstanding balance of \$8.3 million.

In 2020 the Fund entered into a 30-year loan agreement with the United States Environmental Protection Agency to borrow up to \$192 million (N18106WA) to support the Ship Canal Water Quality Project. Amounts borrowed under this agreement accrue interest at a rate of 1.01% per annum. As of December 31, 2024 the Fund has drawn \$86.8 million on the loan.

In 2021, the Fund entered into a 20-year loan agreement with the Washington State Department of Ecology to borrow up to \$66.0 million (EL210276 and EL210311) to support the Ship Canal Water Quality Project. In 2022, this was amended for an additional \$59.0 million (EL220699 and EL220700). Amounts borrowed under this agreement accrue interest at the rate of 1.2% per annum. As of December 31, 2024, the Fund had drawn \$125.0 million on the loan.

In 2024, the Fund entered into 30-year loan agreement with the Washington State Department of Ecology to borrow up to \$11.9 million for the South Thornton Natural Drainage System. Amounts borrowed under this agreement accrue interest at a rate of 1.6%. As of December 31, 2024, the loan had an outstanding balance of \$9.3 million.

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Loans outstanding as of December 31, 2024 and 2023, are as follows:

Description	Maturity Years	Interest Rate	Amount Borrowed	Loans Outstanding	
				2024	2023
Midvale	2013-2031	0.25%	\$ 4,000,000	\$ 1,482,395	\$ 1,694,165
Thornton Creek Natural Drainage Systems	2006-2024	0.50%	3,700,000		195,882
High Point Natural Drainage Systems	2010-2029	1.50%	2,679,413	684,525	830,473
South Park Flood Control and Local Drainage Program	2007-2025	0.50%	3,400,000	197,123	394,246
Thornton Creek Water Quality Project	2011-2030	1.50%	6,983,021	2,188,402	2,567,269
Capital Hill Water Quality Project	2014-2033	2.60%	1,880,598	994,773	1,091,625
Henderson CSO	2018-2037	2.40%	36,372,252	24,926,384	26,616,241
Pearl Street	2021-2039	1.58%	10,000,000	8,252,816	8,803,004
Ship Canal Water Quality Project					
EL190167 SRF	2022-2024	2.00%	23,967,096	21,504,093	22,520,346
EL210276 SRF	2025-2044	1.20%	38,365,000	38,365,000	38,365,000
EL210311 SRF	2025-2044	1.20%	27,635,000	27,635,000	27,635,000
EL220699 SRF	2025-2044	1.20%	27,631,000	27,631,000	27,631,000
EL220700 SRF	2025-2044	1.20%	31,369,000	31,369,000	31,369,000
N18106WA WIFIA	2023-2055	1.01%	34,238,280	86,791,586	34,238,280
South Thornton Natural Drainage System	2026-2031	0.80%	11,891,738	9,305,276	
				<u>\$ 264,112,398</u>	<u>\$ 281,327,373</u>
					<u>\$ 223,951,531</u>

Minimum debt service requirements to maturity on long term loans are as follows:

Years Ending December 31,	Principal	Interest	Total
2025	\$ 4,358,851	\$ 2,206,288	\$ 6,565,139
2026	12,602,863	3,537,948	16,140,811
2027	12,775,054	3,361,826	16,136,880
2028	12,950,027	3,182,986	16,133,013
2029	13,048,907	3,001,356	16,050,263
2030 - 2034	64,896,927	12,274,089	77,171,016
2035 - 2039	62,444,065	7,718,807	70,162,872
2040 - 2044	57,176,851	4,134,819	61,311,670
2045 - 2049	24,162,418	1,559,066	25,721,484
2050 - 2054	18,023,459	661,850	18,685,309
2055 - 2059	3,721,364	33,676	3,755,040
	<u>\$ 286,160,787 *</u>	<u>\$ 41,672,711</u>	<u>\$ 327,833,498</u>

\* Includes accrued interest of \$4,833,414 on the ship canal loans that will be added to the loans once the draws are completed

**Seattle Public Utilities – Drainage and Wastewater Fund**  
**(An Enterprise Fund of the City of Seattle)**  
**Notes to Financial Statements**

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The following table shows the loan activity during the years ended December 31:

	<u>2024</u>	<u>2023</u>
Net loans, beginning of year	\$ 223,951,531	\$ 142,010,882
Loan proceeds	61,858,582	86,283,601
Principal payments	<u>(4,482,740)</u>	<u>(4,342,952)</u>
Net loans, end of year	<u>\$ 281,327,373</u>	<u>\$ 223,951,531</u>
Loans due within one year	<u>\$ 4,358,851</u>	<u>\$ 4,482,740</u>
Loans, noncurrent	<u>\$ 276,968,522</u>	<u>\$ 219,468,791</u>

**Note 11 – Wastewater Disposal Agreement**

The Fund has a wastewater disposal agreement with the King County Department of Natural Resources Wastewater Treatment Division (the Division), which expires in 2036. The monthly wastewater disposal charge paid to the Division is based on the Division's budgeted cost for providing the service. The charges are determined by water consumption and the number of single-family residences as reported by SPU and other component agencies. Payments made by the Fund were \$202,120,643 and \$186,991,467 for fiscal years 2024 and 2023, respectively.

## **Required Supplementary Information**

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# Seattle Public Utilities – Drainage and Wastewater Fund

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

### Required Supplementary Information

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

	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
Employer's proportion of the net pension liability	13.81%	14.21%	14.76%	14.62%	14.33%	14.55%	14.73%	15.13%	16.37%	16.96%
Employer's proportionate share of the net pension liability	\$ 185,271,435	\$ 214,988,644	\$ 122,309,887	\$ 143,163,797	\$ 180,105,232	\$ 221,049,893	\$ 163,086,154	\$ 197,454,529	\$ 212,671,200	\$ 187,919,945
Employer's covered payroll	\$ 129,935,333	\$ 127,869,634	\$ 126,830,347	\$ 127,584,358	\$ 112,528,955	\$ 111,973,027	\$ 107,715,383	\$ 106,696,535	\$ 105,031,141	\$ 102,783,473
Employer's proportionate share of the net pension liability as a percentage of its covered payroll	142.59%	168.13%	96.44%	112.21%	160.05%	197.41%	151.40%	185.06%	202.48%	182.83%
Plan fiduciary net position as a percentage of the total pension liability	74.93%	70.63%	83.31%	78.81%	71.48%	64.14%	72.04%	65.60%	64.03%	67.70%

#### Schedule of Seattle Public Utilities' Contributions

	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
Contractually required employer contribution	\$ 20,748,200	\$ 20,632,427	\$ 20,589,068	\$ 20,654,175	\$ 17,041,133	\$ 17,103,559	\$ 16,466,270	\$ 16,354,089	\$ 16,487,154	\$ 15,170,276
Contributions in relation to the contractually required employer contribution	(20,748,200)	(20,632,427)	(20,589,068)	(20,654,175)	(17,041,133)	(17,103,559)	(16,466,270)	(16,354,089)	(16,487,154)	(15,170,276)
Employer contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Employer's covered payroll	\$ 129,935,333	\$ 127,869,634	\$ 126,830,347	\$ 127,584,358	\$ 112,528,955	\$ 111,973,027	\$ 107,715,383	\$ 106,696,535	\$ 105,031,141	\$ 102,783,237
Employer contributions as a percentile of covered payroll	15.97%	16.14%	16.23%	16.19%	15.14%	15.27%	15.29%	15.33%	15.70%	14.76%

See report of independent auditors.

**Seattle Public Utilities – Drainage and Wastewater Fund**  
**(An Enterprise Fund of the City of Seattle)**  
**Required Supplementary Information**

**Schedule of the City's Total OPEB Liability and Related Ratios**

	December 31, 2024	December 31, 2023	December 31, 2022	December 31, 2021	December 31, 2020	December 31, 2019	December 31, 2018
<b>Total OPEB Liability</b>							
Normal cost	\$ 2,588,171	\$ 3,563,210	\$ 4,514,549	\$ 4,015,249	\$ 3,378,925	\$ 3,842,152	\$ 3,821,876
Interest	1,911,611	1,195,910	1,553,119	1,813,401	2,586,942	2,195,238	2,583,105
Differences between expected and actual experience	(1,219,914)	-	(16,026,625)	-	6,956,579	-	13,491,865
Changes in assumptions	35,933,709	(8,009,946)	(1,556,412)	3,738,597	(7,760,776)	(3,886,702)	(22,126,128)
Benefit payment	(2,455,021)	(2,436,239)	(3,039,800)	(2,933,774)	(2,484,320)	(2,333,610)	(2,289,000)
Total OPEB liability – beginning of year	50,015,500	55,702,565	70,257,734	63,624,261	60,946,911	61,129,833	65,648,115
Total OPEB liability – end of year	<u>\$ 86,774,056</u>	<u>\$ 50,015,500</u>	<u>\$ 55,702,565</u>	<u>\$ 70,257,734</u>	<u>\$ 63,624,261</u>	<u>\$ 60,946,911</u>	<u>\$ 61,129,833</u>
 Covered-employee payroll	 \$ 1,335,721,665	 \$ 1,145,862,502	 \$ 1,145,862,502	 \$ 1,124,692,046	 \$ 1,124,692,046	 \$ 1,015,097,334	 \$ 1,015,097,334
 Total OPEB liability as percentage of covered-employee payroll	 6.50%	 4.36%	 4.86%	 6.25%	 5.66%	 6.00%	 6.02%



## **Other Information (Unaudited)**

**Seattle Public Utilities – Drainage and Wastewater Fund**  
**(An Enterprise Fund of the City of Seattle)**  
**Other Information (Unaudited)**

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**Drainage Wastewater Debt Service Coverage Calculation 2024**

<b>Operating Revenues</b>	
Wastewater	\$ 371,433,349
Drainage	197,806,106
Other	<u>7,600,922</u>
<b>Total Operating Revenue</b>	<u>576,840,377</u>
<b>Operating Expense</b>	
Wastewater Treatment Contract	203,797,408
Other Operations and Maintenance	148,826,457
City Taxes	67,227,628
Other Taxes	<u>8,753,134</u>
<b>Total Operating Expenses Before Debt Service</b>	<u>428,604,627</u>
<b>Net Operating Income</b>	<u>148,235,750</u>
<b>Adjustments</b>	
Add: Claim Expense	5,663,909
Add: City Taxes	67,227,628
Add: Investment Interest	20,633,548
Less: DSRF Earnings	(1,141,706)
Add: BAB's Subsidy	1,088,007
Add (Less): Net Other Nonoperating Revenues/(Expenses)	119,683,574
Add: Proceeds from Sale of Assets	<u>(17,226)</u>
<b>Total Adjustments</b>	<u>213,137,734</u>
<b>Net Revenue Available for Debt Service</b>	<u>\$ 361,373,484</u>
<b>Net Revenue Available for Debt Service (w/o City Taxes)</b>	<u><u>\$ 294,145,856</u></u>
Annual Debt Service	\$ 67,581,846
Less: DSRF Earnings	<u>(1,141,706)</u>
<b>Adjusted Annual Debt Service</b>	<u><u>\$ 66,440,140</u></u>
Coverage	5.44
Coverage without taxes	4.43

See report of independent auditors.

**Seattle Public Utilities – Drainage and Wastewater Fund**  
**(An Enterprise Fund of the City of Seattle)**  
**Other Information (Unaudited)**

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**Statistics Required for Revenue Bond Continuing Disclosure**

**Wastewater System Operating Statistics**

	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>
Population Served	737,015	742,400	762,500	779,200	795,000
Billed Wastewater Revenues (\$1,000's)	\$ 302,829	\$ 324,630	\$ 337,634	\$ 350,340	\$ 370,013
Billed Wastewater Volume (Thousand CCF)					
Residential	7,851	7,867	7,429	7,332	7,400
Commercial	<u>11,995</u>	<u>12,127</u>	<u>12,818</u>	<u>13,262</u>	<u>13,365</u>
Total	19,846	19,994	20,247	20,594	20,765
Gallons Used Per Day Per Capita	55.15	55.16	54.38	54.13	53.49

**Drainage and Wastewater – 2024 Accounts and Billed Revenues**

	<u>Drainage</u>	<u>Wastewater</u>
<b>Customer Accounts</b>		
Residential	158,635	158,641
Commercial	<u>68,890</u>	<u>19,703</u>
Total	<u><u>227,525</u></u>	<u><u>178,344</u></u>
	<u>Drainage</u>	<u>Wastewater</u>
<b>Billed Revenue</b>		
Residential	\$ 88,671,132	\$ 123,953,978
Commercial	<u>109,134,974</u>	<u>247,479,371</u>
Total	<u><u>\$ 197,806,106</u></u>	<u><u>\$ 371,433,349</u></u>

See report of independent auditors.

**Seattle Public Utilities – Drainage and Wastewater Fund**  
**(An Enterprise Fund of the City of Seattle)**  
**Other Information (Unaudited)**

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**Major Wastewater Customers – 2024 Annual Billed Revenues and Percentage of Revenue**

Name	Revenue	% of Total Revenue
University of Washington	\$ 9,781,524	2.6%
Seattle Housing Authority	8,034,220	2.2%
City of Seattle	4,470,390	1.2%
Equity Residential	3,330,521	0.9%
Marriott	2,953,706	0.8%
Hyatt	1,921,413	0.5%
Bellwether Housing	1,839,497	0.5%
King County	1,736,977	0.5%
Harborview Medical Center	1,668,719	0.4%
Essex Property	1,504,400	0.4%

**Major Drainage Customers – 2024 Annual Billed Revenues and Percentage of Revenue**

Name	Revenue	% of Total Revenue
City of Seattle	\$ 13,004,447	6.6%
King County	4,181,809	2.1%
Seattle Public Schools	4,078,266	2.1%
University of Washington	3,544,901	1.8%
BNSF	3,041,437	1.5%
Federal Government	1,346,668	0.7%
Seattle Housing Authority	1,335,198	0.7%
Union Pacific	1,205,869	0.6%
Archdiocese Of Seattle	812,027	0.4%
Prologis Inc	789,928	0.4%

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See report of independent auditors.

# Seattle Public Utilities – Drainage and Wastewater Fund

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

### Other Information (Unaudited)

#### Wastewater Rates

	2019	2020	2021	2022	2022	2023	2024	2025
Volume rate per ccf	\$ 14.48	\$ 15.55	\$ 16.67	\$ 17.01	\$ 17.01	\$ 17.63	\$ 18.30	\$ 19.21

Note: 1 CCF equals 748 gallons. Wastewater rates increased 5% and 3.6% in 2024 and 2023, respectively.

#### Drainage Rates

<b>Small Residential</b>								
<b>Pre-2005 Rate Structure</b>		<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>
0-1,999 sq. ft.		\$ 169.81	\$ 183.47	\$ 195.57	\$ 204.21	\$ 204.21	\$ 216.23	\$ 229.93
2,000 - 2,999 sq. ft.		276.51	298.75	320.58	337.13	337.13	356.90	379.58
3,000 - 4,999 sq. ft.		383.43	414.26	445.25	465.91	465.91	493.22	524.59
5,000 - 6,999 sq. ft.		516.72	558.27	599.94	632.67	632.67	669.75	712.36
7,000 - 9,999 sq. ft.		652.61	705.09	757.69	797.99	797.99	844.75	898.51
<b>2025+ Rate Structure</b>								<b>2025</b>
0-1,999 sq. ft.								\$ 235.28
2,000 - 3,499 sq. ft.								447.08
3,500 - 4,499 sq. ft.								572.64
4,500 - 5,499 sq. ft.								672.93
5,500 - 6,499 sq. ft.								764.98
6,500 - 9,999 sq. ft.								929.48
<b>Gen Service (per ksqft)</b>								
<b>Pre-2005 Rate Structure</b>								
	<b>% Range</b>							
Undeveloped	<b>Impervious</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>
Undeveloped LI	0 - 15%	\$ 42.62	\$ 46.05	\$ 49.49	\$ 53.68	\$ 53.68	\$ 56.83	\$ 60.44
Light	0 - 15%	25.36	27.40	29.45	31.11	31.11	32.93	35.02
Light LI	16 - 35%	63.64	68.75	73.92	79.66	79.66	84.33	89.69
Medium	16 - 35%	49.85	53.85	57.87	61.92	61.92	65.55	69.72
Medium LI	36 - 65%	90.58	97.86	105.15	112.87	112.87	119.48	127.08
High	36 - 65%	73.31	79.21	85.00	91.20	91.20	96.54	106.28
Very High	66 - 85%	119.86	129.50	139.17	149.12	149.12	157.85	167.91
	86 - 100%	143.10	154.60	165.81	177.83	177.83	188.24	200.23
<b>2025+ Rate Structure</b>								<b>2025</b>
T1	<b>Max %</b>							\$ 59.82
T2	10%							65.11
T3	20%							94.46
T4	35%							123.19
T5	50%							138.77
T6	65%							183.25
T7	85%							216.17
	100%							

\* SFR parcels more than 10,000 sq. ft. are billed under the commercial rate structure.

See report of independent auditors.