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, 2018 and 2017

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MOSSADAMS

Report of Independent Auditors

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

Report on the Financial Statements

We have audited the accompanying financial statements of Seattle Public Utilities – Drainage and Wastewater Fund (the Fund), which comprise the statements of net position as of December 31, 2018 and 2017, and the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Seattle Public Utilities – Drainage and Wastewater Fund as of December 31, 2018 and 2017, and the changes in net position and cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis, schedule of Seattle Public Utilities' proportionate share of the net pension liability, schedule of Seattle Public Utilities' contributions, and schedule of Seattle Public Utilities' proportionate share of the OPEB liability and related ratios, as listed in the table of contents, be presented to supplement the financial statements. This information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the 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

Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The other information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Moss Adams LLP

Seattle, Washington
May 28, 2019

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, 2018 and 2017. The revenues, expenses, assets, deferred outflows 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, are reported elsewhere.

Overview of the Financial Statements

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

Basic financial statements – The basic financial statements of the Fund report information similar to the presentation used by private sector companies. These statements offer short-term and long-term financial information about its activities. The basic financial statements begin on page 13 of this report and are comprised of three components: (1) statements of net position, (2) statements of revenues, expenses, and changes in net position, and (3) statements of cash flows.

The statements of net position present information, as of December 31, 2018 and 2017, 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, 2018 and 2017. All changes in net position are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. These statements reflect the results of the Fund's operations for the years identified to provide information about the Fund's credit worthiness and its ability to successfully recover all its costs through service fees and other charges.

The statements of cash flows are required to provide information about the Fund's cash receipts and cash payments during the years ended December 31, 2018 and 2017. To provide answers to questions about sources, uses, and impacts to cash, these statements report cash receipts, cash payments, and net changes in cash resulting from operations, investing and financing activities for the reporting period.

Notes to the financial statements – The notes are an integral part of the financial statements. They provide additional disclosures that are essential to a full understanding of the data provided in the financial statements, such as for certain estimates and financing details. The notes to the financial statements begin on page 18 of this report.

Financial Analysis

Increases or decreases in net position may serve over time as a useful indicator of whether the Fund's financial position is improving or deteriorating. At December 31, 2018 and 2017, the Fund's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources, resulting in a net position of $379.1 million and $363.0 million, respectively. In 2018, the Fund's overall net position increased $16.1 million (4.5%) as compared to an increase in net position of $30.5 million (9.2%) in 2017. 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:

Statements of Net Position

	2018	2017	2016
ASSETS			
Current assets	$ 250,237,660	$ 211,045,692	$ 174,268,140
Capital assets, net	1,160,660,014	1,109,390,842	1,062,243,882
Other	211,526,782	274,180,787	114,404,535
Total assets	1,622,424,456	1,594,617,321	1,350,916,557
DEFERRED OUTFLOWS OF RESOURCES	7,649,631	20,286,585	28,026,276
Total assets and deferred outflows of resources	$ 1,630,074,087	$ 1,614,903,906	$ 1,378,942,833
LIABILITIES			
Current liabilities	$ 91,108,610	$ 85,892,630	$ 77,643,284
Revenue bonds	854,017,579	883,716,806	717,709,100
Other	296,186,563	275,166,238	248,846,621
Total liabilities	1,241,312,752	1,244,775,674	1,044,199,005
DEFERRED INFLOWS OF RESOURCES	9,628,120	7,164,363	2,278,901
NET POSITION			
Net investment in capital assets	392,376,343	379,865,089	403,956,846
Restricted	49,971,545	47,240,194	21,787,088
Unrestricted	(63,214,673)	(64,141,414)	(93,279,007)
Total net position	379,133,215	362,963,869	332,464,927
Total liabilities, deferred inflows of resources, and net position	$ 1,630,074,087	$ 1,614,903,906	$ 1,378,942,833

Financial Analysis (continued)

2018 Compared to 2017

Assets – Current assets increased $39.2 million (18.6%) over the prior year primarily due to increases of $20.1 million of operating cash and equity in pooled investments, $14.6 million in amounts due from other funds, $1.1 million in accounts receivable, net of allowance for doubtful accounts, $2.0 million in amounts due from other governments and $1.3 million in unbilled revenues.

Other assets decreased $62.7 million (-22.9%) from 2017. This is mostly attributable to decreases of $62.1 million in restricted cash and equity in pooled investments used to fund capital projects, $0.3 million in regulatory assets, and $0.3 million in other charges.

Deferred outflows of resources – Deferred outflows of resources decreased by $12.6 million (-62.3%) from 2017. This decrease is attributed to a $12.2 million reduction in pension contributions and changes in assumptions related to pension and other post-employment benefits, and by a $0.4 million decrease in unamortized loss on refunded debt.

Liabilities – Current liabilities increased $5.2 million (6.1%) from 2017. This is attributable to increases of $7.6 million in due to other funds including an increase of $3.6 million due to Seattle Department of Transportation, and an increase of $1.2 million due to the City's Construction and Inspections department; and an increase of $4.9 million in accounts payable. These increases were mostly offset by decreases of $4.6 million in due to other governments, and $1.6 million in claims payable.

Other liabilities increased $21.0 million (7.6%). This is mostly attributable to an increase of $35.3 million to environmental liabilities due to changes in estimates. This increase was offset by decreases of $14.8 million to net pension liability (Note 9) due to contributions and changes in assumptions.

Deferred inflows of resources – Deferred inflow of resources increased by $2.5 million (34.4%) from 2017. This increase is due to a change in the proportionate share of employer pension contributions and changes in other post-employment benefits.

Net position – The largest portion of the Fund's net position ($392.4 million or 103.5%) 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 2018, net investment in capital assets increased $12.5 million from 2017 due to an increase in capital assets placed in service, net of depreciation offset by the related debt.

Financial Analysis (continued)

The Fund's restricted net position ($50.0 million or 13.2%) represent resources that are subject to restrictions on how they may be used. This portion of net position increased $2.7 million from 2017.

The remaining portion of the Fund's net position (a negative $63.2 million or -16.7%) represents resources that are unrestricted. The unrestricted portion of net position increased $0.9 million from the prior year.

2017 Compared to 2016

Assets – Current assets increased $36.8 million (21.1%) over the prior year primarily due to increases of $43.4 million of operating cash, some of which was from proceeds from the Henderson loan, $2.0 million in unbilled revenues, $0.3 million in materials and supplies inventory and $0.2 million in accounts receivable, net of allowance for doubtful accounts. These increases were offset by decreases of $7.0 million in due from other governments, $1.8 million in due from other funds, $0.2 million in interest and dividends and $0.1 million in notes and contracts.

Other assets increased $159.8 million (139.7%) from 2016. This is mostly attributable to increases of $160.1 million in restricted cash and equity in pooled investments from issuing a bond and $1.2 million in regulatory assets. The increases were offset by decreases of $1.0 million in notes and contracts receivable, $0.1 million in environmental costs and recoveries, $0.3 million in external infrastructure costs and $0.1 million for other charges and long-term prepayments.

Deferred outflows of resources – Deferred outflows of resources decreased by $7.7 million (-27.6%) from 2016. This decrease is attributed to a $4.4 decrease for pension contributions and changes in assumptions related to pension accounting and by a $3.5 million decrease in unamortized loss on refunded debt.

Liabilities – Current liabilities increased $8.2 million (10.6%) from 2016. This is attributable to increases of $5.2 million in due to other governments, $4.0 million for interest payable, $3.7 million in revenue bonds due within one year, $1.5 million in loans payable due within one year and $0.5 million in salaries, benefits, payroll taxes and compensated absences. These increases were offset by decreases of $3.6 million in accounts payable, $1.6 million in other credits, $1.1 million in due to other funds, $0.2 million in taxes payable, $0.1 million in environmental liabilities and $0.1 million in claims payable.

Other liabilities increased $26.3 million (10.6%). The most significant factor affecting this change is the $29.2 million increase to loans payable (Note 11). Additional increases were $ 4.7 million to environmental liabilities and $0.1 million for compensated absences. These increases were offset by decreases of $6.6 million to net pension liability (Note 9), $1.0 million in vendor and other deposits and $0.4 million for claims payable.

Deferred inflows of resources – Deferred inflow of resources increased by $4.9 million (214.4%) from 2016. This increase is due to a change in the proportionate share of employer pension contributions.

Financial Analysis (continued)

Net position – The largest portion of the Fund's net position ($379.9 million or 104.6%) 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 2017, net investment in capital assets decreased $24.1 million from 2016 due to a decrease in capital assets placed in service, net of depreciation offset by the related debt.

The Fund's restricted net position ($47.2 million or 13.0%) represent resources that are subject to restrictions on how they may be used. This portion of net position increased $25.6 million from 2016.

The remaining portion of the Fund's net position (a negative $64.1 million or -17.7%) represents resources that are unrestricted. The unrestricted portion of net position decreased $29.1 million from the prior year. The decrease in the negative net position is primarily due to the decrease of environmental liability expenses.

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

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

	2018	2017	2016
Operating revenues	$ 419,875,848	$ 400,284,279	$ 375,041,044
Operating expenses	(355,581,801)	(344,645,809)	(320,406,157)
Net operating income	64,294,047	55,638,470	54,634,887
Other expenses	(7,425,190)	(15,298,003)	(16,090,245)
Fees, contributions, grants, special items and environmental remediation	(40,699,511)	(9,618,873)	(35,981,704)
Change in net position	$ 16,169,346	$ 30,721,594	$ 2,562,939

2018 Compared to 2017

Current year operating revenues increased $19.6 million (4.9%) from 2017. This is due to average rate increases of 3.9% for wastewater and 10.7% for drainage, resulting in additional revenues of $5.8 million and $14.2 million, respectively. Other operating revenues decreased by $0.3 million.

Financial Analysis (continued)

Operating expenses increased $10.9 million (3.2%) from 2017. The largest operating expense increase was related to City and state business occupation tax of $7.4 million as a result of the overall increase in taxable revenues. Depreciation and other amortization also increased $5.1 million as a result of an increase in depreciable assets. These increases were offset by a decrease in salaries, wages and personnel benefits of $2.8 million.

Nonoperating revenues/(expenses) decreased by $7.9 million (-51.5%) as compared to 2017. This decrease in net expenses is due to a $5.5 million increase in contributions and grants, a $3.9 million increase in investment income. These increases in revenue were offset by an increase in interest expense of $1.4 million.

The Fund had an environmental remediation expense of $40.7 million for 2018 as compared to $9.6 million in 2017 (Note 10). This increase was due to additional estimated costs for remediation management and construction.

2017 Compared to 2016

Current year operating revenues increased $25.2 million (6.7%) from 2016. This is due to a $11.3 million increase in wastewater revenues from an average rate increase of 5.4%. Drainage revenues increased $11.8 million due to an average rate increase of 10%. Other operating revenues increased by $2.1 million.

Operating expenses increased $24.2 million (7.6%) from 2016. The largest operating expense increase was related to Wastewater treatment costs which increased by $8.8 million due to a 5.5% increase in King County's treatment rate. The overall branch operations experienced a net increase in costs of $8.4 million. The increases included $2.8 million in utility systems management and planning and development, $2.1 million in project delivery, $1.6 in field operations, $1.5 million in general and administrative and $0.4 million in customer service. City and state business occupation tax increased by $2.4 million as a result of the overall increase in taxable revenues. Depreciation and other amortization also increased $4.3 million as a result of an increase in depreciable assets.

Nonoperating revenues/ (expenses) increased by $1.9 million (11.5%) as compared to 2016. This is primarily due to increases in interest expense, investment and interest income, amortization of bond premiums, and gain on sale of assets.

The Fund had an environmental remediation expense of $9.6 million for 2017 (Note 10). This increase was due to additional estimated costs for remediation management and construction.

Capital contributions and grants decreased $27.5 million (-91.2%) due to an $14.7 million reduction in donated assets offset by a $1.3 million increase in capital grants.

Capital Assets

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

Summary of Capital Assets, Net of Accumulated Depreciation

	2018	2017	2016
Land and land rights	$ 40,330,857	$ 23,690,882	$ 22,490,142
Buildings	14,979,994	14,284,548	11,485,942
Structures	881,069,327	858,754,751	797,622,083
Machinery and equipment	61,973,886	67,328,022	21,646,783
Computer systems	25,114,329	20,699,197	22,897,845
Construction in progress	135,164,900	122,606,722	184,074,365
Artwork	2,026,721	2,026,721	2,026,721
Capital assets, net of accumulated depreciation	$ 1,160,660,014	$ 1,109,390,843	$ 1,062,243,881

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

2018 Compared to 2017

The Fund's investment in capital assets, net of accumulated depreciation, for the year ended December 31, 2018, was $1.2 billion. This represented an increase of approximately $51.3 million (4.6%) compared to 2017. Highlights of the Fund's major capital assets placed in service during 2018 included the following:

- $23.1 million for pipe rehabilitation and improvements
- $12.0 million for land at the south operations facility
- $6.2 million for the Fund's share of a new Citywide financial system
- $4.7 million for land purchased for the Ship Canal Water Quality project
- $3.7 million for heavy equipment purchases

Highlights of the Fund's major construction projects in progress at the end of 2018 include the following:

- $70.7 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)
- $10.8 million for sewer and storm water system improvements
- $8.6 million to build a pump station facility near 7th Street and Riverside in South Park
- $7.3 million for pipe improvements in the Alaska Way Viaduct Battery Street Tunnel project

Capital Assets (continued)

- $5.2 million for improvements to Taylor Creek downstream from Rainier Ave S
- $3.8 million for future art installations for construction projects
- 3.2 million for raingardens, cisterns and other national drainage improvements
- $3.1 million for the Alaskan Way Viaduct and Waterfront combined sewer overflow control
- $2.8 million for sewer pipe lining projects
- $2.5 million for the South Park Stormwater Treatment Facility
- $2.5 million for construction of combined sewer overflow storage facilities in Henderson North
- $2.3 million for ventilation upgrades at 50 pump stations
- $2.1 million for pump station retrofit in the Magnolia area

2017 Compared to 2016

The Fund's investment in capital assets, net of accumulated depreciation, for the year ended December 31, 2017 was $1.1 billion. This represented an increase of approximately $47.1 million (4.4%) compared to 2016. Highlights of the Fund's major capital assets placed in service during 2017 included the following:

- $64.4 million for construction of combined sewer overflow storage facilities in Henderson North sewer overflow facilities
- $22.3 million to construct new side sewers, collector sewers and connections as a result of the Seawall Replacement project
- $10.9 million to replace sewer pipelines throughout several locations within the City
- $5.3 million to construct a permanent drainage system in the area of Dallas Avenue South and 17th Avenue South
- $2.2 million to purchase and renovate the Yankee Diner building
- $2.1 million for the airlift replacement at Pump Station 70

Capital Assets (continued)

Highlights of the Fund's major construction projects in progress at the end of 2017 include the following:

- $43.0 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)
- $14.9 million to design and construct a new south operations center
- $8.2 million to build a pump station and a water quality facility near 7th Street and Riverside in South Park
- $4.3 million for improvements to Taylor Creek downstream from Rainier Ave S
- $3.6 million to construct improvements to the sewer and storm water systems in the 12th Avenue NW and Broadview neighborhood
- $3.3 million to replace the financial system software
- $2.9 million to construct sewer and storm water system improvements in the Dayton Avenue area
- $2.8 million for future art installations for construction projects
- $2.6 million for the Alaskan Way Viaduct and Waterfront combined sewer overflow Control.
- $2.5 million for improvements related to the Center City Connector Streetcar project.
- $2.2 million for the South Park Stormwater Treatment Facility.
- $2.1 million for construction of combined sewer overflow storage facilities in Henderson North basins.
- $2.1 million for the Natural Drainage System Partnering.

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 11 of this report.

2018 Compared to 2017

At the end of 2018, the Fund had $796.0 million in bonded debt, as compared to $821.3 million in 2017, all of which was secured solely by drainage and wastewater system revenues. This decrease of $25.2 million is attributed the payment of debt principal.

At the end of 2018, the Fund had an outstanding loan balance of $47.4 million compared to $46.1 million in 2017. This increase is mostly due to a $3.8 million loan drawdown from the Department of Ecology for the Henderson combined sewer overflow project and a decrease of $3.1 million due to payments of loan principal.

2017 Compared to 2016

At the end of 2017, the Fund had $821.3 million in bonded debt, as compared to $673.9 million in 2016, all of which was secured solely by drainage and wastewater system revenues. This increase of $147.4 million is attributed to the issuance of a new revenue and refunding bond, and the payment of debt principal.

At the end of 2017, the Fund had an outstanding loan balance of $46.1 million compared to $15.4 million in 2016. This increase is due to a $32.0 million loan drawdown from the Department of Ecology for the Henderson combined sewer overflow project and a decrease of $1.2 million payment of loan 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, Finance and Administration Branch, Accounting Division, PO Box 34018, Seattle, Washington 98124-4018, telephone: (206) 684-3000.

	December 31, 2018	December 31, 2017 (as restated)
ASSETS		
CURRENT ASSETS		
Operating cash and equity in pooled investments	$ 184,599,555	$ 164,470,477
Receivables		
Accounts, net of allowance	21,117,951	20,048,945
Interest and dividends	305,648	295,101
Unbilled revenues	22,714,980	21,415,752
Notes, and other contracts	-	1,012
Due from other funds	15,306,291	709,487
Due from other governments	4,672,172	2,687,633
Materials and supplies inventory	1,486,548	1,382,770
Prepayments and other current assets	34,515	34,515
Total current assets	250,237,660	211,045,692
NONCURRENT ASSETS		
Restricted cash and equity in pooled investments	152,136,162	214,212,693
Prepayments long-term	553,046	587,561
Notes and contracts receivable	-	2,290
Environmental costs and recoveries	2,029,086	2,050,249
External infrastructure costs	18,156,657	18,449,506
Regulatory assets - bond issue costs	5,374,853	5,629,850
Other charges	33,276,978	33,248,638
Capital assets		
Land and land rights	40,330,857	23,690,882
Plant in service, excluding land	1,370,836,335	1,319,571,930
Less accumulated depreciation	(387,698,799)	(358,505,412)
Construction in progress	135,164,900	122,606,721
Other property, net	2,026,721	2,026,721
Total noncurrent assets	1,372,186,796	1,383,571,629
Total assets	1,622,424,456	1,594,617,321
DEFERRED OUTFLOWS OF RESOURCES		
Unamortized loss on refunded debt	6,329,428	6,696,750
Pension and OPEB contributions and changes in assumptions	1,320,203	13,589,835
Total deferred outflows of resources	7,649,631	20,286,585
Total assets and deferred outflow of resources	$ 1,630,074,087	$ 1,614,903,906

See accompanying notes.

Seattle Public Utilities –
Drainage and Wastewater Fund
(An Enterprise Fund of the City of Seattle)
Statements of Net Position

	December 31, 2018	December 31, 2017 (as restated)
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	$ 9,863,973	$ 4,919,978
Salaries, benefits, and payroll taxes payable	3,006,856	4,067,494
Compensated absences payable	217,456	428,197
Due to other funds	19,157,303	11,539,775
Due to other governments	13,353,353	17,947,089
Interest payable	11,404,628	12,154,879
Taxes payable	437,616	238,737
Revenue bonds due within one year	26,425,000	25,225,000
Claims payable	1,507,535	3,132,172
Environmental liabilities	2,281,722	1,805,786
Loans payable, due within one year	2,744,897	2,761,144
Other	708,271	1,672,379
Total current liabilities	91,108,610	85,892,630
NONCURRENT LIABILITIES		
Compensated absences payable	4,131,656	4,516,266
Claims payable	5,457,201	4,267,810
Environmental liabilities	172,340,070	137,000,689
Loans	44,634,227	43,338,003
Vendor and other deposits payable	-	1,562,942
Unfunded other post employment benefits	2,956,196	3,091,831
Net pension liability	66,368,647	81,147,048
Other noncurrent liabilities	298,566	241,649
Revenue bonds	796,030,000	821,255,000
Less bonds due within one year	(26,425,000)	(25,225,000)
Bond discount and premium, net	84,412,579	87,686,806
Total noncurrent liabilities	1,150,204,142	1,158,883,044
Total liabilities	1,241,312,752	1,244,775,674
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows - pension and OPEB	9,628,120	7,164,363
NET POSITION		
Net investment in capital assets	392,376,343	379,865,089
Restricted for		
External infrastructure costs	6,878,380	7,099,432
Other charges	43,093,165	40,140,762
Unrestricted	(63,214,673)	(64,141,414)
Total net position	379,133,215	362,963,869
Total liabilities, deferred inflows of resources, and net position	$ 1,630,074,087	$ 1,614,903,906

	Years Ended December 31, 2018	Years Ended December 31, 2017 (as restated)
OPERATING REVENUES		
Charges for services and other revenues	$ 419,875,848	$ 400,284,279
OPERATING EXPENSES		
Salaries, wages and personnel benefits	49,258,786	52,044,206
Supplies	2,076,567	5,027,747
Services	42,047,566	41,209,643
Intergovernmental payments	219,283,988	209,806,058
Depreciation and amortization	38,161,539	33,056,633
Other operating expenses	4,753,355	3,501,522
Total operating expenses	355,581,801	344,645,809
OPERATING INCOME	64,294,047	55,638,470
NONOPERATING REVENUES (EXPENSES)		
Investment income	8,959,368	5,028,287
Interest expense	(28,094,422)	(26,699,785)
Contributions and grants	9,673,436	4,213,818
Other, net	2,036,428	2,159,677
Total nonoperating expenses	(7,425,190)	(15,298,003)
INCOME BEFORE CAPITAL CONTRIBUTIONS AND GRANTS, AND SPECIAL ITEMS	56,868,857	40,340,467
ENVIRONMENTAL REMEDIATION	(40,699,511)	(9,618,873)
CHANGE IN NET POSITION	16,169,346	30,721,594
NET POSITION		
Beginning of year	362,963,869	332,464,927
Cumulative effect of change in accounting principle	-	(222,652)
Net position	362,963,869	332,242,275
End of year	$ 379,133,215	$ 362,963,869

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, 2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	$ 394,452,739	$ 407,356,006
Cash paid to suppliers	(207,654,312)	(195,322,991)
Cash paid to employees	(43,183,339)	(61,860,049)
Cash paid for taxes	(54,721,815)	(52,176,342)
Net cash provided by operating activities	88,893,273	97,996,624
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Noncapital grants received	7,116,639	1,617,123
Payments for environmental liabilities	(4,612,577)	(4,987,026)
Net cash used in noncapital financing activities	2,504,062	(3,369,903)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from the sale of bonds and other long-term debt	-	294,268,092
Principal payments on long-term debt	(24,275,556)	(22,802,235)
Bond refunding	-	(65,248,630)
Capital expenditures and other charges paid	(82,773,263)	(78,190,146)
Interest paid on long-term debt	(38,139,667)	(31,117,916)
Build America Bonds federal interest subsidy	1,712,960	1,755,536
Capital fees and grants received	2,556,797	7,484,290
Debt issuance costs	-	(1,160,169)
Proceeds from sale of capital assets	338,082	347,600
Net cash used in capital and related financing activities	(140,580,647)	105,336,422
CASH FLOWS FROM INVESTING ACTIVITIES		
Gain on investments	7,235,860	3,481,462
NET INCREASE IN CASH AND EQUITY IN POOLED INVESTMENTS	(41,947,452)	203,444,605
CASH AND EQUITY IN POOLED INVESTMENTS		
Beginning of year	378,683,169	175,238,564
End of year	$ 336,735,717	$ 378,683,169
CASH AT THE END OF THE YEAR CONSISTS OF		
Operating cash and equity in pooled investments	$ 184,599,555	$ 164,470,477
Noncurrent restricted cash and equity in pooled investments	152,136,162	214,212,693
Total cash at the end of the year	$ 336,735,717	$ 378,683,170

See accompanying notes.

	Years Ended December 31, 2018	Years Ended December 31, 2017
RECONCILIATION OF NET OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES		
Operating income	$ 64,294,047	$ 55,638,470
Adjustments to reconcile net operating income to net cash from operating activities		
Adjustment for net pension liability	(5,889,804)	2,762,219
Depreciation and amortization	38,161,538	31,657,168
Other receipts and payments	1,447,893	3,287,108
Changes in operating assets and liabilities		
Accounts receivable	(1,069,006)	(245,985)
Unbilled revenues	(1,299,228)	(2,016,786)
Due from other funds	(14,596,803)	1,787,164
Due from other governments	(1,984,539)	6,280,507
Materials and supplies inventory	(103,778)	(246,419)
Other assets	13,516,958	1,136,475
Accounts payable	4,943,995	(3,598,692)
Salaries, benefits, and payroll taxes payable	(1,060,638)	456,182
Compensated absences payable	(595,351)	86,371
Due to other funds	7,617,528	(1,097,249)
Due to other governments	(4,593,736)	5,157,644
Claims payable	(435,246)	(408,315)
Taxes payable	198,879	(166,077)
Other liabilities	(9,659,436)	(2,473,161)
Total adjustments	24,599,226	42,358,154
Net cash from operating activities	$ 88,893,273	$ 97,996,624

Note 1 – Operations and Summary of Significant Accounting Policies

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

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

SPU receives certain services from other departments and agencies of the City, including information technology and others that are normally considered to be general and administrative. The Fund is charged a share of these costs and during 2018 and 2017, paid $22,752,480 and $22,064,583, 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 $49,694,689 and $46,724,003 for these taxes in 2018 and 2017, respectively.

The utility billing function is co-managed by SPU and Seattle City Light (SCL). SPU provides customer service through the call center and walk-in center. SCL operates and manages the billing system. SPU and SCL bill and reimburse each other for these services. SPU reimburses Seattle IT for the information technologies 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 $2,335,964 and $1,995,765 in 2018 and 2017, respectively. The Fund paid $28,264 and $25,205 for the utility billing services in 2018 and 2017, respectively.

Wastewater disposal and drainage services provided to other City departments and agencies are billed at rates prescribed by City ordinances. The Fund collected $3,226,365 in 2018 and $3,372,156 in 2017 from the City for wastewater services provided. The Fund also collected $9,353,846 in 2018 and $8,648,430 in 2017 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 as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

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

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

Cash and equity in pooled investments – Cash resources of the Fund are combined with cash resources of the City 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 market 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 Statement 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 are comprised 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, 2018 and 2017, the Fund's allowance for doubtful accounts was $645,798 and $728,621, respectively.

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

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

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

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

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

Other charges – Other charges primarily include costs related to 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. These costs also include unamortized debt issue costs.

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

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

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

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

Buildings and fixtures	10 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

In 2018, SPU's depreciation policy was changed when the City implemented a new financial system. For most assets, Depreciation begins in the month the asset is placed in service.

Deferred outflows/inflows of resources – In addition to assets, the Statement of Net Position, when applicable, will report a separate section for deferred outflows of resources. It represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The Fund has deferred loss on refunding debt which qualifies for reporting in this category. A deferred loss on refunding 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 (Note 9).

In addition to liabilities, the statement of net position, when applicable, will report a separate section for deferred inflows of resources. It represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until then. The Fund has also recorded deferred inflows of resources for changes in proportion and differences between employer contributions and proportionate share of contributions.

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

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

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

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

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

Postemployment Benefits Other Than Pensions (OPEB) – For purposes of measuring the net 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 earned vacation up to a maximum of 480 hours. Unused vacation at retirement or normal termination is considered vested and payable to the employee. Earned but unused vacation is accrued as a liability of the Fund. Employees also earn up to 12 days of sick leave per year and may accumulate sick leave balances without limit.

Employees who submit the required documentation 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.

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

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

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

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

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

Operating expenses – 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 1.5%.

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

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

Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Net position is restricted when constraints placed on net position use are either: (1) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or (2) imposed by law through constitutional provisions or enabling legislation. The Fund's restricted net position as of December 31, 2018 and 2017, are related to external infrastructure costs and certain other charges. Unrestricted net position is the portion that is not "net investment in capital assets" or "restricted."

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

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, 2018 and 2017.

Accounting standard changes – Effective January 1, 2018, the Fund adopted GASB Statement No. 75, *Accounting and Financial Reporting for Post-Employment Benefits Other Than Pensions*, which establishes new accounting and financial reporting requirements for Other Post Employment Benefit Plans (OPEB). The statement provides guidance for accounting, including net OPEB liabilities, and the definition of balances to be included in deferred inflows and deferred outflows of resources. The implementation of Statement No. 75 resulted in a restatement of the 2017 financial statements.

	As Originally Reported	As Restated	Effect of Change
Statement of Net Position			
Unfunded other post retirement benefits	$ (2,758,485)	$ (3,091,831)	$ (333,346)
Deferred outflows - pension and OPEB	13,479,141	13,589,835	110,694
Unrestricted Net Position	63,918,762	64,141,414	222,652
	$ 74,639,418	$ 74,639,418	$ -
Statement of Revenues, Expenses and Changes in Net Position			
Ending net position	$ (363,186,521)	$ (362,963,869)	$ 222,652

GASB has issued Statement No. 87, *Standards of Accounting and Financial Reporting for Leases*. The new GASB Lease Rules were issued in June 2017 and will be effective for reporting periods beginning after December 15, 2019. Under this rule, leases are all assumed to be capital financings of the underlying asset with only a narrow range of short-term equipment and motor vehicle leases treated as an ‘operating lease. GASB now assumes that all leases are ‘capital leases’ except for the specific exceptions noted. The Fund is evaluating the impact of this standard on the financial statement.

GASB has also issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5–22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a cost of a capital asset reported in a business-type activity or enterprise fund. The Statement was issued in June 2018 to be implemented effective for reporting periods beginning after December 15, 2019. The Fund has invoked GASB 62 and will continue to capitalize interest as an expense to projects.

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

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 market value of cash and equity in pooled investments, accrued sick leave, capitalized interest, depreciation, environmental liabilities, risk liabilities, pension liability, and other contingencies. Changes in these estimates and assumptions may have a material impact on the financial statements.

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

Reclassifications – Certain reclassifications have been made to the prior year financial statement and footnote presentation to correspond to the current year presentation. These reclassifications had no effect on the operating results of the Fund.

Note 2 – Cash and Equity in Pooled Investments

Per Seattle Municipal Code, SMC 5.06.010 Investment Authority, the Director of Finance and Administrative Services (FAS) is authorized to invest all moneys in the City Treasury. Cash resources of all City funds are combined into a common investment pool that is managed by FAS. Each fund's share of the pooled investments is included in the participating fund's balance sheet under the caption "Cash and Equity in Pooled Investments." The pool operates like a demand deposit account in that all City funds may deposit cash at any time and also withdraw cash up to their respective fund balance out of the pool without prior notice or penalty.

Custodial credit risk – deposits – The custodial credit risk of deposits is the risk that in the event of bank failure of 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, 2018 and 2017, 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.

Note 2 – Cash and Equity in Pooled Investments (continued)

Credit risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Some of the City's Pooled investments have credit risk from holdings in commercial paper, corporate notes, and taxable municipal bonds. The City may not hold more than 50% of the Pool's total assets in these credit sensitive sectors. State statute defines the investments in commercial paper and corporate notes as a "credit portfolio". The credit portfolio may not exceed 25 percent of the Pool's market value. Credit investments must be diversified by sector and industry. No single issuer shall exceed 3 percent of the Pool's market value. Commercial Paper investments may not have maturities exceeding 270 days and must hold the highest short-term credit rating by all the major credit rating agencies that rate the issuer at the time of purchase. Corporate notes must mature within 5.5 years from the time of purchase and must be rated at least weak single-A or better by all the major rating agencies that rate the note at the time of purchase and may not have a negative outlook by any of the rating agencies. No single issuer rated AA or better may exceed 3 percent of the Pool's market value. No single issuer rated in the single-A category may exceed 2 percent of the Pool's market value. The maximum duration of aggregate corporate note investments shall not exceed 3 years. Municipal bonds must have a credit rating of weak single-A or better by all the major rating agencies that rate the issuer at the time of purchase. No single issuer may exceed 5 percent of the Pool's market value.

The City also purchases obligations of government-sponsored enterprises which are eligible as collateral for advances to member banks as determined by the Board of Governors of the Federal Reserve System. These include, but are not limited to, debt securities of Federal Home Loan Bank, Federal National Mortgage Association, and Federal Home Loan Mortgage Corporation. As of December 31, 2018, these investments were rated Aaa by Moody's Investors Service, AA+ by Standard & Poor's, and AAA by Fitch Ratings.

Interest rate risk – Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. In general, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates.

To best accomplish the City's investment objectives, the City has divided the Pool into an Operating Portfolio and a Strategic Portfolio. The City's Cash and Investment Manager is responsible for determining the size of the Strategic Portfolio. A minimum of 60 percent of the Operating Portfolio and 30 percent of the Strategic Portfolio must be invested in sectors with high liquidity, specifically U.S. government and its agencies' obligations, LGIP, sweep, and commercial paper. At December 31, 2018, highly liquid investments comprised 96 percent of the Operating Portfolio and 63 percent of the Strategic Portfolio.

Operating Portfolio – The purpose of the Operating Portfolio is to invest excess City cash that is reasonably expected to meet short- or intermediate-term liquidity needs. This portfolio is intended to have low duration and high liquidity. Consistent with this profile and for comparing earnings yield, its benchmark will be the net earnings rate of the State of Washington's Local Government Investment Pool. At December 31, 2018, the Operating Portfolio totaled 31 percent of the City's total outstanding pooled investment portfolio.

Note 2 – Cash and Equity in Pooled Investments (continued)

Strategic Portfolio – The purpose of the Strategic Portfolio is to invest excess City cash that is not reasonably expected to meet the short- or intermediate-liquidity needs of the City. Accordingly, this portfolio is intended to be invested in debt securities with longer maturities than the Operating Portfolio, which over a market cycle, is expected to provide a higher return. Consistent with this profile and for the purpose of comparing duration, yield and total return, its benchmark will be the Bloomberg Barclays Government 1-7 index. The Strategic Portfolio may drift between 75 percent and 125 percent of its benchmark. At December 31, 2018, the Strategic Portfolio totaled 69 percent of the City's total outstanding pooled investment portfolio.

Investments – The City reports its investments at fair value and categorizes its fair value measurements within the fair value hierarchy established by U.S. GAAP. 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., and investment in the State of Washington Local Government Investment Pool (LGIP) are accounted for at cost. The LGIP is an external investment pool and is measured at a net asset value (NAV) per share of $1. The remainder of the City's investments are purchased in the over-the-counter U.S. bond market and accounted for at market.

The City uses market pricing for its over-the-counter investments as provided by its contractual custodial agent, Wells Fargo Institutional Retirement & Trust, and its third-party investment accounting vendor FIS AvantGard LLC. Both Wells Fargo and FIS contract with Interactive Data Pricing and Reference Data, Inc. for securities pricing.

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

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

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.

Note 2 – Cash and Equity in Pooled Investments (continued)

As of December 31, 2018 and 2017, the City's pooled investments were categorized within the fair value hierarchy as follows:

Investments	Fair Value as of December 31, 2018	Fair Value Measurements Using Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Weighted Average Maturity (Days)
U.S. Government Agency Securities	$ 986,081,743	$ 986,081,743	$ -	$ -	1,052
U.S. Treasury and U.S. Government-Backed Securities	449,668,993	449,668,993	-	-	840
Municipal Bonds	361,335,017	-	361,335,017	-	1,954
Commercial Paper	114,534,384	-	114,534,384	-	14
U.S. Government Agency Mortgage-Backed Securities	295,828,238	-	295,828,238	-	432
Repurchase Agreements	109,436,707	109,436,707	-	-	1
Local Government Investment Pool	143,657,503	-	143,657,503	-	1
Bank Note	8,098,219	8,098,219	-	-	22
	$ 2,468,640,804	$ 1,553,285,662	$ 915,355,142	$ -	
Weighted Average Maturity of the City's Pooled Investments					912

Investments	Fair Value as of December 31, 2017	Fair Value Measurements Using Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Weighted Average Maturity (Days)
U.S. Government Agency Securities	$ 693,621,813	$ -	$ 693,621,813	$ -	887
U.S. Treasury and U.S. Government-Backed Securities	475,683,801	463,218,182	12,465,619	-	489
Municipal Bonds	366,132,818	-	366,132,818	-	1,858
Commercial Paper	251,665,039	-	251,665,039	-	32
U.S. Government Agency Mortgage-Backed Securities	243,661,069	-	243,661,069	-	450
Repurchase Agreements	138,385,200	138,385,200	-	-	1
Local Government Investment Pool	120,655,354	-	120,655,354	-	-
Bank Note	47,987,867	-	47,987,867	-	293
	$ 2,337,792,961	$ 601,603,382	$ 1,736,189,579	$ -	
Weighted Average Maturity of the City's Pooled Investments					936

Note 2 – Cash and Equity in Pooled Investments (continued)

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

	2018	2017
Operating cash and equity in pooled investments	$ 184,599,555	$ 164,470,477
Restricted cash and equity in pooled investments	152,136,162	214,212,693
Total	$ 336,735,717	$ 378,683,170
Balance as a percentage of City pool cash and investments	13.6%	16.2%

Concentration of credit risk – The City's investment policy limits concentration of credit risk for the City's investments as a whole, inclusive of the Fund's investments. These policy limits vary for each investment category.

The City's investments in which five percent or more is invested in any single issuer, as of December 31 are as follows:

	2018		2017	
Issuer	Fair Value	Percent of Total Investments	Fair Value	Percent of Total Investments
United States Government	$ 449,668,993	18%	$ 475,683,801	20%
Federal Farm Credit Bank	328,716,755	13%	259,982,939	11%
Federal Home Loan Bank	328,232,508	13%	168,930,820	7%
Federal National Mortgage Association	324,783,135	13%	339,104,849	15%
Federal Home Loan Mortgage Corp	144,168,950	6%	**	**
Local Government Investment Pool	143,657,503	6%	120,655,354	5%
Wells Fargo	**	**	138,385,200	6%
Freddie Mac Multifamily Securities	**	**	**	**

** Investment did not represent 5% or more of investments as of December 31, 2018 or 2017.

Note 3 – Capital Assets

Capital asset activity consisted of the following for the year ended December 31, 2018:

	Beginning Balance	Additions and Transfers In	Retirements and Transfers Out	Ending Balance
Buildings	$ 23,057,745	$ 1,599,042	$ -	$ 24,656,787
Structures	1,126,435,916	41,929,081	(580,493)	1,167,784,504
Machinery and equipment	106,199,839	6,033,948	(6,768,396)	105,465,391
Computer systems	63,878,430	9,516,935	(465,712)	72,929,653
Total capital assets, excluding land	1,319,571,930	59,079,006	(7,814,601)	1,370,836,335
Less accumulated depreciation	(358,505,412)	(32,917,427)	3,724,040	(387,698,799)
	961,066,518	26,161,579	(4,090,561)	983,137,536
Construction in progress	122,606,721	94,366,786	(81,808,607)	135,164,900
Land and land rights	23,690,882	16,639,975	-	40,330,857
Artwork	2,026,721	-	-	2,026,721
Capital assets, net	$ 1,109,390,842	$ 137,168,340	$ (85,899,168)	$ 1,160,660,014

Capital asset activity consisted of the following for the year ended December 31, 2017:

	Beginning Balance	Additions and Transfers In	Retirements and Transfers Out	Ending Balance
Buildings	$ 19,678,239	$ 3,450,761	$ (71,255)	$ 23,057,745
Structures	1,074,000,202	52,485,714	(50,000)	1,126,435,916
Machinery and equipment	29,313,697	80,302,436	(3,416,294)	106,199,839
Computer systems	71,650,008	2,396,146	(10,167,724)	63,878,430
Total capital assets, excluding land	1,194,642,146	138,635,057	(13,705,273)	1,319,571,930
Less accumulated depreciation	(340,989,492)	(29,592,577)	12,076,657	(358,505,412)
	853,652,654	109,042,480	(1,628,616)	961,066,519
Construction in progress	184,074,365	83,017,383	(144,485,027)	122,606,721
Land and land rights	22,490,142	1,200,740	-	23,690,882
Artwork	2,026,721	-	-	2,026,721
Capital assets, net	$ 1,062,243,882	$ 193,260,603	$ (146,113,643)	$ 1,109,390,843

During 2018 and 2017, the Fund capitalized interest costs relating to construction of $6,392,939 and $5,965,256, respectively.

Note 4 – Revenue Bonds

The Fund issues bonds to provide financing for capital improvements. Payment of debt service on the bonds is derived solely from the revenues generated by the Fund. The Fund has $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, 2018 and 2017, were $796,030,000 and $821,255,000, respectively. Revenue bonds outstanding as of December 31, 2018 and 2017, consisted of the following Municipal Drainage and Wastewater bonds:

Name of Issue	Issuance Date	Maturity Years	Interest Rates	Original Issue Amount	Bonds Outstanding 2018	Bonds Outstanding 2017
2006 parity refunding bonds	11/1/06	2007-2037	4.0-5.0%	$ 121,765,000	$ -	$ -
2008 parity bonds	4/16/08	2009-2038	4.0-5.0%	84,645,000	-	1,975,000
2009A parity bonds	12/17/09	2017-2039	4.2-5.5%	102,535,000	96,405,000	99,510,000
2009B parity refunding bonds	12/17/09	2010-2027	2.0-4.0%	36,680,000	10,540,000	11,475,000
2012 parity refunding bonds	6/27/12	2012-2042	2.0-5.0%	222,090,000	179,815,000	187,450,000
2014 parity refunding bonds	7/10/14	2015-2044	3.0-5.0%	133,180,000	125,585,000	127,590,000
2016 parity refunding bonds	6/22/16	2016-2046	4.0-5.0%	160,910,000	157,480,000	159,130,000
2017 parity refunding bonds	6/28/17	2018-2047	4.0-5.0%	234,125,000	226,205,000	234,125,000
				$ 1,095,930,000	$ 796,030,000	$ 821,255,000

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

Years Ending December 31,	Principal	Interest	Total
2019	$ 26,425,000	$ 35,412,653	$ 61,837,653
2020	27,575,000	34,170,078	61,745,078
2021	27,300,000	32,861,538	60,161,538
2022	28,610,000	31,509,253	60,119,253
2023	28,640,000	30,079,803	58,719,803
2024 - 2028	160,420,000	127,791,606	288,211,606
2029 - 2033	166,190,000	88,880,604	255,070,604
2034 - 2038	155,630,000	53,464,634	209,094,634
2039 - 2043	115,500,000	23,533,965	139,033,965
2044 - 2047	59,740,000	4,173,800	63,913,800
	$ 796,030,000	$ 461,877,934	$ 1,257,907,934

Note 4 – Revenue Bonds (continued)

The following table shows the revenue bond activity during the year ended December 31, 2018:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable					
Revenue bonds	$ 821,255,000	$ -	$ (25,225,000)	$ 796,030,000	$ 26,425,000
Add (deduct) deferred amounts					
Issuance premiums	88,185,775	-	(3,297,988)	84,887,787	-
Issuance discounts	(498,969)	-	23,760	(475,209)	-
Total bonds payable	$ 908,941,806	$ -	$ (28,499,228)	$ 880,442,578	$ 26,425,000

The following table shows the revenue bond activity during the year ended December 31, 2017:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable					
Revenue bonds	$ 673,920,000	$ 234,125,000	$ (86,790,000)	$ 821,255,000	$ 25,225,000
Add (deduct) deferred amounts					
Issuance premiums	65,881,831	25,251,291	(2,947,347)	88,185,775	-
Issuance discounts	(522,731)	-	23,762	(498,969)	-
Total bonds payable	$ 739,279,100	$ 259,376,291	$ (89,713,585)	$ 908,941,806	$ 25,225,000

Defeasance of debt – The Fund defeases certain obligations by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. As a result, the old bonds are considered defeased, and the corresponding liabilities and trust account assets are not included in the Statement of Net Position. In 2018, $68,380,000 bonds were redeemed as shown below:

Name of Issue	Amount Outstanding at December 31, 2017	Additions	Redemptions	Amount Outstanding at December 31, 2018
2008 Parity	$ 68,380,000	$ -	$ (68,380,000)	$ -

Note 4 – Revenue Bonds (continued)

In 2017, $65,220,000 bonds were defeased and $81,550,000 bonds were redeemed as shown below:

Name of Issue	Amount Outstanding at December 31, 2016	Additions	Redemptions	Amount Outstanding at December 31, 2017
2006 Parity	$ 16,330,000	$ 65,220,000	$ (81,550,000)	$ -
2008 Parity	68,380,000	-	-	68,380,000
	$ 84,710,000	$ 65,220,000	$ (81,550,000)	$ 68,380,000

In June 2017, the Fund issued $234,125,000 of Drainage and Wastewater Improvement and Refunding Revenue Bonds with varying annual principal payments due beginning 2018 and ending in 2047, at interest rates ranging from 4.0 percent and 5.0 percent. A portion of the proceeds were used to fully refund the remaining 2006 bonds. As a result of the refunding, the Fund reduced total debt service requirements by $7.5 million resulting in an economic gain (difference between the present value of the debt service payments on the old and new debts) of $5.5 million.

Financial covenants – The revenue bonds contain certain financial covenants, the most significant of which requires the Fund to maintain net revenue available for debt service of at least equal to 125% of annual debt service. For 2018, net revenue available for debt service, as defined by the bond covenants, is 247% of annual debt service. Management believes the Fund was in compliance with all debt covenants as of December 31, 2018. For more information, see Other Information (page 50).

Note 5 – Leases

The Fund has noncancelable operating lease commitments for real and personal property, with payments of $55,375 and $52,967 in 2018 and 2017, respectively. The Fund has leases for properties located at 5821 First Avenue South and 2702 6th Avenue South, both of which expire July 31, 2020. Rents are paid as they become due and payable. Minimum lease payments under the leases for the years ending December 31, are as follows:

2019	$ 56,167
2020	18,815
	$ 74,982

Note 6 – Postemployment Benefit Plans

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

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

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

Other postemployment benefits

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 that retire with disability retirement under the City may continue their health coverage through the City with same coverage provisions as other retirees. Eligible retirees self-pay 100 percent of the premium based on blended rates which were established by including the experience of retirees with the experience of active employees for underwriting purposes. The 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. The City of Seattle covers 11,823 active employee plan participants and 398 retirees, disabled, and survivor plan participants as of the January 1, 2018 measurement date.

In 2018, the Fund implemented GASB 75, which concerns the accounting for and disclosure of Other postemployment benefits (OPEB). The impact of the implementation was an increase of $333,346 to OPEB liability, a decrease of $222,652 to net position, and an increase of $110,694 to deferred outflows at January 1, 2018.

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.

Note 6 – Postemployment Benefit Plans (continued)

Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and on the pattern of sharing of costs between the employer and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future. Actuarial calculations reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Based on the latest biennial actuarial valuation date the significant methods and assumptions are as follows:

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 2014-2017.

Valuation date	January 1, 2018
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Discount rate	3.44%
Health care cost trend rates—medical:	7.00% in 2018, decreasing to 6.77% in 2019, and decreasing by varying amounts until 2030 thereafter.
Health care cost trend rates—Rx:	10.00% in 2018, decreasing to 9.50% in 2019, and decreasing by varying amounts until 2030 thereafter.
Participation	25% of Active Employees who retire participate

Mortality

General Service (Actives)
Males: RP-2014 Employees Table for Males, adjusted by 60%.
Females: RP-2014 Employees Table for Females, adjusted by 95%
Rates are projected generationally using Scale MP-2014 ultimate rates

General Service (Retirees)
Males: RP-2014 Healthy Annuitant Males, adjusted by 95%
Females: RP-2014 Healthy Annuitant Females, adjusted by 95%
Rates are projected generationally using Scale MP-2014 ultimate rates

Marital status – 35% of members electing coverage: married or have a registered domestic partner. Male spouses two years older than their female spouses.

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.

Note 6 – Postemployment Benefit Plans (continued)

	Aetna Preventive Plan			Aetna Traditional Plan		
Age	**Medical**	**Rx**	**Admin**	**Medical**	**Rx**	**Admin**
50	$9,368	$2,621	$465	$9,599	$2,731	$465
52	$10,191	$2,852	$465	$10,443	$2,970	$465
55	$11,563	$3,236	$465	$11,849	$3,370	$465
57	$12,603	$3,527	$465	$12,914	$3,673	$465
60	$14,341	$4,013	$465	$14,694	$4,180	$465
62	$15,452	$4,324	$465	$15,832	$4,504	$465

	Group Health Deductible			Group Health Standard		
Age	**Medical**	**Rx**	**Admin**	**Medical**	**Rx**	**Admin**
50	$4,534	$1,215	$734	$4,285	$1,097	$734
52	$4,932	$1,321	$734	$4,661	$1,193	$734
55	$5,596	$1,499	$734	$5,288	$1,353	$734
57	$6,099	$1,634	$734	$5,764	$1,475	$734
60	$6,939	$1,859	$734	$6,559	$1,679	$734
62	$7,476	$2,004	$734	$7,067	$1,810	$734

The average medical/Rx per capita claims costs were developed from calendar year 2019 fully insured premium rates for Aetna plans or self-funded premium-equivalent rates for Group Health (acquired by Kaiser Permanente in 2017) plans. Premium or premium-equivalent rates were provided by the City of Seattle's health pricing actuary. The average medical/Rx per capita claims costs were trended to the mid-point of the annual period following the valuation date. Average medical/ Rx per capita claims costs were then age-adjusted based on the demographics of the population, and the assumed health care aging factors shown in the morbidity factors table below.

For the Aetna plans only, the average medical/Rx per capita claims costs were blended with the 2017 medical/Rx per capital developed claims cost trended forward to the valuation date.

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%
65-69	2.7%	3.8%	3.1%
70-74	1.8%	2.5%	2.1%
75-79	2.2%	0.8%	1.4%
80-84	2.8%	0.2%	1.3%
85-89	1.4%	0.1%	0.6%
90+	0.0%	0.0%	0.0%

Note 6 – Postemployment Benefit Plans (continued)

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

OPEB Liability – The Fund reported an OPEB liability of $3.0 million in 2018 and $3.1 million in 2017. The Fund's proportionate share of the OPEB liability was 4.84% and 4.81% for the years ended December 31, 2018 and December 31, 2017. Based on the actuarial valuation date of January 1, 2018, details regarding the Fund's Total OPEB Liability, Plan Fiduciary Net Position, and Net OPEB Liability as of December 31, 2018, are shown below.

($ in thousands)	Total OPEB Liability
Changes recognized for the fiscal year:	
Service cost	$ 184.8
Interest on the total OPEB liability	124.9
Differences between expected and actual experience	652.5
Changes of assumptions	(987.1)
Benefit payments	(110.7)
Contributions from the Employer	0.0
Net Changes	(135.6)
Balance recognized at 12/31/2017	3,091.8
Balance recognized at 12/31/2018	$ 2,956.2

The Fund recorded an expense for OPEB of $263,806 in 2018 and $335,025 in 2017. The Health Care Subfund of the General Fund is reported in The City of Seattle's Comprehensive Annual Financial Report.

Discount Rate and Healthcare Cost Trend Rates – The discount rate used to measure the total OPEB liability is 3.44% for 2018 and 3.78% for 2017. The following tables present the sensitivity of net 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

(In millions)

	OPEB Liability at December 31, 2018
Discount Rate	
1% decrease - 2.44%	$ 3.2
Current discount Rate - 3.44%	3.0
1% increase - 4.44%	2.7

Note 6 – Postemployment Benefit Plans (continued)

Discount Rate Sensitivity
(In millions)

	OPEB Liability at December 31,	
	2017	
Discount Rate		
1% decrease - 2.78%	$	3.5
Current discount Rate - 3.78%		3.1
1% increase - 4.78%		2.9

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

Healthcare Cost Trend Rate Sensitivity
(In millions)

	Net OPEB Liability at December 31,			
	2018		2017	
Discount Rate				
1% decrease	$	2.6	$	2.8
Trend rate		3.0		3.2
1% increase		3.4		3.6

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, 2018.

($ in thousands)	Deferred Outflows		Deferred Inflows	
Difference between actual and expected experience	$	580.7	$	-
Assumption changes		-		952.3
Contributions made in 2018 after measurement date		112.9		N/A
Total	$	693.6	$	952.3

The Fund’s contributions made in 2018 in the amount of $112,852 are reported as deferred outflows of resources and will be recognized as a reduction of the net OPEB liability in the year ended December 31, 2019. These contributions 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.

Note 6 – Postemployment Benefit Plans (continued)

Year Ending December 31 *($ in thousands)*		**Amortization**
2019	$	(45.9)
2020		(45.9)
2021		(45.9)
2022		(45.9)
2023		(45.9)
Thereafter		(141.9)
Total	$	(371.4)

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

Note 7 – Claims Payable

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

For 2018 and 2017, liabilities for workers' compensation claims, as well as other claims, are discounted over a 15-year period at the City's rate of return on investments, 1.978% and 1.565%, respectively. Claims expected to be paid within one year are $1,507,535 and $3,132,172 as of December 31, 2018 and 2017, respectively. The schedules below present the changes in the liability for workers' compensation claims and other claims (risk financing liabilities) as of December 31:

		2018		2017
Beginning liability, discounted	$	7,399,982	$	7,808,297
Payments		(993,756)		(1,507,525)
Incurred claims and change in estimate		558,510		1,099,210
Ending liability, discounted	$	6,964,736	$	7,399,982

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

Note 8 – Compensated Absences

The Fund has recorded a liability for earned but unused compensatory and vacation leave, as well as estimated sick leave payments calculated based on the termination payment method. The schedules below show the compensated absences activity during the years ended December 31, 2018 and 2017:

	2018	2017
Beginning liability	$ 4,944,463	$ 4,858,092
Additions	5,101,088	4,378,169
Reductions	(5,696,439)	(4,291,798)
Ending liability	$ 4,349,112	$ 4,944,463

Note 9 – Pension Benefit Plan

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

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

System benefits – The System provides retirement, death, and disability benefits. Retirement benefits vest after five years of credited service, while death and disability benefits vest after ten years of service. All permanent Fund employees are eligible to participate in the System. Members are eligible for retirement benefits after 30 years of service; at age 52 after 20 years of service; at age 57 after ten years of service; and at age 62 after five years of service.

Member and employer contributions – Employees are required to contribute 10.03% of their annual base salaries to the System. The employer's contribution rate for the years ended December 31, 2018 and 2017, was 15.29% and 15.33%, respectively. Employer rates are established by the City Council on a biannual basis. The Fund's contributions to the System for the years ended December 31, 2018 and 2017, were $ 7,205,678 and $ 7,107,510, respectively.

Note 9 – Pension Benefit Plan (continued)

The System issues stand-alone financial statements, which may be obtained by writing to the Seattle City Employees' Retirement System, 720 Third Avenue, Suite 900, Seattle, Washington, 98104, and telephone: (206) 386-1293, or www.seattle.gov/retirement/annual_report.htm.

Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows related to pensions – At December 31, 2018 and 2017, the Fund reported a liability of $66,368,647 and $81,147,048, respectively, its proportionate share of the Systems' net pension liability. The net pension liability was measured as of December 31, 2017 and 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of those dates. 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, 2018 and 2017, the Fund's proportion was 6.33% and 6.51%, respectively.

For the years ended December 31, 2018 and 2017, the Fund recognized pension expense of approximately $8,761,000 and $11,483,000, respectively.

The Fund's deferred outflows and inflows of resources are as follows at December 31, 2018:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 57,092	$ 1,820,458
Net difference between projected and actual earnings	(6,305,173)	-
Contributions made subsequent to measurement date	6,874,752	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	6,855,370
Total	$ 626,671	$ 8,675,828

The Fund's deferred outflows and inflows of resources are as follows at December 31, 2017:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 82,099	$ 407,410
Net difference between projected and actual earnings	6,289,532	-
Contributions made subsequent to measurement date	7,107,510	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	6,756,953
Total	$ 13,479,141	$ 7,164,363

Note 9 – Pension Benefit Plan (continued)

Other amounts currently reported as deferred outflows and inflows of resources will be recognized in pension expense as follows for years ending December 31:

2019	$ (3,078,101)
2020	(4,944,107)
2021	(3,891,761)
2022	(358,467)
Total	$ (12,272,436)

Actuarial assumptions – The total pension liability as of December 31, 2018, was determined using the following actuarial assumptions:

Valuation date	January 1, 2017
Measurement date	December 31, 2017
Actuarial cost method	Individual Entry Age Normal
Amortization method	Level Percent, Closed
Remaining amortization period	30 years as of January 1, 2013 valuation
Asset valuation method	5-Year Smoothing Method
Inflation	3.25%
Investment rate of return	7.5% compounded annually, net of expenses
Discount rate	7.5%
Projected general wage inflation	4.0%
Postretirement benefit increases	1.5%
Mortality	Various rates based on RP-2000 mortality tables and using generational projection of improvement using Projection Scale AA.

The actuarial assumptions that determined the total pension liability as of the measurement date were based on the results of an actuarial experience study for the period January 1, 2010, through December 31, 2013.

The discount rate used to measure the pension liability is based on a projection of cash flows assuming that plan member contributions will be made at the current contribution rate and that participating 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.

Note 9 – Pension Benefit Plan (continued)

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

Best estimates of geometric real rates of return for each major asset class included in the System's target asset allocation as of December 31, 2017, are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return
Equity: Public	4.94%
Equity: Private	6.25%
Fixed Income: Broad	0.42%
Fixed Income: Credit	3.30%
Real Assets: Real Estate	3.66%
Real Assets: Infrastructure	3.00%
Diversifying Strategies	3.09%

Sensitivity analysis – The following presents the Fund's proportionate share of the net pension liability calculated using the discounted rate of 7.50%, as well as what the employer's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.50%) or 1 percentage point higher (8.50%) than the current rate.

1% Decrease 6.50%	Current Discount Rate 7.50%	1% Increase 8.50%
$ 95,121,982	$ 66,368,647	$ 42,181,935

Note 10 – Environmental Liabilities

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

Duwamish sites – The U.S. Environmental Protection Agency (EPA) has indicated that it will require the clean-up and remediation of certain Duwamish sites under its Superfund authority. In order to manage the liability, the City has worked with the EPA and other PRPs 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 potentially responsible parties (PRPs) has been decided by the EPA in the 2014 Record of Decision. The Fund recorded an estimate of its share of the estimated total cost. Remedial design work began in 2019.

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.

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 is complete, and a draft final FS was submitted to EPA in early 2019. The FS identifies a range of alternatives for cleanup construction that range in cost from $256 million to $411 million. Once the FS is approved, EPA will then develop a Proposed Plan followed by a Record of Decision. The schedule for release of EPA's Proposed Plan is 2019. The Record of Decision is expected in 2020. Remedial design activities would start in late 2020 at the earliest. The Fund's policy is to record environmental liability remediation costs at the time the costs are estimable. During 2016, the Fund recorded their apportioned share of the East Waterway costs based on total remediation costs of $315 million.

Gas Works Park Sediment Site – In April 2002, the Department of Ecology (DOE) named the City and another party, Puget Sound Energy, as PRPs for contamination at the Gas Works Sediments Site in North Lake Union. The City and Puget Sound Energy signed an Agreed Order with the DOE in 2005 to initiate two RIs and FSs for the sediment site – one in the western portion of the site led by the City, and another in the eastern portion of the site led by Puget Sound Energy. Subsequently, in fall of 2012, the City and Puget Sound Energy entered into a Settlement, Release, and Cost Allocation Agreement that puts Puget Sound Energy in the lead for all additional cleanup work at the site; the east-west split is no longer in place. Based on the 2012 Agreement, the City pays for 20% of the Shared Costs incurred by Puget Sound Energy for the cleanup work. The RI and FS include an evaluation of the nature and extent of contamination on the site, an evaluation of multiple alternatives for remediating the sediments and a recommended preferred alternative. Puget Sound Energy collected additional environmental data in 2013 and the draft RI/FS was submitted to DOE in March 2016. A revised draft RI/FS is anticipated to be submitted to DOE in 2019 A Clean-up Action Plan, which is the States' equivalent to a Record of Decision under the Model Toxics Control Act, is expected in 2020.

Note 10 – Environmental Liabilities (continued)

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

7th Avenue South Pump Station – The City acquired land in the South Park area of Seattle to construct the 7th Ave South Pump Station. The land was determined to be contaminated subsequent to the purchase. The Fund has voluntarily agreed to clean up the contamination in order to continue with the planned construction of the pump station. The cleanup was completed in 2012; however, the Fund has ongoing monitoring activities it must perform.

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 2018 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 were calculated on a weighted average that was based on the probabilities of each scenario being selected and reflected cost-sharing agreements in effect. In addition, certain estimates were derived from independent engineers and consultants. The estimates were made with the latest information available; however, as new information becomes available, estimates may vary significantly due to price fluctuations, technological advances, or applicable laws.

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 $2.0 million as of December 31, 2018, and $2.1 million as of December 31, 2017.

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

	2018	2017
Beginning environmental liability, net of recovery	$ 138,806,475	$ 134,273,130
Payments or amortization	(4,863,030)	(4,987,026)
Incurred environmental liability	40,678,347	9,520,371
Ending environmental liability, net of recovery	$ 174,621,792	$ 138,806,475

Note 10 – Environmental Liabilities (continued)

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

	2018	2017
Environmental liability, current	$ 2,281,722	$ 1,805,786
Environmental liability, noncurrent	172,340,070	137,000,689
Ending liability	$ 174,621,792	$ 138,806,475

Note 11 – Loans

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

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 the rate of 2.4% per annum and are to be repaid by August of 2037. As of December 31, 2017, the Fund had drawn $31,969,127 on the loan. The final draw of $3,768,809 was completed on February 26, 2018, along with additional interest due to bring the final loan balance to $36,372, 252.

Loans outstanding as of December 31, 2018 and 2017, are as follows:

Description	Maturity Years	Interest Rate	Amount Borrowed	Loans Outstanding 2018	Loans Outstanding 2017
Midvale	2013-2031	0.25%	$ 4,000,000	$ 2,753,019	$ 2,964,790
Thornton Creek Natural Drainage Systems	2006-2024	0.50%	3,700,000	1,175,294	1,371,176
High Point Natural Drainage Systems	2010-2029	1.50%	2,679,413	1,528,274	1,661,667
South Park Flood Control and Local Drainage Program	2007-2025	0.50%	3,400,000	1,379,860	1,576,982
Ballard Green Streets ARRA Project	2011-2020	2.90%	603,209	140,432	207,656
Thornton Creek Water Quality Project	2011-2030	1.50%	6,983,021	4,378,706	4,724,984
Capital Hill Water Quality Project	2014-2033	2.60%	1,880,598	1,539,888	1,622,765
Henderson CSO	2018-2037	2.40%	36,372,252	34,483,651	31,969,127
			$ 59,618,493	$ 47,379,124	$ 46,099,147

Note 11 – Loans (continued)

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

Years Ending December 31,	Principal	Interest	Total
2019	$ 2,744,897	$ 972,786	$ 3,717,683
2020	2,792,896	922,293	3,715,189
2021	2,768,681	871,218	3,639,899
2022	2,816,776	820,628	3,637,404
2023	2,865,973	768,936	3,634,909
2024-2028	13,733,362	3,037,705	16,771,067
2029-2033	11,908,754	1,665,200	13,573,954
2034-2037	7,747,785	378,238	8,126,023
	$ 47,379,124	$ 9,437,004	$ 56,816,128

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

	2018	2017
Net loans, beginning of year	$ 46,099,148	$ 15,353,386
Loan proceeds	4,403,125	31,969,127
Principal payments	(3,123,149)	(1,223,366)
Net loans, end of year	$ 47,379,124	$ 46,099,147
Loans due within one year	$ 2,744,897	$ 2,761,144
Loans, noncurrent	$ 44,634,227	$ 43,338,003

Note 12 – Notes and Contracts Receivable

The Fund had an agreement with private individuals for a sewer connection charge contract. The receivable was $3,302 at December 31, 2017 and paid in full as of December 31, 2018.

Notes and contracts receivable are composed of the following as of December 31:

	2018	2017
Dalcerro receivable	-	$ 3,302
Total notes and contracts receivable	-	3,302
Due within one year	-	(1,012)
Total noncurrent notes and contracts receivable	$ -	$ 2,290

Note 13 – Wastewater Disposal Agreement

The Fund has a wastewater disposal agreement with the King County Department of Natural Resources Wastewater Treatment Division (the Division), which expires in 2036. The monthly wastewater disposal charge paid to the Division is based on the Division's budgeted cost for providing the service. The charges are determined by water consumption and the number of single-family residences as reported by SPU and other component agencies. Payments made by the Fund were $167,006,025 and $157,042,506 for fiscal years 2018 and 2017, respectively.

Required Supplementary Information

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

	2018	2017	2016
Employer's proportion of the net pension liability	14.73%	15.13%	16.37%
Employer's proportionate share of the net pension liability	$ 163,086,154	$ 197,454,529	$ 212,671,200
Employer's covered payroll	$ 107,715,383	$ 106,696,535	$ 105,031,141
Employer's proportionate share of the net pension liability as a percentage of its covered payroll	151.40%	185.06%	202.48%
Plan fiduciary net position as a percentage of the total pension liability	72.04%	65.60%	64.03%

Schedule of Seattle Public Utilities' Contributions

	2018	2017	2016
Contractually required employer contribution	$ 16,466,270	$ 16,354,089	$ 16,487,154
Contributions in relation to the contractually required employer contribution	(16,466,270)	(16,354,089)	(16,487,154)
Employer contribution deficiency (excess)	$ -	$ -	$ -
Employer's covered payroll	$ 107,715,383	$ 106,696,535	$ 105,031,141
Employer contributions as a percental of covered payroll	15.29%	15.33%	15.70%

Schedule of Seattle Public Utilities' Proportionate Share of the OPEB Liability and Related Ratios

	December 31, 2018
Total OPEB Liability	
Normal cost	$ 3,821,876
Interest	2,583,105
Differences between expected and actual experience	13,491,865
Changes in assumptions	(22,126,128)
Benefit payment	(2,289,000)
Total OPEB liability - beginning of year	65,648,115
Total OPEB liability - end of year	$ 61,129,833
Covered-employee payroll	$ 1,015,097,334
Net OPEB liability as percentage of covered-employee payrolls	6.02%

Other Information (Unaudited)

Drainage Wastewater Debt Service Coverage Calculation 2018

Operating Revenues	
Wastewater	$ 279,496,307
Drainage	133,837,102
Other	6,542,439
Total Operating Revenue	419,875,848
Operating Expense	
Wastewater Treatment Contract	163,783,859
Other Operations & Maintenance	98,715,709
City Taxes	49,611,691
Other Taxes	5,309,003
Total Operating Expenses Before Debt Service	317,420,262
Net Operating Income	102,455,586
Adjustments	
Less: Claim Expense	(558,510)
Add: City Taxes	49,611,691
Add: Investment Interest	7,081,417
Less: DSRF Earnings	(734,470)
Add: BAB's Subsidy	1,712,960
Add (Less): Net Other Nonoperating Revenues/(Expenses)	1,444,043
Add: Proceeds from Sale of Assets	10,840
Total Adjustments	58,567,972
Net Revenue Available for Debt Service	$ 161,023,557
Net Revenue Available for Debt Service (w/o City Taxes)	$ 111,411,866
Annual Debt Service	$ 65,973,115
Less: DSRF Earnings	(734,470)
Adjusted Annual Debt Service	$ 65,238,645
Coverage	2.47
Coverage without taxes	1.71

Statistics Required for Revenue Bond Continuing Disclosure

Wastewater System Operating Statistics

	2014	2015	2016	2017	2018
Population Served	640,500	662,400	686,800	713,700	730,400
Billed Wastewater Revenues ($1,000's)	$ 242,844	$ 257,092	$ 262,006	$ 272,085	$ 280,554
Billed Wastewater Volume (Thousand CCF)					
Residential	7,408	7,546	7,694	7,699	7,613
Commercial	13,243	13,872	14,127	13,584	13,504
Total	20,651	21,418	21,821	21,283	21,117
Gallons Used Per Day Per Capita	66.03	66.22	65.07	61.07	59.21

Drainage and Wastewater – 2018 Accounts and Billed Revenues

	Drainage	Wastewater
Customer Accounts		
Residential	151,323	152,632
Commercial	65,607	19,530
Total	216,930	172,162

	Drainage	Wastewater
Billed Revenue		
Residential	$ 62,054,967	$ 92,706,038
Commercial	58,793,992	179,378,712
Total	$ 120,848,959	$ 272,084,750

Major Wastewater Customers – 2018 Annual Billed Revenues and Percentage of Revenue

Name	Revenue	% of Total Revenue
University of Washington	$ 8,583,482	3.1%
SEATTLE HOUSING AUTHORITY	5,166,197	1.8%
City of Seattle	3,226,365	1.1%
MARRIOTT INTERNATIONAL INC	2,453,517	0.9%
EQUITY RESIDENTIAL	2,402,209	0.9%
King County	1,994,432	0.7%
PORT OF SEATTLE	1,612,212	0.6%
DARIGOLD	1,300,751	0.5%
HARBORVIEW MEDICAL CENTER	1,106,616	0.4%
SWEDISH MEDICAL CENTER	1,080,796	0.4%

Major Drainage Customers – 2018 Annual Billed Revenues and Percentage of Revenue

Name	Revenue	% of Total Revenue
City of Seattle	$ 9,353,845	7.0%
Seattle Public Schools	2,834,313	2.1%
University of Washington	2,330,284	1.7%
BNSF Railway	2,176,096	1.6%
King County	1,900,320	1.4%
US Federal Government	1,073,813	0.8%
Seattle Housing Authority	975,093	0.7%
Union Pacific Railroad	858,885	0.6%
Prologis Inc	572,444	0.4%
Archdiocese of Seattle	553,151	0.4%

Wastewater Rates

Note: 1 CCF equals 748 gallons. Wastewater rate increased 4.1% and 5.4% in 2018 and 2017, respectively.

Drainage Rates

Flat Rate per Parcel	2015	2016	2017	2018	2019	% Impervious Space
Single Family Residential*						
0-1,999 sq. ft.		$ 123.81	$ 140.46	$ 159.68	$ 169.81	
2,000 - 2,999 sq. ft.	$ 198.83	$ 206.93	$ 231.47	$ 259.68	$ 276.51	
3,000 - 4,999 sq. ft.	$ 258.06	$ 286.63	$ 319.05	$ 356.15	$ 383.43	
5,000 - 6,999 sq. ft.	$ 350.40	$ 390.03	$ 432.45	$ 480.86	$ 516.72	
7,000 - 9,999 sq. ft.	$ 443.55	$ 491.40	$ 543.98	$ 603.90	$ 652.61	
Rate per 1,000 sq. ft.						
Undeveloped						0 - 15%
Regular	$ 28.25	$ 31.24	$ 34.76	$ 38.78	$ 42.62	
Low Impact	$ 16.54	$ 18.57	$ 20.67	$ 23.06	$ 25.36	
Light						16 - 35%
Regular	$ 43.69	$ 48.52	$ 53.54	$ 59.24	$ 63.64	
Low Impact	$ 34.36	$ 38.31	$ 42.26	$ 46.74	$ 49.85	
Medium						36 - 65%
Regular	$ 63.45	$ 70.67	$ 77.60	$ 85.45	$ 90.58	
Low Impact	$ 51.04	$ 57.21	$ 62.86	$ 69.28	$ 73.31	
High	$ 85.12	$ 93.56	$ 102.48	$ 112.57	$ 119.86	66 - 85%
Very High	$ 100.69	$ 112.38	$ 122.94	$ 134.85	$ 143.10	86 - 100%

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

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