



REPORT OF INDEPENDENT AUDITORS AND FINANCIAL
STATEMENTS WITH REQUIRED SUPPLEMENTARY
INFORMATION AND OTHER INFORMATION

**SEATTLE PUBLIC UTILITIES –
WATER FUND
(AN ENTERPRISE FUND OF THE CITY OF SEATTLE)**

December 31, 2020 and 2019



MOSSADAMS

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Report of Independent Auditors

To the Director of Seattle Public Utilities
Water Fund
Seattle, Washington

Report on the Financial Statements

We have audited the accompanying financial statements of Seattle Public Utilities – Water Fund (the Fund), which comprise the statements of net position as of December 31, 2020 and 2019, and the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

Management’s Responsibility for the Financial Statements

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

Auditor’s Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 – Water Fund as of December 31, 2020 and 2019, 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 29, 2021, on our consideration of the Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Fund's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fund's internal control over financial reporting and compliance.

Moss Adams LLP

Seattle, Washington
April 29, 2021

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

As management of Seattle Public Utilities (SPU), a department of the City of Seattle (the City), we offer readers of SPU's financial statements this narrative overview and analysis of the financial activities of the Water Fund (the Fund) for the fiscal years ended December 31, 2020 and 2019. The revenues, expenses, assets, deferred outflows and inflows of resources, liabilities, and deferred inflows of resources of Seattle's water 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 like 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 12 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, 2020 and 2019, on all 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, 2020 and 2019. 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, 2020 and 2019, and 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 17 of this report.

Seattle Public Utilities – Water Fund

(An Enterprise Fund of the City of Seattle)

Management's Discussion and Analysis

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, 2020 and 2019, the Fund's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources, resulting in surpluses in total net position of \$641.8 million and \$585.9 million, respectively. In 2020, the Fund's change in net position was an increase of \$55.9 million (9.5%) as compared to 2019, which increased \$49.5 million (9.2%). The following summary statement of net position presents the assets and deferred outflows of resources of the Fund and shows the mix of liabilities, deferred inflows of resources, and net position used to acquire these assets:

Summary Statement of Net Position

	2020	2019	2018
ASSETS			
Current assets	\$ 186,462,740	\$ 173,480,929	\$ 160,457,325
Capital assets, net	1,338,082,729	1,319,864,509	1,320,292,790
Other	130,344,057	160,646,632	184,626,654
Total assets	1,654,889,526	1,653,992,070	1,665,376,769
DEFERRED OUTFLOWS OF RESOURCES	31,706,364	42,606,814	23,263,682
Total assets and deferred outflows of resources	<u>\$ 1,686,595,890</u>	<u>\$ 1,696,598,884</u>	<u>\$ 1,688,640,451</u>
LIABILITIES			
Current liabilities	\$ 81,303,808	\$ 86,054,632	\$ 103,182,391
Revenue bonds	767,000,352	817,813,647	868,016,942
Other	122,317,203	139,523,671	116,652,644
Total liabilities	970,621,363	1,043,391,950	1,087,851,977
DEFERRED INFLOWS OF RESOURCES			
Revenue stabilization fund	59,880,197	58,869,864	55,004,886
Deferred inflows - other	14,320,203	8,476,141	9,404,210
Total deferred inflows of resources	74,200,400	67,346,005	64,409,096
NET POSITION			
Net investment in capital assets	563,868,163	526,544,348	506,386,096
Restricted	13,230,176	12,976,412	12,985,756
Unrestricted	64,675,788	46,340,169	17,007,526
TOTAL NET POSITION	<u>641,774,127</u>	<u>585,860,929</u>	<u>536,379,378</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 1,686,595,890</u>	<u>\$ 1,696,598,884</u>	<u>\$ 1,688,640,451</u>

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

Financial Analysis (continued)

2020 Compared to 2019

Assets – Current assets increased \$13.0 million (7.5%) from 2019. This is primarily due to increases in operating cash of \$10.7 million and accounts receivable of \$4.9 million offset by decreases in due from other funds of \$1.9 million, unbilled revenue of \$0.6 million and due from other governments of \$0.3 million. The change in operating cash is primarily due to increased spending for capital assets, of which a certain portion of those costs are reimbursed to operating cash from the bond proceeds. The increase in accounts receivable is mostly due to slower than expected payments from customers due to the COVID-19 pandemic.

Capital assets increased \$18.2 million (1.4%) from 2019 mainly due to closed projects transferred from construction in progress (Note 3).

Other assets decreased \$30.3 million (-18.9%) from 2019. The largest portion of the change was due to a decrease in restricted cash and equity in pooled investments of \$29.4 million for spending on capital projects.

Deferred outflows of resources – Deferred outflows of resources decreased by \$10.9 million (-25.6%) from 2019. This change resulted mainly from assumptions related to pension accounting and differences in expected and actual experience in other post-employment benefits (OPEB).

Liabilities – Current liabilities decreased \$4.8 million (-5.5%) from 2019. This change mostly resulted from decreases of \$1.1 million in accounts payable and \$3.8 million in salaries and benefits payable.

Noncurrent liabilities decreased \$68.0 million (-7.1%) over 2019. This decrease is mainly due to principal payments of \$46.2 million in revenue bonds and loans of \$2.0 million and decrease in net pension liability of \$16.4 million and bond premiums of \$4.6 million. These decreases were partially offset by an increase of \$1.1 million in compensated absences payable.

Deferred inflows of resources – Deferred inflows of resources increased by \$6.9 million (10.2%) from 2019. This increase is mainly due to an increase of \$1.0 million in the revenue stabilization account and \$5.8 million in deferred inflows-pension and OPEB.

Net position – Net investment in capital assets was the largest portion of the Fund's net position (\$563.9 million or 87.9%). This amount 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 2020, net investment in capital assets increased \$37.3 million from 2019 primarily from an increase in utility plant and construction in progress. Other contributing factors are decreases in debt and debt related accounts, offset by a decrease in construction cash of \$29.4 million.

Seattle Public Utilities – Water Fund

(An Enterprise Fund of the City of Seattle)

Management's Discussion and Analysis

Financial Analysis (continued)

The Fund's restricted net position (\$13.2 million or 2.0%) represents resources that are subject to restrictions on how they may be used. Restricted net position increased slightly by \$0.3 million.

The Fund's unrestricted net position (\$64.7 million or 10.1%) represents resources that are not subject to external restrictions and may be used to meet the Fund's obligations to creditors. This portion increased \$18.3 million in 2020 as compared to 2019 primarily as a result of an increase in operating cash.

2019 Compared to 2018

Assets – Current assets increased \$13.0 million (8.1%) from 2018. This is primarily due to increases in operating cash of \$36.1 million, accounts receivable of \$0.2 million and unbilled revenue of \$1.1 million offset by decreases in due from other funds of \$15.4 million and due from other governments of \$9.4 million. The increase in operating cash is primarily due to less than anticipated expenditures for capital projects.

Capital assets decreased \$0.4 million (0.0%) from 2018 mainly due to retirements and accumulated depreciation (Note 3).

Other assets decreased \$24.0 million (-13.0%) from 2018. The largest portion of the change was due to a decrease in restricted cash and equity in pooled investments of \$21.7 million for spending on capital projects.

Deferred outflows of resources – Deferred outflows of resources increased by \$19.3 million (83.1%) from 2018. This change resulted from assumptions related to pension accounting and differences in expected and actual experience in other post-employment benefits (OPEB).

Liabilities – Current liabilities decreased \$17.1 million (-16.6%) from 2018. This change mostly resulted from decreases of \$23.2 million in due to other funds because of settlements made during the year. The decrease was offset by increases in salaries and benefits payable of \$4.4 million, revenue bonds due with one year of \$2.5 million and others of \$1.3 million.

Noncurrent liabilities decreased \$27.3 million (-2.8%) over 2018. This decrease is mainly due to principal payments of \$50.2 million in revenue bonds and \$2.0 million in loans payable. These decreases were partially offset by an increase of \$24.3 million in the net pension liability.

Deferred inflows of resources – Deferred inflows of resources increased by \$2.9 million (4.6%) from 2018. This increase is mainly due to an increase of \$3.9 million in the revenue stabilization account and offset by a decrease of \$1.0 million in deferred inflows-pension and OPEB.

Seattle Public Utilities – Water Fund

(An Enterprise Fund of the City of Seattle)

Management's Discussion and Analysis

Financial Analysis (continued)

Net position – Net investment in capital assets was the largest portion of the Fund's net position (\$526.5 million or 89.9%). This amount 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 2019, net investment in capital assets increased \$20.2 million from 2018 primarily from an increase in utility plant and construction in progress. Other contributing factors are decreases in debt and debt related accounts, offset by a decrease in construction cash of \$25.7 million.

The Fund's restricted net position (\$13.0 million or 2.2%) represents resources that are subject to restrictions on how they may be used. Restricted net position decreased slightly by \$0.09 million.

The Fund's unrestricted net position (\$46.3 million or 7.9%) represents resources that are not subject to external restrictions and may be used to meet the Fund's obligations to creditors. This portion increased \$29.3 million in 2019 as compared to 2018 primarily as a result of an increase in operating cash.

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

	2020	2019	2018
Operating revenues	\$ 278,577,869	\$ 281,008,043	\$ 282,286,898
Operating expenses	<u>(213,442,003)</u>	<u>(220,594,542)</u>	<u>(210,559,204)</u>
Net operating income	65,135,866	60,413,501	71,727,694
Other expenses, net of other revenues	(19,433,866)	(18,930,740)	(20,417,977)
Fees, contributions, and grants	<u>10,211,198</u>	<u>7,998,790</u>	<u>30,726,656</u>
Change in net position	<u><u>\$ 55,913,198</u></u>	<u><u>\$ 49,481,551</u></u>	<u><u>\$ 82,036,373</u></u>

2020 Compared to 2019

Operating revenues decreased approximately \$2.4 million (-0.9%) over 2019. The change was mainly driven by a decrease in unbilled revenue of \$1.8 million, utility discount of \$1.0 million, retail water sales of \$0.9 million, tap revenue of \$1.2 million and \$0.3 million of miscellaneous fines and penalties. The decreases were offset by increases of \$0.3 million in municipal utility services and \$2.5 million in rate stabilization account.

Seattle Public Utilities – Water Fund

(An Enterprise Fund of the City of Seattle)

Management's Discussion and Analysis

Financial Analysis (continued)

Operating expenses decreased \$7.2 million (-3.2%) from 2019. Notable factors affecting this change include decreases of \$1.4 million in salaries, wages and benefits, \$2.7 million in services, \$1.9 million in other operating expenses, \$0.6 million in intergovernmental payments and \$0.4 million in depreciation and amortization.

Other expenses, net of other revenues increased by \$0.5 million (2.7%) over 2019. The change was primarily due to a decrease in interest and debt service expenses of \$2.8 million.

Capital fees, contributions and grants increased by \$2.2 million (27.7%) over 2019. The main factors for the increase are \$3.1 million increase in donations.

2019 Compared to 2018

Operating revenues decreased approximately \$1.3 million (-0.5%) over 2018. The change was mainly driven by a decrease in wholesale revenue of \$13.1 million as a result of \$12.0 million contract transition payment received from Cascade Water Alliance (CWA in 2018). This decrease was offset by increased revenue of \$8.2 million in utility services and \$3.6 million in other operating revenues.

Operating expenses increased \$10.0 million (4.8%) from 2018. Notable factors affecting this change include increases of \$5.5 million in salaries, wages and benefits and \$5.3 million in other operating expenses.

Other expenses, net of other revenues decreased by \$1.5 million (-7.3%) over 2018. The change was primarily due to a decrease in interest and debt service expenses of \$1.3 million.

Capital fees, contributions and grants decreased by \$22.7 million (-74.0%) over 2018. The main factors for the decrease are settlements received for the bored tunnel and water reservoir seismic work.

Seattle Public Utilities – Water Fund

(An Enterprise Fund of the City of Seattle)

Management's Discussion and Analysis

Financial Analysis (continued)

Capital Assets

The following table summarizes capital assets, net of accumulated depreciation, by major asset category as of December 31, 2020, 2019, and 2018:

Summary of Capital Assets, Net of Accumulated Depreciation

	December 31,		
	2020	2019	2018
Land and land rights	\$ 54,016,672	\$ 48,319,324	\$ 48,319,324
Buildings	136,701,527	138,081,286	140,470,420
Structures	809,255,051	790,865,802	774,497,498
Machinery and equipment	270,111,490	285,317,611	304,030,908
Computer systems	22,261,534	22,096,338	25,807,660
Construction in progress	43,894,329	33,428,453	25,411,285
Artwork	1,567,614	1,481,184	1,481,184
Property held for future use	274,512	274,512	274,512
Capital assets, net of accumulated depreciation	<u>\$ 1,338,082,729</u>	<u>\$ 1,319,864,510</u>	<u>\$ 1,320,292,791</u>

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

2020 Compared to 2019

The Fund's investment in capital assets for the year ended December 31, 2020, was \$1.3 billion, net of accumulated depreciation. This represents an increase of \$18.2 million (1.4%) compared to 2019. Addition of capital assets was offset by increased depreciation and disposals. Highlights of the Fund's major capital assets placed in service during 2020 include the following:

- \$21.9 million for Water infrastructure improvements and rehabilitation
- \$4.9 million for Cedar Falls and Lake Young's Facilities
- \$5.0 million for Infrastructure work for Cedar and Tolt
- \$4.3 million for Technology

As of December 31, 2020, the Fund had \$33.4 million in construction in progress. Major projects under construction are the following:

- \$27.5 million for Water system improvements and rehabilitation
- \$12.7 million for Regional Facility and infrastructure
- \$4.9 million for Technology

Seattle Public Utilities – Water Fund

(An Enterprise Fund of the City of Seattle)

Management’s Discussion and Analysis

Financial Analysis (continued)

2019 Compared to 2018

The Fund’s investment in capital assets for the year ended December 31, 2019, was \$1.3 billion, net of accumulated depreciation. This represents a decrease of \$0.4 million (-0.03%) compared to 2018. Addition of capital assets was offset by increased depreciation and disposals. Highlights of the Fund’s major capital assets placed in service during 2019 include the following:

- \$16.9 million for Water infrastructure improvements and rehabilitation
- \$1.9 million for Cedar Falls and Lake Young’s Facilities
- \$1.0 million for Infrastructure work for Cedar and Tolt

As of December 31, 2019, the Fund had \$33.4 million in construction in progress. Major projects under construction are the following:

- \$5.6 million for Water system improvements and rehabilitation
- \$4.1 million for Regional Facility and infrastructure
- \$3.1 million for Technology

Debt Administration

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

2020 Compared to 2019

At December 31, 2020, the Fund had \$728.5 million in bonded debt and \$24.8 million in loans, as compared to \$774.1 million and \$26.8 million, respectively, at December 31, 2019. Bonded debt decreased a net \$45.6 million, attributed to scheduled payments of debt principal on existing bonds. Loans also decreased \$2.0 million due to scheduled principal payments on existing loans.

2019 Compared to 2018

At December 31, 2019, the Fund had \$774.1 million in bonded debt and \$26.8 million in loans, as compared to \$817.2 million and \$28.9 million, respectively, at December 31, 2018. Bonded debt decreased a net \$43.0 million, attributed to scheduled payments of debt principal on existing bonds. Loans also decreased \$2.0 million due to scheduled principal payments on existing loans.

**Seattle Public Utilities – Water Fund
(An Enterprise Fund of the City of Seattle)
Management's Discussion and Analysis**

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

Seattle Public Utilities – Water Fund
(An Enterprise Fund of the City of Seattle)
Statements of Net Position

	December 31,	
	2020	2019
ASSETS		
CURRENT ASSETS		
Operating cash and equity in pooled investments	\$ 140,762,314	\$ 130,035,812
Receivables		
Accounts, net of allowance	19,768,400	14,827,346
Interest and dividends	835,958	834,341
Unbilled revenues	16,516,809	17,131,177
Due from other funds	561,079	2,466,434
Due from other governments	884,847	1,200,473
Materials and supplies inventory	7,022,028	6,913,753
Prepayments and other current assets	111,305	71,593
Total current assets	<u>186,462,740</u>	<u>173,480,929</u>
NONCURRENT ASSETS		
Restricted cash and equity in pooled investments	93,098,242	122,541,451
Prepayments long-term	803,816	875,410
Conservation costs	26,171,056	27,817,727
Regulatory assets	6,017,105	7,322,244
Other charges	4,253,838	2,089,800
Capital assets		
Land and land rights	54,016,672	48,319,324
Plant in service, excluding land	2,146,526,408	2,095,575,255
Less accumulated depreciation	(908,196,806)	(859,214,219)
Construction in progress	43,894,329	33,428,453
Other property, net	1,842,126	1,755,696
Total noncurrent assets	<u>1,468,426,786</u>	<u>1,480,511,141</u>
Total assets	<u>1,654,889,526</u>	<u>1,653,992,070</u>
DEFERRED OUTFLOWS OF RESOURCES		
Unamortized loss on advanced refunding	18,337,668	19,717,242
Pension and OPEB contributions and changes in assumptions	13,368,696	22,889,572
Total deferred outflow of resources	<u>31,706,364</u>	<u>42,606,814</u>
Total assets and deferred outflows of resources	<u>\$ 1,686,595,890</u>	<u>\$ 1,696,598,884</u>

Seattle Public Utilities – Water Fund
(An Enterprise Fund of the City of Seattle)
Statements of Net Position

	December 31,	
	2020	2019
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	\$ 9,924,189	\$ 11,069,972
Salaries, benefits, and payroll taxes payable	3,587,341	7,349,700
Compensated absences payable	296,233	240,567
Due to other funds	4,525	345,824
Due to other governments	109,515	-
Interest payable	10,704,947	11,346,745
Taxes payable	811,140	862,814
Revenue bonds due within one year	46,235,000	45,625,000
Claims payable	1,324,184	1,312,147
Habitat conservation program liability	733,539	578,319
Loans payable, due within one year	2,049,935	2,049,935
Other	5,523,260	5,273,609
Total current liabilities	<u>81,303,808</u>	<u>86,054,632</u>
NONCURRENT LIABILITIES		
Compensated absences payable	5,628,415	4,570,756
Claims payable	3,907,560	3,883,307
Habitat conservation program liability	6,328,713	6,501,787
Loans payable	22,726,754	24,776,689
Unfunded other post employment benefits	3,014,776	2,901,073
Net pension liability	80,221,489	96,599,354
Other noncurrent liabilities	489,496	290,705
Revenue bonds	682,255,000	728,490,000
Bond premiums	84,745,352	89,323,647
Total noncurrent liabilities	<u>889,317,555</u>	<u>957,337,318</u>
Total liabilities	<u>970,621,363</u>	<u>1,043,391,950</u>
DEFERRED INFLOWS OF RESOURCES		
Rate stabilization account	59,880,197	58,869,864
Deferred inflows-pension and OPEB	14,320,203	8,476,141
Total deferred inflows of resources	<u>74,200,400</u>	<u>67,346,005</u>
NET POSITION		
Net investment in capital assets	563,868,163	526,544,348
Restricted for		
Other charges	5,122,759	4,531,742
Conservation costs	3,535,719	3,849,816
Habitat conservation program	4,571,698	4,594,854
Unrestricted	64,675,788	46,340,169
Total net position	<u>641,774,127</u>	<u>585,860,929</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 1,686,595,890</u>	<u>\$ 1,696,598,884</u>

Seattle Public Utilities – Water Fund
(An Enterprise Fund of the City of Seattle)
Statements of Revenues, Expenses, and Changes in Net Position

	Years Ended December 31,	
	2020	2019
OPERATING REVENUES		
Charges for services and other revenues	\$ 278,577,869	\$ 281,008,043
OPERATING EXPENSES		
Salaries, wages and personnel benefits	60,886,762	62,308,052
Supplies	5,670,627	5,787,353
Services	43,864,447	46,581,746
Intergovernmental payments	46,100,555	46,746,129
Depreciation	50,393,358	50,440,403
Amortization	4,092,999	4,432,654
Other operating expenses	2,433,255	4,298,205
Total operating expenses	213,442,003	220,594,542
OPERATING INCOME	65,135,866	60,413,501
NONOPERATING REVENUES		
Other nonoperating revenue	2,561,005	4,031,561
Investment revenue	8,898,503	10,807,360
Total nonoperating revenues	11,459,508	14,838,921
NONOPERATING EXPENSES		
Interest/debt service expenses	30,893,374	33,658,477
Other nonoperating expenses	-	111,184
Total nonoperating expenses	30,893,374	33,769,661
Income before capital contributions and grants	45,702,000	41,482,761
Capital contributions and grants	10,211,198	7,998,790
CHANGE IN NET POSITION	55,913,198	49,481,551
NET POSITION		
Beginning of year	585,860,929	536,379,378
End of year	\$ 641,774,127	\$ 585,860,929

Seattle Public Utilities – Water Fund
(An Enterprise Fund of the City of Seattle)
Statements of Cash Flows

	Years Ended December 31,	
	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 280,463,985	\$ 313,163,122
Cash paid to suppliers	(53,970,448)	(81,969,592)
Cash paid to employees	(65,777,972)	(55,870,388)
Cash paid for taxes	(44,316,495)	(45,742,967)
Net cash provided by operating activities	<u>116,399,070</u>	<u>129,580,175</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Noncapital grants received	5,072,354	1,982,897
Payment for environmental liabilities	-	(76,440)
Net cash flows from noncapital financing activities	<u>5,072,354</u>	<u>1,906,457</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal payments on long-term debt	(42,532,929)	(44,252,045)
Capital expenditures and other charges paid	(75,331,822)	(51,002,667)
Interest paid on long-term debt	(36,478,733)	(38,667,808)
Build America Bonds Federal Interest Subsidy	1,937,152	1,984,080
Capital fees and grants received	5,138,843	6,015,892
Proceeds from sale of capital assets	119,624	(5,004)
Net cash used in capital and related financing activities	<u>(147,147,865)</u>	<u>(125,927,552)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received on investments	<u>6,959,734</u>	<u>8,831,723</u>
NET INCREASE (DECREASE) IN CASH AND EQUITY IN POOLED INVESTMENTS	(18,716,707)	14,390,803
CASH AND EQUITY IN POOLED INVESTMENTS		
Beginning of year	<u>252,577,263</u>	<u>238,186,460</u>
End of year	<u><u>\$ 233,860,556</u></u>	<u><u>\$ 252,577,263</u></u>
CASH AT THE END OF THE YEAR CONSISTS OF		
Operating cash and equity in pooled investments	\$ 140,762,314	\$ 130,035,812
Noncurrent restricted cash and equity in pooled investments	<u>93,098,242</u>	<u>122,541,451</u>
Total cash at the end of the year	<u><u>\$ 233,860,556</u></u>	<u><u>\$ 252,577,263</u></u>

Seattle Public Utilities – Water Fund
(An Enterprise Fund of the City of Seattle)
Statements of Cash Flows (continued)

	Years Ended December 31,	
	2020	2019
RECONCILIATION OF NET OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Net operating income	\$ 65,135,866	\$ 60,413,501
Adjustments to reconcile net operating income to net cash provided by operating activities		
Adjustment for net pension liability	(1,012,927)	2,135,030
Depreciation and amortization	54,486,357	54,873,057
Nonoperating revenues and expenses	2,441,379	4,001,821
Changes in operating assets and liabilities		
Accounts receivable	(4,941,054)	(2,200,399)
Unbilled revenues	614,368	(1,102,106)
Due from other funds	1,905,355	17,405,962
Due from other governments	315,626	9,380,981
Materials and supplies inventory	(108,275)	(421,669)
Other assets	31,882	71,593
Accounts payable	(1,145,783)	(653,494)
Salaries, benefits, and payroll taxes payable	(3,762,359)	4,414,393
Compensated absences payable	1,113,325	563,354
Due to other funds	(341,299)	(23,213,203)
Due to other governments	109,515	(114,865)
Claims payable	36,290	(371,891)
Taxes payable	(51,674)	(793,797)
Regulatory liability - revenue stabilization fund	1,010,333	3,864,978
Credits and other	562,145	1,326,929
Total adjustments	51,263,204	69,166,674
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 116,399,070	\$ 129,580,175
NONCASH TRANSACTIONS		
Contributed infrastructure	\$ 4,932,415	\$ 1,788,805

Seattle Public Utilities – Water Fund (An Enterprise Fund of the City of Seattle) Notes to Financial Statements

Note 1 – Operations and Summary of Significant Accounting Policies

Operations – The City of Seattle, Seattle Public Utilities – Water Fund (the Fund) is a public utility enterprise fund of the City of Seattle (the City). The Fund was established to account for activities of the water system operated by Seattle Public Utilities (SPU). The water system, established in 1890, provides water to the greater Seattle area through direct service to customers and through purveyors, such as suburban water districts and municipalities. The activities of the water system include protection of available water supply, transmission of water to customers, development of water conservation programs, evaluation of new water sources, and management of the City's water system assets, which include the Tolt and Cedar River Watersheds, water pipes, pumping stations, and treatment plants.

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 some that are normally considered to be general and administrative. The Fund is charged a share of these costs and during 2020 and 2019, paid \$20,707,277 and \$23,560,027, 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 \$34,019,832 and \$34,467,729 for these taxes in 2020 and 2019, respectively.

The utility billing function is co-managed by SPU, Seattle City Light (SCL), and the Seattle Information Technology Department (ITD). SPU provides customer service through the call center and walk-in center. ITD maintains the Customer Information System (CIS). SPU and SCL bill and reimburse each other for these services. SPU reimburses ITD for the information 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 \$2,327,309 and \$2,190,419 in 2020 and 2019, respectively. The Fund paid \$31,132 and \$8,143 for the utility billing services in 2020 and 2019, respectively.

Water services provided to other City departments and agencies are billed at rates prescribed by City ordinances. The Fund collected \$3,461,381 and \$4,283,105 in 2020 and 2019, respectively, from the City for water services provided.

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

Seattle Public Utilities – Water Fund

(An Enterprise Fund of the City of Seattle)

Notes to Financial Statements

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

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

Receivables and unbilled revenues – Customer accounts receivable consist of amounts owed by private individuals, organizations and other city departments for goods delivered or services rendered in the regular course of business operations. Accounts receivable is shown net of allowances for doubtful accounts. The Fund also accrues an estimated amount for services that have been provided but not billed. Notes and contracts receivable arise from written agreements or contracts with public organizations and private individuals.

Due from/to other funds and governments – Activity between funds 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.

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, 2020 and 2019, the Fund's allowance for doubtful accounts was \$728,885 and \$406,632, respectively.

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

Seattle Public Utilities – Water Fund
(An Enterprise Fund of the City of Seattle)
Notes to Financial Statements

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

Regulatory assets – GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, allows for certain costs to be capitalized as a regulatory asset instead of charged to expense. A regulatory asset is recorded when it is probable that future revenue in an amount at least equal to the capitalized costs will be recovered through customer rates over some future period. The Fund uses regulatory accounting for debt issuance costs because these costs are included in the rate structure and, as such, will continue to be amortized over the life of the associated bond and loan 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.

Revenue Stabilization Account – The Revenue Stabilization Account (RSA) was established by City Ordinance 122841 to reduce year-to-year variation in rates. Amounts deposited into the RSA are excluded from the statements of revenues, expenses, and changes in net position and treated as a credit in accordance with GASB Statement No. 62. The RSA is included in the “Revenue Stabilization Account” identified in the Fund’s bond covenants. These covenants provide that withdrawals and deposits from the “Revenue Stabilization Account” shall augment or reduce adjusted net revenue available for the payment of debt service. In 2020, there was no deposit to or withdrawal from the RSA.

BPA account – In 2003, the Bonneville Power Administration (BPA) purchased an easement in the amount of \$6.0 million from the Fund to construct a power transmission line through the Cedar River Watershed. This \$6.0 million, together with \$657,149 in timber sales related to the easement, were deposited into the BPA account and classified as restricted assets. At December 31, 2020 and 2019, the cash balance in the BPA account was \$496,152 and \$487,705, respectively. Monies in the BPA account are considered a portion of the “Revenue Stabilization Account” described in bond covenants, and therefore shall augment or reduce adjusted net revenue available for the payment of debt service. The Fund will recognize the revenues deposited in the BPA account in the calculation of adjusted net revenues available for the payment of debt service as they are withdrawn to fund certain activities in the Cedar River Watershed.

Conservation costs – Conservation program costs that result in long-term benefits and reduce or postpone other capital expenditures or have a legal requirement are included in noncurrent assets and amortized over their expected useful lives, commencing when each program is in place. The conservation program costs are amortized over their expected useful lives of ten years. Certain costs related to the Habitat Conservation Plan (HCP) are included in the noncurrent assets and amortized through 2050, the year in which the plan expires. An incidental take permit was issued to the City by the federal government approving the HCP for 50 years. Costs of administering the conservation and HCP programs are expensed as incurred.

Other charges – Other charges include costs such as the Water System Plan, leasehold improvements, and the Tolt Levee modification. The Fund amortizes these charges over a 2- to 33-year period.

Seattle Public Utilities – Water Fund

(An Enterprise Fund of the City of Seattle)

Notes to Financial Statements

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

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 capitalize assets with a cost of \$5,000 or more. The Fund receives donated assets such as water mains from developers and other governmental agencies. These donated assets are treated as a special item under capital contributions and grants in the statements of revenues, expenses, and changes in net position.

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

Other property – Other property is stated at cost, or if contributed, the fair value at the date of contribution. 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
Earthen source of supply developments	100 years
Transmission and distribution pipelines, reservoirs, and tanks	15 to 100 years
Water mains	33 to 57 years
Pumps, wells, and treatment equipment	10 to 50 years
Machinery and equipment	3 to 20 years
Computer systems	3 to 11 years

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

Deferred outflows/inflows of resources – In addition to assets, the statements of net position, when applicable, will report a separate section for deferred outflows of resources. It represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The fund has deferred loss on refunding debt which qualifies for reporting in this category. A deferred loss on refunding bonds results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The Fund has also recorded deferred outflows of resources for certain pension and OPEB activities including, the difference between projected and actual experience, the difference between projected and actual earnings on investments, and contributions made subsequent to the measurement date (Notes 6 and 9).

Seattle Public Utilities – Water Fund
(An Enterprise Fund of the City of Seattle)
Notes to Financial Statements

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

In addition to liabilities, the statements of net position, when applicable, will report a separate section for deferred inflows of resources. It represents an acquisition of net position that applies to a future period(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. The Fund has a revenue stabilization account which qualifies for reporting in this category.

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. The Fund records a liability for estimated sick leave payments.

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.

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.

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 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.

Operating revenues – The Fund provides water service to wholesale and retail customers and recognizes revenue when such service is provided. Wholesale customers (Purveyors) are under contract with the Fund, and rates are set based on cost allocation criteria stipulated in the contracts.

Seattle Public Utilities – Water Fund

(An Enterprise Fund of the City of Seattle)

Notes to Financial Statements

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

Service rates for all customers are authorized by ordinances passed by the City Council. Service revenues are recorded through cycle billings rendered to customers monthly or bimonthly. The Fund accrues and records unbilled water service revenues in the financial statements for services provided from the date of the last billing to year end.

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 15.54% of Fund revenues, net of certain credits and certain revenues. In addition, the Fund paid a 5.029% public utility tax to the State on a certain portion of revenues identified as utility revenues. The Fund also paid business and occupation tax to the City at the rate of 0.222% and to the State at the rate of 1.75% for certain other non-utility revenues.

Other revenues and expenses – The Fund's non-operating revenues and expenses arise from transactions not related directly to the major income-earning operations of the utility and are of a recurring nature. Major items are investment and interest income, interest expense, gains or losses on the sale of assets, and amortization of debt expenses.

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

Net investment in capital assets, consists of capital assets, less 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, 2020, are mainly related to conservation costs, HCP and certain other charges.

Unrestricted net positions are those that are not "net investment in capital assets" or "restricted."

Arbitrage rebate requirement – The Fund is subject to the Internal Revenue Code (IRC), Section 148(f), related to its tax-exempt revenue bond. The IRC requires that earnings on gross proceeds of any revenue bonds that are more than the amount prescribed will be surrendered to the Internal Revenue Service. As such, the Fund would record such a rebate as a liability. The Fund had no arbitrage liability as of December 31, 2020 and 2019.

Seattle Public Utilities – Water Fund
(An Enterprise Fund of the City of Seattle)
Notes to Financial Statements

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

Accounting standard changes - GASB has issued Statement No. 87, *Leases*. The new standard was issued in June 2017 and was originally scheduled for implementation for reporting periods beginning after December 15, 2019. Due to the COVID-19 pandemic, GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which delayed the implementation dates of certain statements. As a result, GASB 87 will be effective for the Fund for reporting periods beginning after June 15, 2021. 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 statements.

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 result, interest cost incurred before the end of a construction period will not be included in the historical 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. Due to the COVID-19 pandemic, GASB issued Statement No. 95 which delayed the implementation dates of certain statements. As a result, GASB 89 will be effective for the Fund for reporting periods beginning after December 15, 2020. The Fund plans to invoke regulatory accounting under GASB 62 and will continue to capitalize interest as an expense to projects.

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, accrued sick leave, capitalized interest, depreciation, risk liabilities, post-retirement benefits, 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, water conditions, weather and natural disaster-related disruptions, collective bargaining labor disputes, fish and other endangered species act issues, Environmental Protection Agency regulations, federal government regulations or orders concerning the operation, maintenance, and licensing of facilities.

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

Seattle Public Utilities – Water Fund

(An Enterprise Fund of the City of Seattle)

Notes to Financial Statements

Note 2 – Cash and Equity in Pooled Investments

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

Custodial credit risk – deposits – Custodial credit risk of deposits is the risk that in the event of bank failure for one of the City's depository institutions, the City's deposits or related collateral securities may not be returned in a timely manner.

As of December 31, 2020 and 2019, the City did not have custodial credit risk. The City's deposits are covered by insurance provided by the Federal Deposit Insurance Corporation (FDIC) and the National Credit Union Association (NCUA) as well as protection provided by the Washington State Public Deposit Protection Commission (PDPC) as established in RCW 39.58. The PDPC makes and enforces regulations and administers a program to ensure public funds deposited in banks and thrifts are protected if a financial institution becomes insolvent. The PDPC approves which banks, credit unions, and thrifts can hold state and local government deposits and monitors collateral pledged to secure uninsured public deposits. This secures public treasurers' deposits when they exceed the amount insured by the FDIC or NCUA by requiring banks, credit unions, and thrifts to pledge securities as collateral.

As of December 31, 2020 and 2019, the City held sufficient cash in its vault for operations. Additional small amounts of cash were held in departmental revolving fund accounts with the City's various custodial banks, all of which fell within the NCUA/FDIC's \$250,000 standard maximum deposit insurance amount. Any of the City's cash not held in its vault, or a local depository, was held in the City's operating fund (investment pool), and at the close of every business day, any cash remaining in the operating fund is swept into an overnight repurchase agreement that matures the next day.

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

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

Seattle Public Utilities – Water Fund
(An Enterprise Fund of the City of Seattle)
Notes to Financial Statements

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. No single issuer rated AA or better may exceed 3 percent of the Pool's market value. No single issuer rated in the single-A category may exceed 2 percent of the Pool's market value.

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

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

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

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

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

Seattle Public Utilities – Water Fund

(An Enterprise Fund of the City of Seattle)

Notes to Financial Statements

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

Investments – The Fund’s cash resources may be invested by FAS separate from the cash and investments pool. Investments are managed in accordance with the City’s Statement of Investment Policy, with limits and restrictions applied at the City-wide level rather than to specific investments of the Fund. As of December 31, 2020, and 2019, the Fund did not have any dedicated investments. The City’s Statement of Investment Policy was modified on January 1, 2018, with an effective date of March 8, 2018. There have been no subsequent changes to the policy.

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

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

- **Social Policies:** A City social policy shall take precedence over furthering the City’s financial objectives when expressly authorized by City Council resolution, except where otherwise provided by law or trust principles.
- **Ethics and Conflict of Interest:** Investment officers shall comply with the City’s Ethics Code (SMC 4.16.080) and annually submit a Financial Interest Statement to the City’s Ethics & Elections Commission that identifies any potential financial interest that could be related to the performance of the City’s investment portfolio.

Delegation of authority – The Director of Finance and Administrative Services has delegated management responsibility for the City’s investment program to the Director of Finance who has designated day to day management responsibility to investment officers under the supervision of the City’s Treasury Services Director. No persons may engage in an investment transaction except as provided under the terms of the City Statement of Investment Policy and the procedures established therein.

Fair value of pooled investments – The City reports investments at fair value and categorizes its fair value measurements within the fair value hierarchy established by GASB Statement No. 72, *Fair Value Measurement and Application*. Fair value of the City’s pooled investments fluctuates with changes in interest rates and the underlying size of the pooled investment portfolio. To mitigate interest rate risk in the City’s pooled investment portfolio, the City typically holds its investments to maturity and manages its maturities to ensure sufficient monthly cash flow to meet its liquidity requirements.

As of December 31, 2020, the City held \$519.7 million on deposit in the Washington State Local Government Investment Pool (LGIP) managed by the Office of the Washington State Treasurer. The City’s investments in the LGIP are reported at amortized cost which approximates fair value. It is overseen by the Office of the State Treasurer, the State Finance Committee, the Local Government Investment Pool Advisory Committee, and the Washington State Auditor’s Office.

Seattle Public Utilities – Water Fund
(An Enterprise Fund of the City of Seattle)
Notes to Financial Statements

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

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.

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

Seattle Public Utilities – Water Fund

(An Enterprise Fund of the City of Seattle)

Notes to Financial Statements

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

As of December 31, 2020, the City's pooled investments were categorized within the fair value hierarchy as follows:

Investments	Fair Value as of December 31, 2020	Fair Value Measurements Using				Weighted Average Maturity (Days)
		Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Measured at Amortized Cost	
U.S. Government Agency Securities	\$ 760,599,687	\$ 760,599,687	\$ -	\$ -	\$ -	1,111
Local Government Investment Pool	519,690,038	-	-	-	519,690,038	1
U.S. Treasury and U.S. Government-Backed Securities	470,004,815	470,004,815	-	-	-	732
Municipal Bonds	319,681,755	-	319,681,755	-	-	2,597
U.S. Government Agency Mortgage-Backed Securities	268,695,014	-	268,695,014	-	-	1,616
Corporate Bonds	92,745,580	92,745,580	-	-	-	509
Repurchase Agreements	72,592,802	-	-	-	72,592,802	4
International Bank for Reconstruction and Development	41,064,600	41,064,600	-	-	-	1,654
	<u>\$ 2,545,074,291</u>	<u>\$ 1,364,414,682</u>	<u>\$ 588,376,769</u>	<u>\$ -</u>	<u>\$ 592,282,840</u>	

Weighted Average Maturity of the City's Pooled Investments

1,010

As of December 31, 2019, the City's pooled investments were categorized within the fair value hierarchy as follows:

Investments	Fair Value as of December 31, 2019	Fair Value Measurements Using				Weighted Average Maturity (Days)
		Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Measured at Amortized Cost	
U.S. Government Agency Securities	\$ 693,744,193	\$ 693,744,193	\$ -	\$ -	\$ -	1,246
U.S. Treasury and U.S. Government-Backed Securities	583,535,317	583,535,317	-	-	-	902
Local Government Investment Pool	509,563,594	-	-	-	509,563,594	2
Municipal Bonds	354,007,423	-	354,007,423	-	-	2,184
U.S. Government Agency Mortgage-Backed Securities	290,939,453	-	290,939,453	-	-	1,821
Repurchase Agreements	118,189,506	-	-	-	118,189,506	2
Commercial Paper	84,916,181	-	84,916,181	-	-	22
Corporate Bonds	50,188,027	50,188,027	-	-	-	570
International Bank for Reconstruction and Development	44,743,700	44,743,700	-	-	-	1,714
	<u>\$ 2,729,827,394</u>	<u>\$ 1,372,211,237</u>	<u>\$ 729,863,057</u>	<u>\$ -</u>	<u>\$ 627,753,100</u>	

Weighted Average Maturity of the City's Pooled Investments

1,026

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

	2020	2019
Cash and equity in pooled investments	\$ 140,762,314	\$ 130,035,812
Restricted cash and equity in pooled investments	93,098,242	122,541,451
Total	<u>\$ 233,860,556</u>	<u>\$ 252,577,263</u>
Balance as a percentage of City Pool cash and investments	9.2%	9.3%

Seattle Public Utilities – Water Fund
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Notes to Financial Statements

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

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

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

Issuer	2020		2019	
	Fair Value	Percent of Total Investments	Fair Value	Percent of Total Investments
Local Government Investment Pool	\$ 519,690,038	20%	\$ 509,563,594	19%
United States Government	470,004,815	18%	583,535,317	21%
Federal National Mortgage Association	292,500,837	11%	283,978,980	10%
Federal Home Loan Bank	200,784,989	8%	244,714,007	9%
Federal Home Loan Mortgage Corp	193,228,369	8%	293,802,918	11%
Federal Farm Credit Bank	152,404,144	6%	162,187,740	6%

Note 3 – Capital Assets

Capital asset activity consisted of the following for the year ended December 31, 2020:

	Beginning Balance	Additions and Transfers In	Retirements and Transfers Out	Ending Balance
Buildings	\$ 210,759,070	\$ 3,758,946	\$ -	\$ 214,518,016
Structures	1,197,172,414	41,088,818	(699,838)	1,237,561,394
Machinery and equipment	591,560,925	3,454,484	(927,555)	594,087,854
Computer systems	96,082,846	4,276,298	-	100,359,144
Total capital assets - excluding land	2,095,575,255	52,578,546	(1,627,393)	2,146,526,408
Less accumulated depreciation	(859,214,220)	(50,393,358)	1,410,772	(908,196,806)
	1,236,361,035	2,185,188	(216,621)	1,238,329,602
Construction in progress	33,428,453	67,420,370	(56,954,494)	43,894,329
Land and land rights	48,319,324	5,697,348	-	54,016,672
Artwork	1,481,184	86,430	-	1,567,614
Property held for future use	274,512	-	-	274,512
Capital assets, net	\$ 1,319,864,508	\$ 75,389,336	\$ (57,171,115)	\$ 1,338,082,729

Seattle Public Utilities – Water Fund
(An Enterprise Fund of the City of Seattle)
Notes to Financial Statements

Note 3 – Capital Assets (continued)

Capital asset activity consisted of the following for the year ended December 31, 2019:

	Beginning Balance	Additions and Transfers In	Retirements and Transfers Out	Ending Balance
Buildings	\$ 208,106,851	\$ 2,652,219	\$ -	\$ 210,759,070
Structures	1,158,693,714	38,960,727	(482,027)	1,197,172,414
Machinery and equipment	593,436,427	4,605,750	(6,481,252)	591,560,925
Computer systems	122,139,537	483,814	(26,540,505)	96,082,846
Total capital assets - excluding land	2,082,376,529	46,702,510	(33,503,784)	2,095,575,255
Less accumulated depreciation	(837,570,044)	(50,380,749)	28,736,573	(859,214,220)
	1,244,806,485	(3,678,239)	(4,767,211)	1,236,361,035
Construction in progress	25,411,285	53,618,383	(45,601,215)	33,428,453
Land and land rights	48,319,324	-	-	48,319,324
Artwork	1,481,184	-	-	1,481,184
Property held for future use	274,512	-	-	274,512
Capital assets, net	<u>\$ 1,320,292,790</u>	<u>\$ 49,940,144</u>	<u>\$ (50,368,426)</u>	<u>\$ 1,319,864,508</u>

During 2020 and 2019, the Fund capitalized interest costs relating to construction of \$1,753,540 and \$1,195,229, respectively.

Note 4 – Revenue Bonds

The Fund issues bonds to provide financing for capital improvements. Payment of debt service on the bonds is derived solely from the revenues generated by the Fund. The Fund has set aside \$20,884,236 in a debt service reserve account and has obtained reserve insurance policies to meet the remainder of its reserve requirements. The total bonds outstanding as of December 31, 2020 and 2019, were \$728,490,000 and \$774,115,000, respectively.

Seattle Public Utilities – Water Fund
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Notes to Financial Statements

Note 4 – Revenue Bonds (continued)

Revenue bonds outstanding as of December 31, 2020 and 2019, consisted of the following Municipal Water bonds:

Name of Issue	Issuance Date	Maturity Years	Interest Rates	Original Issue Amount	Bonds Outstanding	
					2020	2019
2010 Improvement, Series A ^a (Taxable)	1/21/10	2019-2040	4.67-5.89%	\$ 109,080,000	\$ 102,255,000	\$ 105,720,000
2010 Improvement and Refunding, Series B	1/21/10	2010-2027	3.0-5.0%	81,760,000	28,215,000	31,515,000
2012 Refunding	5/30/12	2012-2034	2.0-5.0%	238,770,000	153,475,000	167,170,000
2015 Improvement and Refunding	6/10/15	2015-2045	2.0-5.0%	340,840,000	265,245,000	285,025,000
2017 Improvement and Refunding	1/25/17	2017-2046	4.0-5.0%	194,685,000	179,300,000	184,685,000
				<u>\$ 965,135,000</u>	<u>\$ 728,490,000</u>	<u>\$ 774,115,000</u>

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

Years Ending December 31,	Principal	Interest	Total
2021	\$ 46,235,000	\$ 33,891,504	\$ 80,126,504
2022	48,725,000	31,594,414	80,319,414
2023	50,870,000	29,136,995	80,006,995
2024	44,140,000	26,564,699	70,704,699
2025	46,300,000	24,318,809	70,618,809
2026 - 2030	207,840,000	89,408,658	297,248,658
2031 - 2035	146,600,000	47,817,230	194,417,230
2036 - 2040	93,470,000	20,270,038	113,740,038
2041 - 2045	38,575,000	5,636,800	44,211,800
2046 - 2047	5,735,000	229,400	5,964,400
	<u>\$ 728,490,000</u>	<u>\$ 308,868,547</u>	<u>\$ 1,037,358,547</u>

The following table shows the revenue bond activity during the year ended December 31, 2020:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable					
Revenue bonds	\$ 774,115,000	\$ -	\$ (45,625,000)	\$ 728,490,000	\$ 46,235,000
Add (deduct) deferred amounts					
Issuance premiums	89,323,647	-	(4,578,295)	84,745,352	-
Total bonds payable	<u>\$ 863,438,647</u>	<u>\$ -</u>	<u>\$ (50,203,295)</u>	<u>\$ 813,235,352</u>	<u>\$ 46,235,000</u>

Seattle Public Utilities – Water Fund

(An Enterprise Fund of the City of Seattle)

Notes to Financial Statements

Note 4 – Revenue Bonds (continued)

The following table shows the revenue bond activity during the year ended December 31, 2019:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable					
Revenue bonds	\$ 817,195,000	\$ -	\$ (43,080,000)	\$ 774,115,000	\$ 45,625,000
Add (deduct) deferred amounts					
Issuance premiums	93,901,942	-	(4,578,295)	89,323,647	-
Total bonds payable	<u>\$ 911,096,942</u>	<u>\$ -</u>	<u>\$ (47,658,295)</u>	<u>\$ 863,438,647</u>	<u>\$ 45,625,000</u>

The Fund did not issue bonds in 2020.

Financial covenants – The revenue bonds contain certain financial covenants, the most significant of which requires the Fund to maintain net revenue available for debt service at least equal to 125% of average annual debt service. For 2020, net revenue available for debt service, as defined by the bond covenants, was 2.03% of annual debt service. As of December 31, 2020, management believes the Fund complied with all debt covenants. For more information, see Other Information (page 49).

Note 5 – Leases

The Fund has noncancelable operating lease commitments for real and personal property with minimum payments of \$152,345 in 2020 and \$135,718 in 2019. Rents are paid as they become due and payable.

Minimum payments under the leases for the years ending December 31 are shown below:

2021	\$ 154,781
2022	155,081
2023	155,387
2024	154,979
2025	45,991
2026 - 2030	<u>49,594</u>
	<u>\$ 715,813</u>

Seattle Public Utilities – Water Fund
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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.

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

Seattle Public Utilities – Water Fund

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Notes to Financial Statements

Note 6 – Postemployment Benefit Plans (continued)

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, 2020
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Discount rate	2.74%
Health care cost trend rates – medical	6.55% in 2020, decreasing to 6.32% in 2021, and decreasing by varying amounts until 2030 thereafter
Health care cost trend rates – Rx	9.00% in 2020, decreasing to 8.50% in 2021, 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 – 25% of members electing coverage: married or have a registered domestic partner. Male spouses two years older than their female spouses.

Seattle Public Utilities – Water Fund
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Notes to Financial Statements

Note 6 – Postemployment Benefit Plans (continued)

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

Age	Aetna Preventive Plan			Aetna Traditional Plan		
	Medical	Rx	Admin	Medical	Rx	Admin
50	\$ 11,520	\$ 2,677	\$ 358	\$ 11,243	\$ 2,659	\$ 358
52	12,533	2,912	358	12,230	2,893	358
55	14,220	3,305	358	13,877	3,282	358
57	15,499	3,601	358	15,125	3,576	358
60	17,638	4,097	358	17,210	4,069	358
62	19,003	4,415	358	18,543	4,384	358

Age	Group Health Deductible			Group Health Standard		
	Medical	Rx	Admin	Medical	Rx	Admin
50	\$ 4,961	\$ 1,145	\$ 689	\$ 5,291	\$ 1,171	\$ 689
52	5,397	1,246	689	5,755	1,273	689
55	6,123	1,413	689	6,531	1,445	689
57	6,674	1,540	689	7,118	1,574	689
60	7,595	1,752	689	8,100	1,792	689
62	8,182	1,888	689	8,727	1,930	689

The average medical and prescription drug per capita claims costs were developed from 2021 calendar year self-funded premium rates. Premium-equivalent rates were provided by City of Seattle’s health pricing actuary. The average medical and prescription drug per capita “adult-equivalent” claims costs were based on the respective pre-65 enrollment weighted average of the 2021 four-tier rate structure including the add-on cost of dependent children and trended back from 2021 to 2020 to be centered at the mid-point of the annual period following the valuation date. Average medical/Rx per capita claims costs were then age-adjusted based on the demographics of the rating population, and the assumed health care aging factors shown in the table below.

The average medical and prescription drug per capita claims costs were blended with the 2019 medical/Rx per capita developed claims cost trended forward to the valuation date.

Models are used to estimate underlying per capita medical and drug claims costs, subsequently utilized as assumption inputs for valuation models used to develop the liabilities for the 2020 and future valuations. The Aon consulting team leveraged expertise of Health experts within Aon as it relates to reviewing the models used for development of the per capita claims costs and future trend rates.

Seattle Public Utilities – Water Fund
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Notes to Financial Statements

Note 6 – Postemployment Benefit Plans (continued)

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

Age	Medical	Rx	Composite
40–44	3.0%	4.8%	3.3%
45–49	3.7%	4.7%	3.8%
50–54	4.2%	4.7%	4.3%
55–59	4.4%	4.6%	4.4%
60–64	3.7%	4.6%	3.8%

Other considerations – Active employees with current spouse and/or dependent coverage elect 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 approximately \$3.0 million in 2020 and \$2.9 million in 2019. The Fund's proportionate share of the change in the OPEB liability was 4.52% and 4.76% for the years ended December 31, 2020, and December 31, 2019, respectively. Based on the actuarial valuation date of January 1, 2019, details regarding the Fund's Total OPEB Liability as of December 31, 2020, are shown below.

Changes in Net OPEB Liability

<i>(\$ in thousands)</i>	Total OPEB Liability
Changes recognized for the fiscal year:	
Service cost	\$ 152.7
Interest on the total OPEB liability	116.9
Differences between expected and actual experience	314.4
Changes of assumptions	(350.8)
Benefit payments	(112.3)
Contributions from the employer	0.0
Other changes	(7.3)
Net changes	113.6
Balance recognized at 12/31/2019	2,901.1
Balance recognized at 12/31/2020	<u>\$ 3,014.7</u>

The Fund recorded an expense for OPEB of \$203,851 in 2020 and \$222,187 in 2019. The Health Care Subfund of the General Fund is reported in The City of Seattle's Comprehensive Annual Financial Report.

Seattle Public Utilities – Water Fund
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Note 6 – Postemployment Benefit Plans (continued)

Discount rate and healthcare cost trend rates – The discount rate used to measure the total OPEB liability is 2.74% for 2020 and 4.10% for 2019. The following tables present the sensitivity of 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, 2020
Discount rate		
1% decrease – 1.74%	\$	3.3
Current discount rate – 2.74%		3.0
1% increase – 3.74%		2.8

Discount Rate Sensitivity (in millions)		OPEB Liability at December 31, 2019
Discount rate		
1% decrease – 3.10%	\$	3.2
Current discount rate – 4.10%		2.9
1% increase – 5.10%		2.6

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)				OPEB Liability at December 31,
		2020		2019
Discount rate				
1% decrease	\$	2.7	\$	2.6
Trend rate		3.0		2.9
1% increase		3.4		3.3

Seattle Public Utilities – Water Fund
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Notes to Financial Statements

Note 6 – Postemployment Benefit Plans (continued)

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, 2020.

<i>(in thousands)</i>	Deferred Outflows	Deferred Inflows
Difference between actual and expected experience	\$ 713.3	\$ -
Assumption changes	-	1,168.2
Contributions made in 2020 after measurement date	132.6	N/A
Total	\$ 845.9	\$ 1,168.2

The Fund's contributions made in 2020 in the amount of \$132,607 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, 2021. 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.

<i>Year Ending December 31, (in thousands)</i>	Amortization
2021	\$ (69.4)
2022	(69.4)
2023	(69.4)
2024	(69.4)
2025	(69.4)
Thereafter	(107.9)
Total	\$ (454.9)

The Health Care Sub Fund of the General Fund is reported in the City's Comprehensive Annual Financial Report, which can be obtained by writing the Department of Finance, City of Seattle, PO Box 94747, Seattle, Washington 98124-4747 or www.seattle.gov/financial-services/comprehensive-annual-financial-report.

Seattle Public Utilities – Water Fund
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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 2020 and 2019, 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 1.816% and 2.334%, respectively. Claims expected to be paid within one year are \$1,324,184 and \$1,312,147 at December 31, 2020 and 2019, respectively. The table below presents the changes in the liability for workers' compensation claims and other claims (risk-financing liabilities) as of December 31:

	2020	2019
Beginning liability, discounted	\$ 5,195,454	\$ 5,567,345
Payments	(489,679)	(958,916)
Incurred claims and changes in estimate	525,969	587,025
Ending liability, discounted	<u>\$ 5,231,744</u>	<u>\$ 5,195,454</u>

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

Note 8 – Compensated Absences

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

	2020	2019
Beginning liability	\$ 4,811,323	\$ 4,247,969
Additions	5,414,964	6,053,200
Reductions	(4,301,639)	(5,489,846)
Ending liability	<u>\$ 5,924,648</u>	<u>\$ 4,811,323</u>

Seattle Public Utilities – Water Fund

(An Enterprise Fund of the City of Seattle)

Notes to Financial Statements

Note 9 – Pension Benefit Plan

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

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

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

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

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

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

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

Seattle Public Utilities – Water Fund
(An Enterprise Fund of the City of Seattle)
Notes to Financial Statements

Note 9 – Pension Benefit Plan (continued)

Member and employer contributions – Member and employer contributions are:

	<u>YEAR</u>	<u>SCERS I</u>	<u>SCERS II</u>
Member Contribution	2020	10.03%	7.00%
	2019	10.03%	7.00%
Employer Contribution	2020	16.20%	15.76%
	2019	15.23%	14.42%

Member and employer rates are established by the Seattle Municipal Code Chapter 4.36. The Fund's contributions to the System for the years ended December 31, 2020 and 2019, were \$8,253,575 and \$7,103,882, respectively.

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

Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions – At December 31, 2020 and 2019, the Fund reported a liability of \$80,221,489 and \$96,599,354, respectively, its proportionate share of the Systems' net pension liability. The net pension liability was measured as of December 31, 2019 and 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of these 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, 2020 and 2019, the Fund's proportion was 5.73% and 6.11%, respectively.

For the years ended December 31, 2020 and 2019, the Fund recognized pension expense of approximately \$8,757,000 and \$11,839,000, respectively.

Seattle Public Utilities – Water Fund
(An Enterprise Fund of the City of Seattle)
Notes to Financial Statements

Note 9 – Pension Benefit Plan (continued)

The Fund's deferred outflows and inflows of resources are as follows at December 31, 2020:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 11,907	\$ 2,436,135
Change of assumptions	3,926,421	-
Difference between projected and actual earnings	-	6,249,661
Contributions made subsequent to measurement date	8,584,501	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	4,466,236
Total	<u>\$ 12,522,829</u>	<u>\$ 13,152,032</u>

The Fund's deferred outflows and inflows of resources are as follows at December 31, 2019:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 33,049	\$ 1,778,122
Change of assumptions	5,022,985	-
Net difference between projected and actual earnings	9,779,565	-
Contributions made subsequent to measurement date	7,434,807	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	5,524,495
Total	<u>\$ 22,270,406</u>	<u>\$ 7,302,617</u>

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

2021	\$ (3,640,981)
2022	(2,668,317)
2023	548,019
2024	(3,079,980)
2025	<u>(372,445)</u>
Total	<u>\$ (9,213,704)</u>

Seattle Public Utilities – Water Fund
(An Enterprise Fund of the City of Seattle)
Notes to Financial Statements

Note 9 – Pension Benefit Plan (continued)

Actuarial assumptions – The total pension liability as of December 31, 2020, was determined using the following actuarial assumptions:

Valuation date	January 1, 2019
Measurement date	December 31, 2019
Actuarial cost method	Individual Entry Age Normal
Amortization method	Level Percent, Closed
Remaining amortization period	30 years as of January 1, 2013 valuation
Asset valuation method	5-Year Non-asymptotic
Inflation	2.75%
Investment rate of return	7.25% compounded annually, net of expenses
Discount rate	7.25%
Projected general wage inflation	3.5%
Postretirement benefit increases	1.5%
Mortality	Various rates based on RP-2014 mortality tables and using generational projection of improvement using MP-2014 Ultimate projection scale. See 2018 Investigation of Experience report for details.

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, 2014, through December 31, 2017.

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

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

Seattle Public Utilities – Water Fund

(An Enterprise Fund of the City of Seattle)

Notes to Financial Statements

Note 9 – Pension Benefit Plan (continued)

Best estimates of geometric real rates of return for each major asset class included in the System's target asset allocation as of December 31, 2019, are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return
Equity: Public	4.77%
Equity: Private	7.96%
Fixed Income: Broad	0.67%
Fixed Income: Credit	3.66%
Real Assets: Real Estate	3.76%
Real Assets: Infrastructure	3.95%
Diversifying Strategies	N/A

Sensitivity analysis – The following presents the Fund's proportionate share of the net pension liability calculated using the discounted rate of 7.25%, 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 (6.25%) or 1 percentage point higher (8.25%) than the current rate.

SPU's proportionate Share of the Net Pension Liability	1% Decrease 6.25%	Current Discount Rate 7.25%	1% Increase 8.25%
	\$ 114,817,838	\$ 80,221,489	\$ 51,264,319

Seattle Public Utilities – Water Fund
(An Enterprise Fund of the City of Seattle)
Notes to Financial Statements

Note 10 – Loans

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

Loans outstanding as of December 31, 2020 and 2019, are as follows:

Description	Maturity Years	Interest Rate	Loan Amount	Loans Outstanding	
				2020	2019
Myrtle Reservoir	2008-2025	1.5%	\$ 4,040,000	\$ 1,122,222	\$ 1,346,667
Beacon Reservoir	2008-2026	1.5%	4,040,000	1,275,789	1,488,421
West Seattle Reservoir	2009-2027	1.5%	3,030,000	1,116,316	1,275,789
Maple Leaf	2011-2029	1.5%	3,030,000	1,452,149	1,613,498
Maple Leaf ARRA	2013-2031	1.0%	7,341,758	4,405,055	4,772,143
Morse Lake Pump Plant #1	2014-2037	1.5%	12,120,000	10,302,000	10,908,000
Morse Lake Pump Plant #2	2017-2036	1.5%	6,060,000	5,103,158	5,422,105
			<u>\$ 39,661,758</u>	<u>\$ 24,776,689</u>	<u>\$ 26,826,623</u>

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

Years Ending December 31,	Principal	Interest	Total
2021	\$ 2,049,935	\$ 349,625	\$ 2,399,560
2022	2,049,935	320,711	2,370,646
2023	2,049,935	291,798	2,341,733
2024	2,049,935	262,884	2,312,819
2025	2,049,935	233,971	2,283,906
2026 - 2030	7,637,155	796,130	8,433,285
2031 - 2035	5,358,912	333,947	5,692,859
2036 - 2040	1,530,947	32,054	1,563,001
	<u>\$ 24,776,689</u>	<u>\$ 2,621,120</u>	<u>\$ 27,397,809</u>

The table below summarizes the activity for the loans for the years ended December 31:

	2020	2019
Net loans, beginning of year	\$ 26,826,623	\$ 28,876,558
Loan proceeds	-	-
Principal payments	(2,049,934)	(2,049,935)
Net loans, end of year	<u>\$ 24,776,689</u>	<u>\$ 26,826,623</u>
Loans due within one year	<u>\$ 2,049,935</u>	<u>\$ 2,049,935</u>
Loans, noncurrent	<u>\$ 22,726,754</u>	<u>\$ 24,776,688</u>

Seattle Public Utilities – Water Fund

(An Enterprise Fund of the City of Seattle)

Notes to Financial Statements

Note 11 – Commitments

The Fund is required by the Washington State Department of Health (DOH) to complete a program to cover its open, above-ground distribution system reservoirs. The total cost of burying six reservoirs is expected to be approximately \$224.1 million through the year 2025; costs beyond 2025 are not estimable as of the date of this report. As of December 31, 2020 and 2019, total cumulative costs incurred were \$168.9 million and \$168.3 million, respectively.

The City has wholesale contracts with Cascade Water Alliance (CWA) and nineteen individual water districts and municipalities. Sixteen wholesale customers have full and partial requirements contracts which obligate the City to meet the wholesale customers' demand that is not already met by their independent sources of supply. The full and partial requirements contracts include amendment periods where the parties may opt to review and change certain contract terms and conditions in effective as of 2022 and 2042. The review process is being undertaken in 2021. Two wholesale customers (including CWA) have block contracts which obligate the City to provide water up to a combined maximum of 41.85 MGD per year. Two other wholesale customers have emergency intertie agreements and do not purchase water from Seattle on a regular basis. CWA contract expires in 2063 while other wholesale contracts expire in 2062.

The City also has a contract with the City of North Bend to provide untreated water supply up to an average annual amount of 1.1 MGD through 2066 for use in supplementing stream flows.

Note 12 – Habitat Conservation Program Liability

SPU has prepared a comprehensive environmental management plan for its Cedar River Watershed. The purpose of the Habitat Conservation Plan (HCP) is to protect all species of concern that may be affected by the operations of SPU and SCL in the Cedar River Watershed, while allowing the City to continue to provide high quality drinking water to the region. The federal government has accepted the HCP. The total cost of implementing the HCP is expected to be \$115.5 million (in 2020 dollars) over a period of 50 years (from the year 2000 through the year 2050).

Expenditures are being funded from a combination of the Fund's operating revenues and issuance of revenue bonds. The total amount expended for the HCP through 2020 is \$100.5 million. The remaining \$15.0 million to complete the HCP is comprised of an \$7.1 million liability and an estimate of \$7.9 million for construction and operating commitments. The construction activities will add to the Fund's capital assets and the operating activities are mainly research, monitoring, and maintenance of the HCP Program that will be expensed as incurred.

Required Supplementary Information

Seattle Public Utilities – Water Fund
(An Enterprise Fund of the City of Seattle)
Required Supplementary Information

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

	2020	2019	2018	2017	2016	2015
Employer's proportion of the net pension liability	14.33%	14.55%	14.73%	15.13%	16.37%	16.96%
Employer's proportionate share of the net pension liability	\$ 180,105,232	\$ 221,049,893	\$ 163,086,154	\$ 197,454,529	\$ 212,671,200	\$ 187,919,945
Employer's covered payroll	\$ 112,528,955	\$ 111,973,027	\$ 107,715,383	\$ 106,696,535	\$ 105,031,141	\$ 102,783,473
Employer's proportionate share of the net pension liability as a percentage of its covered payroll	160.05%	197.41%	151.40%	185.06%	202.48%	182.83%
Plan fiduciary net position as a percentage of the total pension liability	71.48%	64.14%	72.04%	65.60%	64.03%	67.70%

Schedule of Seattle Public Utilities' Pension Contributions

	2020	2019	2018	2017	2016	2015
Contractually required employer contribution	\$ 17,041,133	\$ 17,103,559	\$ 16,466,270	\$ 16,354,089	\$ 16,487,154	\$ 15,170,276
Contributions in relation to the contractually required employer contribution	(17,041,133)	(17,103,559)	(16,466,270)	(16,354,089)	(16,487,154)	(15,170,276)
Employer contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Employer's covered payroll	\$ 112,528,955	\$ 111,973,027	\$ 107,715,383	\$ 106,696,535	\$ 105,031,141	\$ 102,783,473
Employer contributions as a percentile of covered payroll	15.14%	15.27%	15.29%	15.33%	15.70%	14.76%

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

Schedule of City of Seattle's OPEB Liability and Related Ratios

	December 31, 2020	December 31, 2019	December 31, 2018
Total OPEB Liability			
Normal cost	\$ 3,378,925	\$ 3,842,152	\$ 3,821,876
Interest	2,586,942	2,195,238	2,583,105
Differences between expected and actual experience	6,956,579	-	13,491,865
Changes in assumptions	(7,760,776)	(3,886,702)	(22,126,128)
Benefit payment	(2,484,320)	(2,333,610)	(2,289,000)
Total OPEB liability – beginning of year	60,946,911	61,129,833	65,648,115
Total OPEB liability – end of year	<u>\$ 63,624,261</u>	<u>\$ 60,946,911</u>	<u>\$ 61,129,833</u>
Covered-employee payroll	\$ 1,124,692,046	\$ 1,015,097,334	\$ 1,015,097,334
Net OPEB liability as percentage of covered-employee payroll	5.66%	6.00%	6.02%

Other Information (Unaudited)

Seattle Public Utilities – Water Fund
(An Enterprise Fund of the City of Seattle)
Other Information (Unaudited)

Water Fund Debt Service Coverage Calculation 2020

Operating Revenues

Utility Service	\$ 207,590,225
Wholesale/Commercial	56,781,737
Other	14,205,907
Total Operating Revenue	<u>278,577,869</u>

Operating Expense

Salaries and Wages	40,151,759
Personnel Benefits	20,735,003
Supplies	5,670,627
Services	43,864,447
Intergovernmental Payments	46,100,555
Other Operating Expense	2,433,256
Total Operating Expenses	<u>158,955,647</u>

Net Operating Income

119,622,222

Adjustments

Add: Capital Contributions Connection Charge	4,770,084
Add: City Taxes	34,019,832
Add: Investment Interest	2,930,814
Less: DSRF Earnings	(360,400)
Add: BAB's Subsidy	1,937,152
Add (Less): Net Other Nonoperating Revenues/(Expenses)	2,203,426
Add: Proceeds from Sale of Assets	112,776
Total Adjustments	<u>45,613,684</u>

Net Revenue Available for Debt Service

\$ 165,235,906

w/o Credit for City Taxes

\$ 131,216,074

Annual Debt Service

Annual Debt Service	\$ 81,725,194
Less: DSRF Earnings	(360,400)
Adjusted Annual Debt Service	<u>\$ 81,364,794</u>

Coverage	2.03
Coverage without taxes	1.61

Seattle Public Utilities – Water Fund
(An Enterprise Fund of the City of Seattle)
Other Information (Unaudited)

Water System Operating Statistics

	2016	2017	2018	2019	2020
Population Served					
Retail	743,800	770,800	788,000	788,500	820,000
Wholesale ⁽¹⁾	689,400	707,200	718,000	722,500	741,000
Total Population Served	1,433,200	1,478,000	1,506,000	1,511,000	1,561,000
Water Sales Revenues					
Retail	\$ 184,888	\$ 195,291	\$ 198,516	\$ 200,304	\$ 207,590
Wholesale	53,060	56,210	57,941	57,805	56,782
Total Water Sales Revenues	\$ 237,948	\$ 251,501	\$ 256,457	\$ 258,109	\$ 264,372
Billed Water Consumption					
Retail	19,856	20,312	20,233	19,889	18,882
Wholesale	22,282	22,905	22,987	22,128	21,712
Total Billed Water Use	42,138	43,217	43,220	42,017	40,594
Operating Costs (\$ per MG)	\$ 4,548	\$ 4,675	\$ 4,924	\$ 5,065	\$ 5,246
Gallons Used per Day per	81	80	79	76	71
Retail Meters in Use	194,580	195,331	196,634	197,747	198,726
Number of New Retail	1,947	751	1,303	1,113	979
Total Water Diversions	121.7	124.0	125.0	124.2	118.2
Non-Revenue	6.3	5.6	6.5	9.1	7.0
% Non-Revenue	5.1	4.5	5.2	7.3	5.9

⁽¹⁾ This is the estimated total population served by SPU's water supply

⁽²⁾ Revenues represent payments from customers for service provided at published rates in each year.
Revenues shown are not net of transfers to the Rate Stabilization Account or other credits or deferrals of income.

⁽³⁾ Per capita billed water consumption has been generally decreasing for the past 25 years. Variations in billed water use are primarily associated with year-to-year variations in temperature and precipitation in the summer irrigation period. There has been no change in the geographic area service nor any appreciable change in the number or composition of retail customers.

Seattle Public Utilities – Water Fund
(An Enterprise Fund of the City of Seattle)
Other Information (Unaudited)

Major Retail Water Customers – 2020 Annual Revenues and Volumes

City of Seattle, Seattle Housing Authority, Port of Seattle, University of Washington, Equity Residential, Nucor Steel, Seattle Children's Hospital, Certaineed Gypsum, Marriot International Inc. Harborview Medical Center. In aggregate, charges to these customers represented roughly 8% of total billed direct service for the year.

Seattle Public Utilities – Water Fund
(An Enterprise Fund of the City of Seattle)
Other Information (Unaudited)

Water Rates – Effective January 1, 2020

Effective January 1, 2020

	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)	(m)	(n)
	Direct Service													
RATE SCHEDULES	Inside City				Outside City				City of Shoreline / City of Lake Forest Park					
	Residential	MMRD*	Gen Svc	Fire Service	Residential	MMRD*	Gen Svc	Fire Service	Residential	MMRD*	Gen Svc	Fire Service	MMRD* w/PUT	
Commodity Charge (\$/100 Cubic Feet)														
Offpeak Usage (Sept 16-May 15)	\$5.40	\$5.40	\$5.40		\$6.16	\$6.16	\$6.16		\$6.55	\$6.55	\$6.55		\$6.13	
Peak Usage (May 16-Sept 15)														
Up to 5 ccf**	\$5.55	\$5.55	\$6.86		\$6.33	\$6.33	\$7.82		\$6.73	\$6.73	\$8.32		\$6.30	
Next 13 ccf**	\$6.86	\$6.86	\$6.86		\$7.82	\$7.82	\$7.82		\$8.32	\$8.32	\$8.32		\$7.79	
Over 18 ccf**	\$11.80	\$11.80	\$6.86		\$13.45	\$13.45	\$7.82		\$14.31	\$14.31	\$8.32		\$13.39	
Usage over base allowance														
Utility Credit (\$/month)	\$22.85		\$12.50		\$22.85		\$12.50		\$22.85		\$12.50			
Base Service Charge (\$/month/meter)														
3/4 inch and less	\$18.45		\$18.45		\$21.05		\$21.05		\$22.40		\$22.40			
1 inch	\$19.00		\$19.00		\$21.65		\$21.65		\$23.05		\$23.05			
1-1/2 inch	\$29.35	\$29.35	\$29.35		\$33.45	\$33.45	\$33.45		\$35.60	\$35.60	\$35.60		\$33.30	
2 inch	\$32.50	\$32.50	\$32.50	\$17.75	\$37.05	\$37.05	\$37.05	\$20.00	\$39.40	\$39.40	\$39.40	\$22.00	\$36.85	
3 inch	\$120.30	\$120.30	\$120.30	\$23.00	\$137.15	\$137.15	\$137.15	\$26.00	\$145.90	\$145.90	\$145.90	\$28.00	\$136.55	
4 inch	\$172.35	\$172.35	\$172.35	\$43.00	\$196.50	\$196.50	\$196.50	\$49.00	\$209.00	\$209.00	\$209.00	\$52.00	\$195.60	
6 inch		\$212.00	\$212.00	\$73.00		\$242.00	\$242.00	\$83.00		\$257.00	\$257.00	\$89.00	\$241.00	
8 inch		\$250.00	\$250.00	\$115.00		\$285.00	\$285.00	\$131.00		\$303.00	\$303.00	\$139.00	\$284.00	
10 inch		\$305.00	\$305.00	\$166.00		\$348.00	\$348.00	\$189.00		\$370.00	\$370.00	\$201.00	\$346.00	
12 inch		\$412.00	\$412.00	\$242.00		\$470.00	\$470.00	\$276.00		\$500.00	\$500.00	\$293.00	\$468.00	
16 inch		\$477.00	\$477.00			\$544.00	\$544.00			\$579.00	\$579.00		\$542.00	
20 inch		\$614.00	\$614.00			\$700.00	\$700.00			\$745.00	\$745.00		\$697.00	
24 inch		\$771.00	\$771.00			\$879.00	\$879.00			\$935.00	\$935.00		\$875.00	

* Master Metered Residential Development

** per residence

