

**AMENDMENT TO THE  
PRELIMINARY OFFICIAL STATEMENT**

**\$261,635,000<sup>(1)</sup>**

**THE CITY OF SEATTLE, WASHINGTON  
MUNICIPAL LIGHT AND POWER IMPROVEMENT AND REFUNDING REVENUE BONDS,  
2021, SERIES A**

The following paragraph under “The City of Seattle—Pension Plans—Seattle City Employees Retirement System” has been amended to reflect an updated actuarial valuation. Table 15 has been added to provide a summary comparison of the updated actuarial valuation with the prior actuarial valuation, and the subsequent tables in the Preliminary Official Statement have been renumbered to reflect this addition.

The most recent actuarial valuation approved by the Board (with a valuation date as of January 1, 2020), was approved on July 9, 2020 (the “2019 Actuarial Valuation”). The City received a new actuarial valuation from Milliman, Inc. on June 17, 2021 with a valuation date as of January 1, 2021 (the “2020 Actuarial Valuation”). The 2020 Actuarial Valuation will be presented to the Board on July 8, 2021 for acceptance and approval. A comparison of key metrics from the 2020 and 2019 Actuarial Valuations is shown in the table below.

**TABLE 15  
COMPARISON OF KEY METRICS**

	<b>2020 Actuarial Valuation</b>	<b>2019 Actuarial Valuation</b>
Total Actuarial Contribution Rate	24.68%	25.56%
Employer Actuarial Contribution Rate	15.33%	16.10%
Funding Ratio	71.60%	68.90%

*Amendment dated June 22, 2021*

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(1) Preliminary, subject to change.

SALE DATE: JUNE 29, 2021  
SALE TIME: 7:45 A.M., PACIFIC TIME

PRELIMINARY OFFICIAL STATEMENT DATED JUNE 21, 2021

New Issue  
Book-Entry Only

Moody's Rating: Aa2  
S&P Rating: AA

(See "Other Bond Information—Ratings on the Bonds.")

*In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Seattle, Washington ("Bond Counsel"), under existing statutes, regulations, rulings, and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements described herein, interest (and original issue discount) on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals. See "Legal and Tax Information—Tax Matters" herein with respect to tax consequences relating to the Bonds.*

**\$261,635,000<sup>(1)</sup>**

THE CITY OF SEATTLE, WASHINGTON

MUNICIPAL LIGHT AND POWER IMPROVEMENT AND REFUNDING REVENUE BONDS, 2021, SERIES A

DATED: DATE OF INITIAL DELIVERY

DUE: JULY 1 AS SHOWN ON PAGE 1

The City of Seattle, Washington (the "City"), will issue its Municipal Light and Power Improvement and Refunding Revenue Bonds, 2021, Series A (the "Bonds"), as fully registered bonds under a book-entry only system, registered in the name of Cede & Co. as bond owner and nominee for The Depository Trust Company, New York, New York ("DTC").

DTC will act as initial Securities Depository for the Bonds. Individual purchases of the Bonds will be made in Book-Entry Form, in denominations of \$5,000 or any integral multiple thereof within a maturity of the Bonds. Purchasers will not receive certificates representing their interest in the Bonds. Interest on the Bonds is payable semiannually on each January 1 and July 1, beginning January 1, 2022. The principal of and interest on the Bonds are payable by the City's Bond Registrar, currently the fiscal agent of the State of Washington (currently U.S. Bank National Association), to the Securities Depository (DTC), which is obligated to remit such payments to its participants for subsequent disbursement to Beneficial Owners of the Bonds, as described in "Description of the Bonds—Registration and Book-Entry Form" and in Appendix E—Book-Entry Transfer System.

The Bonds are being issued (i) to finance certain capital improvements to and conservation programs for the City's municipal light and power generation, transmission, and distribution system (the "Light System"), (ii) to make a deposit to the Reserve Fund, if necessary, to satisfy the Reserve Fund Requirement, (iii) to refund, depending on market conditions, certain obligations of the Light System, and (iv) to pay the administrative costs of issuing the Bonds and, if applicable, the costs of administering the refunding. See "Use of Proceeds."

The Bonds are subject to redemption prior to maturity as described herein. See "Description of the Bonds—Redemption of Bonds."

The Bonds are issued as Parity Bonds and are a special limited obligation of the City payable from and secured solely by Gross Revenues of the Light System available after payment of Operating and Maintenance Expense ("Net Revenue") and by money in the Parity Bond Fund and the Reserve Fund. The pledge of Net Revenue to pay and secure the Parity Bonds constitutes a lien and charge upon Net Revenue prior and superior to all other charges whatsoever. The Bonds will be issued on parity with the Outstanding Parity Bonds and all Future Parity Bonds. Operating and Maintenance Expense includes the unconditional obligation of the City to make payments under certain power purchase contracts, as more fully described in "Power Resources and Cost of Power—Purchased Power Arrangements." See "Security for the Bonds."

**The Bonds do not constitute general obligations of the City, the State of Washington (the "State"), or any political subdivision of the State, or a charge upon any general fund or upon any money or other property of the City, the State, or any political subdivision of the State not specifically pledged thereto by the Bond Ordinance. Neither the full faith and credit nor the taxing power of the City, nor any revenues of the City derived from sources other than the Light System, are pledged to the payment of the Bonds.**

The Bonds are offered when, as, and if issued, subject to the approving legal opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Seattle, Washington, Bond Counsel. The form of Bond Counsel's opinion is attached hereto as Appendix B. Bond Counsel will also act as Disclosure Counsel to the City. It is expected that the Bonds will be available for delivery at DTC's facilities in New York, New York, or delivered to the Bond Registrar on behalf of DTC for closing by Fast Automated Securities Transfer, on or about July 15, 2021.

*This cover page contains certain information for quick reference only. It is not a summary of this issue. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision.*

Dated: \_\_\_\_\_, 2021

(1) Preliminary, subject to change.

*The information within this Official Statement has been compiled from official and other sources considered reliable and, while not guaranteed as to accuracy, is believed by the City to be correct as of its date. The City makes no representation regarding the accuracy or completeness of the information in Appendix E—Book-Entry Transfer System, which has been obtained from DTC’s website, the form of opinion of Bond Counsel attached as Appendix B, or information provided under “Other Bond Information—Municipal Advisor” and “—Purchaser of the Bonds.” The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made by use of this Official Statement shall, under any circumstances, create any implication that there has been no change in the affairs of the City since the date hereof.*

*No dealer, broker, salesperson, or other person has been authorized by the City to give any information or to make any representations with respect to the Bonds other than those contained in this Official Statement and, if given or made, such information or representations must not be relied upon as having been authorized by the City. This Official Statement does not constitute an offer to sell or a solicitation of an offer to buy, nor shall there be any sale of the Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.*

*The Bonds have not been registered under the Securities Act of 1933, as amended, and the Bond Ordinance has not been qualified under the Trust Indenture Act of 1939, as amended, in reliance upon exemptions contained in such acts. The Bonds have not been recommended by any federal or state securities commission or regulatory authority. Furthermore, the foregoing authorities have not confirmed the accuracy or determined the adequacy of this Official Statement. Any representation to the contrary may be a criminal offense.*

*The presentation of certain information, including tables of revenues and expenses, is intended to show recent historic information and is not intended to indicate future or continuing trends in the financial position or other affairs of the City or the Light System. No representation is made that past experience, as it might be shown by such financial and other information, will necessarily continue or be repeated in the future.*

*The information set forth in the Seattle City Light Department’s Audited Financial Statements that are included in Appendix C speaks only as of the date of the statements and is subject to revision or restatement in accordance with applicable accounting principles and procedures. The City specifically disclaims any obligation to update this information.*

*Certain statements contained in this Official Statement do not reflect historical facts, but rather are forecasts and “forward-looking statements.” No assurance can be given that the future results shown herein will be achieved, and actual results may differ materially from the forecasts shown. In this respect, the words “estimate,” “forecast,” “project,” “anticipate,” “expect,” “intend,” “believe,” and other similar expressions are intended to identify forward-looking statements. The forward-looking statements in this Official Statement are subject to risks and uncertainties that could cause actual results to differ materially from those expressed in or implied by such statements. All estimates, projections, forecasts, assumptions, and other forward-looking statements are expressly qualified in their entirety by the cautionary statements set forth in this Official Statement. These forward-looking statements speak only as of the date they were prepared. The City specifically disclaims any obligation to update any forward-looking statements to reflect occurrences or unanticipated events or circumstances after the date of this Official Statement.*

*The CUSIP data herein are provided by CUSIP Global Services, managed on behalf of the American Bankers Association by Standard & Poor’s. CUSIP numbers are not intended to create a database and do not serve in any way as a substitute for CUSIP service. CUSIP numbers have been assigned by an independent company not affiliated with the City and are provided solely for convenience and reference. The CUSIP number for a specific maturity is subject to change after the issuance of the Bonds. The City takes no responsibility for the accuracy of the CUSIP numbers.*

*The order and placement of materials in this Official Statement, including the Appendices, are not to be deemed to be a determination of relevance, materiality, or importance, and this Official Statement, including the Appendices, must be considered in its entirety. The offering of the Bonds is made only by means of this entire Official Statement.*

*Information on website addresses set forth in this Official Statement is not incorporated into this Official Statement and cannot be relied upon to be accurate as of the date of this Official Statement, nor should any such information be relied upon in making investment decisions regarding the Bonds. The website of the City or any City department or agency is not part of this Official Statement, and investors should not rely on information presented on the City’s website, or any other website referenced herein, in determining whether to purchase the Bonds. Information appearing on any such website is not incorporated by reference in this Official Statement.*

*This Preliminary Official Statement, as of its date, is in a form “deemed final” by the City for purposes of Securities and Exchange Commission Rule 15c2-12(b)(1), except for the omission of information as to offering prices, interest rates, selling compensation, aggregate principal amount, principal amount per maturity, delivery dates, and other terms of the Bonds dependent on such matters, but is subject to revision, amendment, and completion in a final Official Statement that will be available within seven business days following the sale date.*

## MATURITY SCHEDULE

**\$261,635,000<sup>(1)</sup>**

**THE CITY OF SEATTLE, WASHINGTON  
MUNICIPAL LIGHT AND POWER IMPROVEMENT AND REFUNDING REVENUE BONDS,  
2021, SERIES A**

<b>Due July 1</b>	<b>Amounts<sup>(1)</sup></b>	<b>Interest Rates</b>	<b>Yields</b>	<b>Prices</b>	<b>CUSIP Numbers</b>
2022	\$ 8,385,000				
2023	8,480,000				
2024	8,905,000				
2025	9,345,000				
2026	9,815,000				
2027	3,460,000				
2028	3,635,000				
2029	3,815,000				
2030	4,005,000				
2031	4,205,000				
2032	4,415,000 <sup>(2)</sup>				
2033	4,595,000 <sup>(2)</sup>				
2034	4,775,000 <sup>(2)</sup>				
2035	12,020,000 <sup>(2)</sup>				
2036	12,495,000 <sup>(2)</sup>				
2037	13,000,000 <sup>(2)</sup>				
2038	6,380,000 <sup>(2)</sup>				
2039	13,800,000 <sup>(2)</sup>				
2040	14,355,000 <sup>(2)</sup>				
2041	14,925,000 <sup>(2)</sup>				
2042	15,525,000 <sup>(2)</sup>				
2043	16,150,000 <sup>(2)</sup>				
2044	7,070,000 <sup>(2)</sup>				
2045	7,355,000 <sup>(2)</sup>				
2046	7,650,000 <sup>(2)</sup>				
2047	7,955,000 <sup>(2)</sup>				
2048	8,270,000 <sup>(2)</sup>				
2049	8,600,000 <sup>(2)</sup>				
2050	8,945,000 <sup>(2)</sup>				
2051	9,305,000 <sup>(2)</sup>				

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(1) Preliminary, subject to change.

(2) These amounts will constitute principal maturities of the Bonds unless Term Bonds are specified by the successful bidder, in which case the amounts so specified will constitute mandatory sinking fund redemptions of the Term Bonds.

**THE CITY OF SEATTLE**  
**CITY OFFICIALS AND CONSULTANTS**

**MAYOR AND CITY COUNCIL**

Jenny A. Durkan

Mayor

**Council Member**

**Term Expiration**

Lorena González  
Lisa Herbold  
Debora Juarez  
Andrew Lewis  
Tammy Morales  
Teresa Mosqueda  
Alex Pedersen  
Kshama Sawant  
Dan Strauss

2021  
2023  
2023  
2023  
2023  
2021  
2023  
2023  
2023

**CITY ADMINISTRATION**

Glen M. Lee  
Peter Holmes

Director of Finance  
City Attorney

**SEATTLE CITY LIGHT DEPARTMENT**

Debra Smith  
Jen Chan  
Michael Haynes  
James Baggs  
Kirsty Grainger  
Michelle Vargo  
Emeka Anyanwu  
DaVonna Johnson  
Craig Smith

General Manager and Chief Executive Officer  
Chief of Staff  
Assistant General Manager  
Facilities and Oversight Services Officer  
Chief Financial Officer  
Chief Operating Officer  
Energy Innovation and Resources Officer  
People and Culture Officer  
Chief Customer Officer

**BOND COUNSEL AND DISCLOSURE COUNSEL**

Stradling Yocca Carlson & Rauth, a Professional Corporation  
Seattle, Washington

**MUNICIPAL ADVISOR**

Piper Sandler & Co.  
Seattle, Washington

**BOND REGISTRAR**

Washington State Fiscal Agent  
(currently U.S. Bank National Association)

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## OFFICIAL NOTICE OF BOND SALE

\$261,635,000<sup>(1)</sup>

### THE CITY OF SEATTLE, WASHINGTON

### MUNICIPAL LIGHT AND POWER IMPROVEMENT AND REFUNDING REVENUE BONDS, 2021, SERIES A

Electronic bids for the purchase of The City of Seattle Municipal Light and Power Improvement and Refunding Revenue Bonds, 2021, Series A (the “Bonds”), will be received by the Director of Finance of The City of Seattle, Washington (the “City”), via the BidCOMP/Parity electronic bid submission system (“Parity”), in the manner described below, on

**JUNE 29, 2021, AT 7:45 A.M., PACIFIC TIME**

or such other day or time and under such other terms and conditions as may be established by the Director of Finance and provided to Parity and i-Deal Prospectus, a service of i-Deal LLC (“i-Deal”), as described under “Modification, Cancellation, Postponement.”

***Bids for the Bonds must be submitted electronically via Parity in accordance with this Official Notice of Bond Sale (including Exhibits 1, 2, and 3 hereto, which are incorporated herein). For further information about Parity, potential bidders may contact Parity at (212) 849-5021. Hard copy or faxed bids will not be accepted.***

No bid will be received after the cut-off time for receiving bids specified above. Each bidder (and not the City) is responsible for the timely electronic delivery of its bid. The official time will be determined by the City and not by any bidder or Parity. All proper bids received with respect to the Bonds will be considered and acted on by the City’s Finance Director, pursuant to a delegation of authority by the City Council. The winning bid for the Bonds will be awarded by the Finance Director upon execution and delivery to the winning bidder before 1:30 p.m., Pacific Time, on June 29, 2021, of a certificate of bid award (a “Certificate of Bid Award”), in substantially the form attached to this Official Notice of Bond Sale as Exhibit 1.

Bidders are referred to the Preliminary Official Statement for additional information regarding the City, the Seattle City Light Department, the Bonds, the security for the Bonds, and other matters.

#### **Modification, Cancellation, Postponement**

The City may modify the terms of this Official Notice of Bond Sale to change the principal amounts or the redemption or other provisions of the Bonds or increase or decrease the total principal amount or the amounts of individual maturities of the Bonds prior to the sale date. Notice of any such modification will be provided to Parity and i-Deal on or before June 28, 2021, and it is the bidder’s responsibility to check for any such modification before submitting its bid.

The City may cancel or postpone the date and time for receiving bids for the Bonds at any time prior to the cut-off time for receiving bids stated above. Notice of such cancellation or postponement will be provided to Parity and i-Deal as soon as practicable following such cancellation or postponement.

As an accommodation to bidders, telephone, facsimile, or electronic notice of any modification, cancellation, or postponement will be given to any prospective bidder requesting such notice from the City’s Municipal Advisor at the address and phone number provided under “Contact Information” below. Failure of any bidder to receive such notice will not affect the legality of the sale.

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(1) Preliminary, subject to change.



## CONTACT INFORMATION

Finance Division	Michael van Dyck, Debt Manager The City of Seattle (206) 684-8347 <i>michael.vandyck@seattle.gov</i>
Municipal Advisor	Rob Shelley Piper Sandler & Co. Office phone: (206) 628-2879 Day-of-sale phone: (206) 601-2249 <i>robert.shelley@psc.com</i>
Bond Counsel	Alice Ostdiek Stradling Yocca Carlson & Rauth, a Professional Corporation (206) 829-3002 <i>aostdiek@stradlinglaw.com</i>

## DESCRIPTION OF THE BONDS

### Bond Details

The Bonds will be dated their date of initial delivery. Interest on the Bonds is payable semiannually on each January 1 and July 1, beginning January 1, 2022.

### Registration and Book-Entry Form

The Bonds initially will be issued in Book-Entry Form and registered in the name of the Securities Depository (initially, the Depository Trust Company (“DTC”)). The Bonds so registered will be held fully immobilized in Book-Entry Form by the Securities Depository in accordance with the provisions of the Letter of Representations. Neither the City nor the Bond Registrar will have any responsibility or obligation to participants of the Securities Depository or the persons for whom they act as nominees with respect to the Bonds regarding the accuracy of any records maintained by the Securities Depository or its participants of any amount in respect of principal of or interest on the Bonds, or any notice which is permitted or required to be given to Registered Owners under the Bond Ordinance (except such notice as is required to be given by the Bond Registrar to the Securities Depository). Registered ownership of a Bond initially held in Book-Entry Form, or any portion thereof, may not be transferred except (i) to any successor Securities Depository, (ii) to any substitute Securities Depository appointed by the City or such substitute Securities Depository’s successor, or (iii) to any person if the Bond is no longer held in Book-Entry Form.

### Election of Maturities

The successful bidder for the Bonds shall designate whether some or all of the principal amounts of the Bonds as shown in the table below will be retired as serial bonds maturing in such year or as mandatory redemption amounts of Term Bonds maturing in the years specified by the bidder. Term Bonds, if any, must consist of the total principal payments of two or more consecutive years and mature in the latest of those years.

Serial Maturity or Mandatory Sinking Fund Redemption (July 1)		Principal Amounts <sup>(1)</sup>	Serial Maturity or Mandatory Sinking Fund Redemption (July 1)		Principal Amounts <sup>(1)</sup>
2022		\$ 8,385,000	2037		\$ 13,000,000 <sup>(2)</sup>
2023		8,480,000	2038		6,380,000 <sup>(2)</sup>
2024		8,905,000	2039		13,800,000 <sup>(2)</sup>
2025		9,345,000	2040		14,355,000 <sup>(2)</sup>
2026		9,815,000	2041		14,925,000 <sup>(2)</sup>
2027		3,460,000	2042		15,525,000 <sup>(2)</sup>
2028		3,635,000	2043		16,150,000 <sup>(2)</sup>
2029		3,815,000	2044		7,070,000 <sup>(2)</sup>
2030		4,005,000	2045		7,355,000 <sup>(2)</sup>
2031		4,205,000	2046		7,650,000 <sup>(2)</sup>
2032		4,415,000 <sup>(2)</sup>	2047		7,955,000 <sup>(2)</sup>
2033		4,595,000 <sup>(2)</sup>	2048		8,270,000 <sup>(2)</sup>
2034		4,775,000 <sup>(2)</sup>	2049		8,600,000 <sup>(2)</sup>
2035		12,020,000 <sup>(2)</sup>	2050		8,945,000 <sup>(2)</sup>
2036		12,495,000 <sup>(2)</sup>	2051		9,305,000 <sup>(2)</sup>

(1) Preliminary, subject to change. See “Bidding Information and Award—Adjustment of Principal Amounts and Bid Price After Receipt of Bids” below for a description of the City’s right to adjust the principal amounts after the bids are received.

(2) These amounts will constitute principal maturities of the Bonds unless Term Bonds are specified by the successful bidder, in which case the amounts so specified will constitute mandatory sinking fund redemptions of Term Bonds.

## Redemption

*Optional Redemption.* The City reserves the right and option to redeem the Bonds maturing on and after July 1, 2032, prior to their stated maturity dates at any time on and after July 1, 2031, as a whole or in part, at a price equal to 100% of the stated principal amount to be redeemed plus accrued interest to the date fixed for redemption. See “Description of the Bonds—Redemption of Bonds—Optional Redemption” in the Preliminary Official Statement.

*Mandatory Redemption.* Those Bonds that are designated by the successful bidder as Term Bonds (if any) will be subject to mandatory sinking fund redemption. See “Description of the Bonds—Redemption of Bonds—Mandatory Redemption” in the Preliminary Official Statement.

*Selection of Bonds for Redemption.* If fewer than all of the Bonds are to be redeemed prior to maturity, the selection of such Bonds for redemption shall be made as described under “Description of the Bonds—Redemption of Bonds—Selection of Bonds for Redemption” in the Preliminary Official Statement.

## Purpose

The Bonds are being issued (i) to finance certain capital improvements to and conservation programs for the City’s municipal light and power generation, transmission, and distribution system (the “Light System”), (ii) to provide funds necessary (if any) to satisfy the Reserve Fund Requirement, (iii) to refund, depending on market conditions, certain obligations of the Light System, and (iv) to pay the administrative costs of issuing the Bonds and, if applicable, the costs of administering the refunding. See “Use of Proceeds” in the Preliminary Official Statement.

## Security

The Bonds are to be issued as Parity Bonds and are a special limited obligation of the City, payable from and secured solely by Gross Revenues of the Light System available after payment of Operating and Maintenance Expense (“Net Revenue”) and by money in the Parity Bond Fund and the Reserve Fund. The pledge of Net Revenue to pay and secure the Parity Bonds constitutes a charge upon Net Revenue prior and superior to all other charges whatsoever. Operating and Maintenance Expense includes the unconditional obligation of the City to make payments under certain power purchase contracts.

***The Bonds do not constitute general obligations of the City, the State of Washington (the “State”), or any political subdivision of the State, or a charge upon any general fund or upon any money or other property of the City, the State, or any political subdivision of the State not specifically pledged thereto by the Bond Ordinance. Neither the full faith and credit nor the taxing power of the City, nor any revenues of the City derived from sources other than the Light System, are pledged to the payment of the Bonds.***

## **BIDDING INFORMATION AND AWARD**

Bidders are invited to submit bids for the purchase of the Bonds, fixing the interest rate or rates that the Bonds will bear. Interest rates included as part of a bid for the Bonds shall be in multiples of 1/8 or 1/20 of 1%, or any combination thereof. No more than one rate of interest may be fixed for any one maturity of the Bonds. No interest rate less than 4% may be used for those Bonds maturing on and after July 1, 2032.

No bid will be considered for the Bonds that is less than an amount equal to 115% of the stated principal amount of the Bonds nor more than an amount equal to 125% of the stated principal amount of the Bonds.

For the purpose of this section, “price” means the lesser of the price at the redemption date, if any, or the price at the maturity date.

Bids for the Bonds must be unconditional. No bid for less than the entire offering of the Bonds will be accepted. Bids may not be withdrawn or revised after the cut-off time for receiving bids. The City strongly encourages the inclusion of women and minority business enterprise firms in bidding syndicates.

### **Bidding Process**

Bids for the Bonds must be submitted via Parity. By submitting an electronic bid for the Bonds, each bidder thereby agrees to the following terms and conditions:

- (i) If any provision in this Official Notice of Bond Sale conflicts with information or terms provided or required by Parity, this Official Notice of Bond Sale (including any modifications provided by the City to Parity and i-Deal) shall control.
- (ii) Each bidder is solely responsible for making necessary arrangements to access Parity for purposes of submitting a timely bid in compliance with the requirements of this Official Notice of Bond Sale (including any modifications provided by the City to Parity and i-Deal).
- (iii) The City has no duty or obligation to provide or assure access to Parity, and the City shall not be responsible for the proper operation of Parity, or have any liability for any delays or interruptions or any damages caused by use or attempted use of Parity.
- (iv) Parity is acting as an independent contractor, and is not acting for or on behalf of the City.
- (v) The City is not responsible for ensuring or verifying bidder compliance with Parity’s procedures.
- (vi) If the bidder’s bid is accepted by the City, this Official Notice of Bond Sale (including any modifications provided by the City to Parity and i-Deal) and the information that is submitted electronically through Parity, as confirmed by the Certificate of Bid Award, shall form a contract, and the bidder shall be bound by the terms of such contract.
- (vii) Information provided by Parity to bidders shall form no part of any bid or of any contract between the successful bidder and the City unless that information is included in this Official Notice of Bond Sale, as may be modified and/or amended by the City.

### **Good Faith Deposit**

To be considered by the City, a bid must be backed by a good faith deposit in the amount of \$2,600,000. The good faith deposit must be paid by federal funds wire transfer within 90 minutes after notice from the City to the apparent successful bidder for the Bonds. Wiring instructions will be provided to the apparent successful bidder at the time of the notice from the City.

The good faith deposit for the Bonds shall be retained by the City as security for the performance of the apparent successful bidder and shall be applied to the purchase price of the Bonds upon the delivery of the Bonds to that bidder.

Pending delivery of the Bonds, the good faith deposit may be invested for the sole benefit of the City. If the Bonds are ready for delivery and the successful bidder fails or neglects to complete the purchase within 30 days following the acceptance of its bid, the good faith deposit for the Bonds shall be retained by the City as reasonable liquidated damages and not as a penalty.

### **Award**

The Bonds will be sold to the bidder making a bid for the Bonds that conforms to the terms of the offering and is the best bid, based on the City's determination of the lowest true interest cost. The true interest cost will be the rate that, when used to discount to the date of the Bonds all future payments of principal and interest (using semiannual compounding and a 30/360 day basis), produces an amount equal to the bid amount for the Bonds, without regard to the interest accrued to the date of the Bonds. The true interest cost calculations for any bids received for the Bonds will be performed by the City's Municipal Advisor, and the City will base its determination of the best bid for the Bonds solely on those calculations. If there are two or more equal bids for the Bonds and those bids are the best bids received, the Director of Finance will determine by random selection which bid will be accepted.

The apparent successful bidder for the Bonds will be notified verbally on behalf of the City and must provide a good faith deposit as described above. The successful bid shall be considered awarded upon the receipt by the City of the good faith deposit and the execution of the Certificate of Bid Award by the Finance Director, acting on behalf of the City. The form of the Certificate of Bid Award is attached to this Official Notice of Bond Sale as Exhibit 1.

The City reserves the right to reject any or all bids submitted and to waive any formality or irregularity in any bid or the bidding process. If all bids for the Bonds are rejected, then the Bonds may be sold in any manner provided by law. Any bid presented after the cut-off time for receiving bids will not be accepted.

### **Adjustment of Principal Amounts and Bid Price After Receipt of Bids**

The City reserves the right to decrease the preliminary aggregate principal amount of the Bonds shown on Parity by an amount not to exceed 10% of the principal amount of the Bonds after the cut-off time for receiving bids. The City reserves the right to increase or decrease the preliminary principal amount of any maturity of the Bonds shown on Parity by an amount not to exceed 15% of the preliminary principal amount of that maturity after the cut-off time for receiving bids.

If the preliminary principal amount of the Bonds is adjusted by the City, the price bid by the successful bidder for the Bonds will be adjusted by the City on a proportionate basis to reflect an increase or decrease in the principal amount and maturity schedule. If the City elects to increase or decrease the principal amount of the Bonds after receiving bids, the underwriter's discount, expressed in dollars per thousand, will be held constant. The City will not be responsible in the event and to the extent that any adjustment affects (i) the net compensation to be realized by the successful bidder, or (ii) the true interest cost of the winning bid or its ranking relative to other bids.

### **Issue Price Information**

*Establishment of Issue Price.* By submitting a bid, the winning bidder for the Bonds agrees to assist the City in establishing the issue price of the Bonds and to execute and deliver to the City at closing an "issue price" or similar certificate ("Issue Price Certificate") setting forth the reasonably expected initial offering price to the public or the sales price or prices of the Bonds, together with the supporting pricing wires or equivalent communications. **By submitting a bid, the winning bidder agrees to observe the "hold-the-offering-price" rule (defined below) if the Competitive Sale Safe Harbor (defined below) does not apply on the sale date. Bids for the Bonds will not be accepted if they are subject to cancellation in the event that the Competitive Sale Safe Harbor does not apply.**

The City has attached to this Official Notice of Bond Sale as Exhibits 2 and 3 two alternatives for the form of Issue Price Certificate. Exhibit 2 reflects the form that would be used if the safe harbor described in Treasury Regulations Section 1.148-1(f)(3)(i) (the "Competitive Sale Safe Harbor") is applicable on the sale date; Exhibit 3 reflects the form that would be used if the Competitive Sale Safe Harbor is inapplicable, in which case the City will require that the winning bidder observe the "hold-the-offering-price" rule. The winning bidder agrees to execute the appropriate Issue Price Certificate, substantially in the form attached hereto, with only such modifications as may be acceptable to the City and Bond Counsel.

All communications with the City pursuant to this Official Notice of Bond Sale relating to establishing the issue price of the Bonds may be directed to the City's Municipal Advisor (identified under "Contact Information"). Any notice,

report, pricing wire, or equivalent communication that is to be provided to the City to establish the issue price is to be provided to the City's Municipal Advisor and its Bond Counsel (identified under "Contact Information").

*Competitive Sale Safe Harbor.* The City intends for the provisions of Treasury Regulations Section 1.148-1(f)(3)(i) (defining "competitive sale" for purposes of establishing the issue price of the Bonds) to apply to the initial sale of the Bonds (the "competitive sale requirements"), because:

- (i) the City will disseminate this Official Notice of Bond Sale to potential underwriters in a manner reasonably designed to reach potential underwriters;
- (ii) all bidders will have an equal opportunity to bid;
- (iii) the City expects to receive bids for the Bonds from at least three underwriters of municipal bonds who have established industry reputations for underwriting new issuances of municipal bonds; and
- (iv) the City anticipates awarding the sale of the Bonds to the bidder who submits a firm offer to purchase the Bonds at the highest price (or lowest interest cost), as set forth in this Official Notice of Bond Sale.

Each bid for the Bonds submitted pursuant to this Official Notice of Bond Sale will be considered a firm offer for the purchase of the Bonds, as specified in the bid. The Competitive Sale Safe Harbor will be considered inapplicable if the City and its Bond Counsel determine that the requirements of Treasury Regulations Section 1.148-1(f)(3)(i), including the requirement to receive at least three bids, have not been met.

*Hold-the-Offering-Price Rule Applies if Competitive Sale Safe Harbor Not Met.* If the competitive sale requirements are not satisfied for the Bonds, the City will so advise the winning bidder for the Bonds. The City, in its sole discretion, on a maturity-by-maturity basis, may determine to treat:

- (i) the first price at which 10% of a maturity of the Bonds (the "10% test") is sold to the public as the issue price of that maturity; and/or
- (ii) the initial offering price to the public as of the sale date of any maturity of the Bonds as the issue price of that maturity (the "hold-the-offering-price rule").

The winning bidder for the Bonds must advise the City, as soon as practicable following the verbal award, if any maturity of the Bonds satisfies the 10% test as of the date and time of the award of the Bonds. The City will promptly advise the winning bidder, if practicable, at or before the time of award of the Bonds, which maturities of the Bonds will be subject to the 10% test or subject to the hold-the-offering-price rule. If, prior to the time of the award, the winning bidder has not advised the City that any maturity satisfies the 10% test, the bidder should assume that all maturities will be subject to the hold-the-offering-price rule. Bids will **not** be accepted if they are subject to cancellation upon determination by the City to apply the hold-the-offering-price rule to any maturity of the Bonds. **Bidders should prepare their bids on the assumption that some or all of the maturities of the Bonds will be subject to the hold-the-offering-price rule in order to establish the issue price of the Bonds.**

By submitting a bid, the winning bidder agrees that, if the City determines to apply the hold-the-offering-price rule, it will:

- (i) confirm that the underwriters have offered or will offer the Bonds to the public on or before the date of award at the offering price or prices (the "initial offering price"), or at the corresponding yield or yields, set forth in the bid submitted by the winning bidder;
- (ii) agree, on behalf of the underwriters participating in the purchase of the Bonds, that the underwriters will neither offer nor sell unsold Bonds of any maturity to which the hold-the-offering-price rule applies to any person at a price that is higher than the initial offering price to the public during the period starting on the sale date and ending on the earlier of (a) the close of the fifth business day after the sale date (the "End of the Holding Period"), or (b) the date on which the underwriters have sold at least 10% of that maturity of the Bonds to the public at a price that is no higher than the initial offering price to the public; and
- (iii) promptly advise the City when the underwriters have sold 10% of each maturity of the Bonds that is subject to the hold-the-offering-price rule to the public at a price that is no higher than the initial offering price to the public, if that occurs prior to the End of the Holding Period.

*Reliance on Agreements with Participating Underwriters, Dealers, and Broker-Dealers.* In making the representations set forth above, the winning bidder agrees to obtain and, if obtained, may rely on:

- (i) the agreement of the underwriter to comply with the hold-the-offering-price rule, as set forth in an agreement among underwriters and the related pricing wires;
- (ii) if a selling group has been created in connection with the initial sale of the Bonds to the public, the agreement of each dealer who is a member of the selling group to comply with the hold-the-offering-price rule, as set forth in a selling group agreement and the related pricing wires; and
- (iii) if an underwriter is a party to a retail distribution agreement that was employed in connection with the initial sale of the Bonds to the public, the agreement of each broker-dealer that is a party to such agreement to comply with the hold-the-offering-price rule, as set forth in the retail distribution agreement and the related pricing wires.

If appropriate agreements have been obtained, the City acknowledges that each underwriter will be solely liable for its failure to comply with its agreement regarding the hold-the-offering-price rule and that no underwriter will be liable for the failure of any other underwriter, or of any dealer who is a member of a selling group, or of any broker-dealer that is a party to a retail distribution agreement, to comply with its corresponding agreement regarding the hold-the-offering-price rule as applicable to the Bonds.

In addition, by submitting a bid, each bidder confirms that any agreement among underwriters, any selling group agreement, and each retail distribution agreement (to which the bidder is a party) relating to the initial sale of the Bonds to the public, together with the related pricing wires, contains or will contain language obligating each underwriter, each dealer who is a member of the selling group, and each broker-dealer that is a party to such retail distribution agreement, as applicable, to (i) report the prices at which it sells to the public the unsold Bonds of each maturity allotted to it until either it is notified by the winning bidder that the 10% test has been satisfied as to the Bonds of that maturity or the End of the Holding Period, whichever occurs first, and (ii) comply with the hold-the-offering-price rule, if applicable, in each case if and for so long as directed by the winning bidder and as set forth in the related pricing wires.

Further, each bidder confirms that any agreement among underwriters relating to the initial sale of the Bonds to the public, together with the related pricing wires, contains or will contain language obligating each underwriter that is a party to a retail distribution agreement to be employed in connection with the initial sale of the Bonds to the public to require each broker-dealer that is a party to such retail distribution agreement to:

- (i) report the prices at which it sells to the public the unsold Bonds of each maturity allotted to it until either it is notified by the winning bidder or such underwriter that the 10% test has been satisfied as to the Bonds of that maturity or the End of the Holding Period, whichever occurs first; and
- (ii) comply with the hold-the-offering-price rule, if applicable, in each case if and for so long as directed by the winning bidder or such underwriter and as set forth in the related pricing wires.

*Other Terms.* Sales of any Bonds to any person that is a related party to an underwriter will not constitute sales to the public for purposes of the representations of the bidder pursuant to this Official Notice of Bond Sale, including any representations to be made in an Issue Price Certificate. Further, for purposes of this Official Notice of Bond Sale and the Issue Price Certificate:

- (i) “public” means any person other than an underwriter or a related party;
- (ii) “underwriter” means (a) any person that agrees pursuant to a written contract with the City (or with the lead underwriter to form an underwriting syndicate) to participate in the initial sale of the Bonds to the public, and (b) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (a) to participate in the initial sale of the Bonds to the public (including a member of a selling group or a party to a retail distribution agreement participating in the initial sale of the Bonds to the public);
- (iii) a purchaser of any of the Bonds is a “related party” to an underwriter if the underwriter and the purchaser are subject, directly or indirectly, to (a) at least 50% common ownership of the voting power or the total value of their stock, if both entities are corporations (including direct ownership by one corporation of another), (b) more than 50% common ownership of their capital interests or profits interests, if both entities are partnerships (including direct ownership by one partnership of another), or (c) more than 50% common ownership of the value of the outstanding stock of the corporation or the capital interests or profit interests of the partnership, as applicable, if one entity is a corporation and the other entity is a partnership (including direct ownership of the applicable stock or interests by one entity of the other); and

(iv) “sale date” means the date that the Bonds are awarded by the City to the winning bidder.

Questions regarding the form of expected Issue Price Certificate should be directed to the City’s Municipal Advisor or its Bond Counsel. See “Contact Information.”

### **Insurance**

No bid for the Bonds may be conditioned upon obtaining insurance or any other credit enhancement, or upon the City’s acceptance of any of the terms of insurance or other credit enhancement. Any purchase of municipal bond insurance or commitment therefor shall be at the sole option and expense of the bidder for the Bonds, and any increased costs of issuance of the Bonds resulting by reason of such insurance, unless otherwise paid, must be paid by such bidder, and will not, in any event, be paid by the City. Any failure of the Bonds to be so insured or of any such policy of insurance to be issued shall not in any way relieve the successful bidder for the Bonds of its contractual obligations arising from the acceptance of its bid.

If the successful bidder for the Bonds purchases insurance for any of the Bonds, the City may require the successful bidder to furnish to the City and Bond Counsel a certificate in form and substance acceptable to Bond Counsel confirming that the present value (calculated using the same yield as the yield on the insured Bonds) of the insurance premium is less than the present value (calculated using the same yield as the yield on the insured Bonds) of the interest cost savings represented by the comparative differences between interest amounts that would have been payable on the various maturities of the insured Bonds at interest rates on the insured Bonds issued with and without the insurance on the insured Bonds.

### **Ratings**

The Bonds have been rated “Aa2” and “AA” by Moody’s Investors Service and S&P Global Ratings, respectively. The City will pay the fees for these ratings; any other ratings for the Bonds are the responsibility of the successful bidder.

## **DELIVERY**

The City will deliver the Bonds (consisting of one certificate for each maturity of the Bonds) to DTC in New York, New York, or to the Bond Registrar on behalf of DTC, for closing by Fast Automated Securities Transfer, prior to the date of closing for the Bonds. Closing shall occur within 30 days after the sale date. Settlement shall be in immediately available federal funds on the date of delivery.

If, prior to the delivery of the Bonds, the interest receivable by the owners of the Bonds would become includable in gross income for federal income tax purposes or subject to federal income tax other than as described in the Preliminary Official Statement, the successful bidder for the Bonds, at its option, may be relieved of its obligation to purchase the Bonds and, in that case, the good faith deposit accompanying its bid will be returned without interest.

The City will furnish to the successful bidder for the Bonds one electronic transcript of proceedings. Additional transcripts will be furnished at the successful bidder’s expense.

### **Legal Opinion**

The approving legal opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Seattle, Washington, Bond Counsel, with respect to the Bonds will be provided to the successful bidder at the time of the delivery of the Bonds. The form of Bond Counsel’s opinion is attached to the Preliminary Official Statement as Appendix B. A no material litigation certificate from the City will be included in the closing documents for the Bonds.

### **CUSIP Numbers**

It is anticipated that a CUSIP identification number will appear on each Bond, but neither the failure to insert such number nor any error with respect thereto shall constitute cause for a failure or refusal by the successful bidder for the Bonds to accept delivery of and pay for the Bonds in accordance with the terms of this Official Notice of Bond Sale.

***The City’s municipal advisor is responsible for obtaining CUSIP numbers for the Bonds. The charge of the CUSIP Service Bureau shall be paid by the successful bidder.***

## CONTINUING DISCLOSURE AGREEMENT

In order to assist bidders in complying with paragraph (b)(5) of U.S. Securities and Exchange Commission Rule 15c2-12 (“Rule 15c2-12”), the City will undertake to provide certain annual financial information and notices of the occurrence of certain events. A description of this undertaking and the City’s compliance with its prior undertakings is set forth in the Preliminary Official Statement under “Continuing Disclosure Agreement” and also will be set forth in the final Official Statement.

## OFFICIAL STATEMENT

### Preliminary Official Statement

The Preliminary Official Statement is in a form that the City has deemed final for the purpose of paragraph (b)(1) of Rule 15c2-12, but is subject to revision, amendment, and completion in a final Official Statement, which the City will deliver, at the City’s expense, to the successful bidder through its designated representative not later than seven business days after the City’s acceptance of the successful bidder’s bid, in sufficient quantities to permit the successful bidder to comply with Rule 15c2-12.

By submitting the successful bid for the Bonds, the successful bidder’s designated representative agrees:

- (i) to provide to the City’s Debt Manager, in writing, within 24 hours after the acceptance of the bid, pricing and other related information necessary for completion of the final Official Statement and to cooperate with the City by providing, in a timely manner, the information and certifications necessary to establish the issue price for the Bonds (see “Bidding Information and Award—Issue Price Information”);
- (ii) to disseminate to all members of the underwriting syndicate, if any, copies of the final Official Statement, including any amendments or supplements prepared by the City;
- (iii) to take any and all actions necessary to comply with applicable rules of the Securities and Exchange Commission and Municipal Securities Rulemaking Board governing the offering, sale, and delivery of the Bonds to ultimate purchasers, including the delivery of a final Official Statement to each investor who purchases the Bonds; and
- (iv) to file the final Official Statement or cause it to be filed with the Municipal Securities Rulemaking Board within one business day following its receipt from the City.

The Preliminary Official Statement may be obtained from i-Deal at [www.i-dealprospectus.com](http://www.i-dealprospectus.com), telephone (212) 849-5024. In addition, the Preliminary Official Statement may be obtained upon request to the City’s Debt Manager or Municipal Advisor. See “Contact Information” in this Official Notice of Bond Sale.

### Official Statement

At closing, the City will furnish a certificate of an official or officials of the City stating that, to the best knowledge of such official(s), as of the date of the Official Statement and as of the date of delivery of the Bonds,

- (i) the information (including financial information) regarding the City and the Seattle City Light Department (including the Light System) contained in the Official Statement was and is true and correct in all material respects and did not and does not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading; and
- (ii) the descriptions and statements, including financial data, of or pertaining to entities other than the City and their activities contained in the Official Statement have been obtained from sources that the City believes to be reliable, and the City has no reason to believe that they are untrue in any material respect (however, the City will make no representation regarding Bond Counsel’s form of opinion, the information provided by Bond Counsel under “Legal and Tax Information—Limitations on Remedies and Municipal Bankruptcies” and “—Tax Matters,” or the information provided by or obtained from DTC or any entity providing bond insurance, reserve insurance, or other credit facility, if any).



DATED at Seattle, Washington, this 21st day of June, 2021.

/s/Glen Lee

Glen Lee  
Director of Finance

**OFFICIAL NOTICE OF BOND SALE—EXHIBIT 1**

**FORM OF CERTIFICATE OF BID AWARD**

**\$261,635,000**

**THE CITY OF SEATTLE, WASHINGTON**

**MUNICIPAL LIGHT AND POWER IMPROVEMENT AND REFUNDING REVENUE BONDS, 2021,  
SERIES A**

With respect to the above-captioned bonds (the “Bonds”), the Director of Finance of The City of Seattle, Washington (the “City”), as the Designated Representative authorized to act on behalf of the City pursuant to Ordinance 126221 and Ordinance 125460, as amended by Ordinance 125987 (together, the “Bond Ordinance”), certifies as follows:

1. In accordance with the Bond Ordinance, an Official Notice of Bond Sale dated June 21, 2021, has been prepared and distributed, and on June 29, 2021, bids for the purchase of the Bonds were received and reviewed in accordance with the Official Notice of Bond Sale.
2. The sale of the Bonds is hereby awarded to \_\_\_\_\_ (the “Purchaser”), the Purchaser’s bid being the best responsive bid determined by the method of calculation set forth in the Official Notice of Bond Sale. A copy of the Purchaser’s submitted bid is attached hereto as Schedule A.
3. A summary setting forth the [interest rates and ]purchase price for the Bonds reflecting [the resizing of ]the Purchaser’s submitted bid in accordance with the Official Notice of Bond Sale is as follows:

Aggregate Principal Amount:	\$
less Underwriter’s Discount:	()
[plus/less] original issue [premium/(discount)]:	_____
Aggregate Purchase Price:	\$
True Interest Cost:	%
Aggregate Purchase Price (% of Aggregate Principal Amount):	%

**Maturity Dates, Principal Amounts, Interest Rates and Prices [include if resized]**

<b>Due July 1</b>	<b>Amount</b>	<b>Interest Rate</b>	<b>Price</b>	<b>Due July 1</b>	<b>Amount</b>	<b>Interest Rate</b>	<b>Price</b>
2022				2037			
2023				2038			
2024				2039			
2025				2040			
2026				2041			
2027				2042			
2028				2043			
2029				2044			
2030				2045			
2031				2046			
2032				2047			
2033				2048			
2034				2049			
2035				2050			
2036				2051			

- (1) Term Bonds
- (2) Priced to call date of July 1, 2031.

## Redemption Provisions

*Optional Redemption.* The Bonds maturing on July 1 in the years 2022 through 2031, inclusive, are not subject to redemption prior to their stated maturity.

The Bonds maturing on or after July 1, 2032, are subject to optional redemption, as a whole or in part (and if in part, with maturities to be selected by the City), on any date on or after July 1, 2031, at a price equal to 100% of the principal amount to be redeemed plus accrued interest, if any, to the date fixed for redemption.

*Mandatory Redemption.* The Bonds maturing in the years 20\_\_, and 20\_\_ are Term Bonds and, if not optionally redeemed or purchased in accordance with the Bond Ordinance, will be called for redemption at a price equal to 100% of the principal amount to be redeemed, plus accrued interest, if any, to the date fixed for redemption, on July 1 in years and amounts as follows:

<b>Mandatory Redemption Years</b>	<b>Mandatory Redemption Amounts</b>	<b>Mandatory Redemption Years</b>	<b>Mandatory Redemption Amounts</b>
20__	\$	20__	\$
20__		20__	
20__		20__	
20__ <sup>(1)</sup>		20__ <sup>(1)</sup>	

(1) Term Bond maturity

All bids received other than that of the Purchaser are hereby rejected.

THE CITY OF SEATTLE

By: \_\_\_\_\_  
Glen M. Lee, Director of Finance  
Date: \_\_\_\_\_ Time: \_\_\_\_\_

Acknowledged by:  
[PURCHASER]

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**OFFICIAL NOTICE OF BOND SALE—EXHIBIT 2**

**FORM OF ISSUE PRICE CERTIFICATE  
COMPETITIVE SALE SAFE HARBOR**

**\$261,635,000**

**THE CITY OF SEATTLE, WASHINGTON**

**MUNICIPAL LIGHT AND POWER IMPROVEMENT AND REFUNDING REVENUE BONDS, 2021,  
SERIES A**

The undersigned, on behalf of [NAME OF UNDERWRITER] (“[SHORT NAME OF UNDERWRITER]”) hereby certifies as set forth below with respect to the sale of the above-captioned obligations (the “Bonds”).

**Reasonably Expected Initial Offering Price**

- (i) As of the Sale Date, the reasonably expected initial offering prices of the Bonds to the Public by [SHORT NAME OF UNDERWRITER] are the prices listed in Schedule A (the “Expected Offering Prices”). The Expected Offering Prices are the prices for the maturities of the Bonds used by [SHORT NAME OF UNDERWRITER] in formulating its bid to purchase the Bonds. Attached as Schedule B is a true and correct copy of the bid provided by [SHORT NAME OF UNDERWRITER] to purchase the Bonds.
- (ii) [SHORT NAME OF UNDERWRITER] was not given the opportunity to review other bids prior to submitting its bid.
- (iii) The bid submitted by [SHORT NAME OF UNDERWRITER] constituted a firm offer to purchase the Bonds.

**Defined Terms**

- (i) *Maturity* means Bonds having the same maturity date and credit and payment terms.
- (ii) *Public* means any person (including an individual, trust, estate, partnership, association, company, or corporation) other than an Underwriter or a related party to an Underwriter. The term “related party” for purposes of this certificate generally means any two or more persons who have greater than 50% common ownership, directly or indirectly.
- (iii) *Sale Date* means the first day on which there is a binding contract in writing for the sale of a Maturity of the Bonds, as evidenced by the award of the bid submitted pursuant to the Official Notice of Bond Sale. The Sale Date of the Bonds is [DATE].
- (iv) *Underwriter* means (a) [SHORT NAME OF UNDERWRITER], as the winning bidder to purchase the Bonds (and any person that agrees pursuant to a written contract with [SHORT NAME OF UNDERWRITER] as the lead underwriter to form an underwriting syndicate) to participate in the initial sale of the Bonds to the Public, and (b) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (a) of this paragraph to participate in the initial sale of the Bonds to the Public (including a member of a selling group or a party to a retail distribution agreement participating in the initial sale of the Bonds to the Public).

The representations set forth in this certificate are limited to factual matters only. Nothing in this certificate represents [SHORT NAME OF UNDERWRITER]’s interpretation of any laws, including specifically Sections 103 and 148 of the Internal Revenue Code of 1986, as amended, and the Treasury Regulations thereunder. The undersigned understands that the foregoing information will be relied upon by the City with respect to certain of the representations set forth in the Tax Certificate and with respect to compliance with the federal income tax rules affecting the Bonds, and by Stradling Yocca Carlson & Rauth, a Professional Corporation, in connection with rendering its opinion that the interest on the Bonds is excluded from gross income for federal income tax purposes, the preparation of the Internal Revenue Service Form 8038-G, and other federal income tax advice that it may provide to the City from time to time relating to the Bonds.

Dated: [ISSUE DATE]

[UNDERWRITER]

By: \_\_\_\_\_

Name: \_\_\_\_\_

**OFFICIAL NOTICE OF BOND SALE—EXHIBIT 3**

**FORM OF ISSUE PRICE CERTIFICATE  
HOLD-THE-OFFERING-PRICE RULE**

**\$261,635,000**

**THE CITY OF SEATTLE, WASHINGTON**

**MUNICIPAL LIGHT AND POWER IMPROVEMENT AND REFUNDING REVENUE BONDS, 2021,  
SERIES A**

The undersigned, on behalf of [NAME OF UNDERWRITER/REPRESENTATIVE] (“[SHORT NAME OF UNDERWRITER]”)(the “Representative”), on behalf of itself and [NAMES OF OTHER UNDERWRITERS] (together, the “Underwriting Group”), hereby certifies as set forth below with respect to the sale and issuance of the above-captioned obligations (the “Bonds”).

**Sale of the General Rule Maturities**

As of the date of this certificate, for each Maturity of the General Rule Maturities, the first price at which at least 10% of such Maturity was sold to the Public is the respective price listed in Schedule A.

**Initial Offering Price of the Hold-the-Offering-Price Maturities**

- (i) [SHORT NAME OF UNDERWRITER][The Underwriting Group] offered the Hold-the-Offering-Price Maturities to the Public for purchase at the respective initial offering prices listed in Schedule A (the “Initial Offering Prices”) on or before the Sale Date. A copy of the pricing wire or equivalent communication for the Bonds is attached to this certificate as Schedule B.
- (ii) As set forth in the Official Notice of Bond Sale and bid award, [SHORT NAME OF UNDERWRITER][the members of the Underwriting Group] [has][have] agreed in writing that (i) for each Maturity of the Hold-the-Offering-Price Maturities, it would neither offer nor sell any of the Bonds of such Maturity to any person at a price that is higher than the Initial Offering Price for such Maturity during the Holding Period for such Maturity (the “hold-the-offering-price rule”), and (ii) any selling group agreement shall contain the agreement of each dealer who is a member of the selling group, and any retail distribution agreement shall contain the agreement of each broker-dealer who is a party to the retail distribution agreement, to comply with the hold-the-offering-price rule. Pursuant to such agreement, no Underwriter (as defined below) has offered or sold any Maturity of the Hold-the-Offering-Price Maturities at a price that is higher than the respective Initial Offering Price for that Maturity of the Bonds during the Holding Period.

**Defined Terms**

- (i) *General Rule Maturities* means those Maturities of the Bonds listed in Schedule A hereto as the “General Rule Maturities.”
- (ii) *Hold-the-Offering-Price Maturities* means those Maturities of the Bonds listed in Schedule A hereto as the “Hold-the-Offering-Price Maturities.”
- (iii) *Holding Period* means, with respect to a Hold-the-Offering-Price Maturity, the period starting on the Sale Date and ending on the earlier of (i) the close of the fifth business day after the Sale Date (June 29, 2021), or (ii) the date on which [SHORT NAME OF UNDERWRITER][the Underwriters] [has][have] sold at least 10% of such Hold-the-Offering-Price Maturity to the Public at prices that are no higher than the Initial Offering Price for such Hold-the-Offering-Price Maturity.
- (iv) *Issuer* means The City of Seattle, Washington.
- (v) *Maturity* means Bonds with the same credit and payment terms. Bonds with different maturity dates, or Bonds with the same maturity date but different stated interest rates, are treated as separate maturities.
- (vi) *Public* means any person (including an individual, trust, estate, partnership, association, company, or corporation) other than an Underwriter or a related party to an Underwriter. The term “related party” for

purposes of this certificate generally means any two or more persons who have greater than 50% common ownership, directly or indirectly.

- (vii) *Sale Date* means the first day on which there is a binding contract in writing for the sale of a Maturity of the Bonds. The Sale Date of the Bonds is June 29, 2021.
- (viii) *Underwriter* means (a) any person that agrees pursuant to a written contract with the Issuer (or with the lead underwriter to form an underwriting syndicate) to participate in the initial sale of the Bonds to the Public, and (b) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (a) of this paragraph to participate in the initial sale of the Bonds to the Public (including a member of a selling group or a party to a retail distribution agreement participating in the initial sale of the Bonds to the Public).

The representations set forth in this certificate are limited to factual matters only. Nothing in this certificate represents [NAME OF UNDERWRITING FIRM'S][the Representative's] interpretation of any laws, including specifically Sections 103 and 148 of the Internal Revenue Code of 1986, as amended, and the Treasury Regulations thereunder. The undersigned understands that the foregoing information will be relied upon by the Issuer with respect to certain of the representations set forth in the Tax Certificate and with respect to compliance with the federal income tax rules affecting the Bonds, and by Stradling Yocca Carlson & Rauth, a Professional Corporation, in connection with rendering its opinion that the interest on the Bonds is excluded from gross income for federal income tax purposes, the preparation of the Internal Revenue Service Form 8038-G, and other federal income tax advice that it may give to the Issuer from time to time relating to the Bonds.

Dated: [ISSUE DATE]

[NAME OF UNDERWRITER/REPRESENTATIVE]

By: \_\_\_\_\_

Name: \_\_\_\_\_

## **PRELIMINARY OFFICIAL STATEMENT**

**\$261,635,000<sup>(1)</sup>**

### **THE CITY OF SEATTLE, WASHINGTON MUNICIPAL LIGHT AND POWER IMPROVEMENT AND REFUNDING REVENUE BONDS, 2021, SERIES A**

#### **INTRODUCTION**

The purpose of this Official Statement, which includes the cover, inside cover, and appendices, is to set forth certain information concerning The City of Seattle, Washington (the “City”), a municipal corporation duly organized and existing under and by virtue of the laws of the State of Washington (the “State”), the Seattle City Light Department (the “Department”), and its municipal light and power generation, transmission, and distribution system (the “Light System”), in connection with the offering of \$261,635,000<sup>(1)</sup> aggregate principal amount of the City’s Municipal Light and Power Improvement and Refunding Revenue Bonds, 2021, Series A (the “Bonds”). This Official Statement contains certain information related to this offering and sale concerning the City, the Bonds, the Light System, and the Department.

Appendix A to this Official Statement is a copy of Ordinance 126221 (the “New Money Ordinance”) authorizing the issuance and sale of the new money portion of the Bonds. See “Description of the Bonds—Authorization for the Bonds.” Appendix B includes the form of legal opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Seattle, Washington (“Bond Counsel”). Appendix C contains the audited 2020 financial statements of the Department. Appendix D provides demographic and economic information for the City. Appendix E is a description provided on its website by The Depository Trust Company, New York, New York (“DTC”), of DTC procedures for book-entry bonds. Capitalized terms that are not defined herein have the meanings set forth in the Bond Ordinance (defined below).

All of the summaries of provisions of the State Constitution and laws of the State, of ordinances and resolutions of the City, and of other documents contained in this Official Statement are subject to the complete provisions thereof and do not purport to be complete statements of such laws or documents, copies of which may be obtained from the City upon request. A full review should be made of the entire Official Statement. The offering of the Bonds to prospective investors is made only by means of the entire Official Statement.

*The spread of COVID-19, the illness caused by the novel coronavirus known as SARS-CoV-2, has affected and continues to affect local, State, national, and global economic activity. The COVID-19 pandemic is ongoing and has resulted in significant public health emergency response costs and reduced sources of state and local government revenue. Consequently, the pandemic has materially adversely impacted the financial condition of the City.*

*The historical financial data and information presented may not necessarily predict near term trends accurately. Any forecast information speaks only as of the date it was prepared and the reader should exercise caution in relying on such information. Actual results could differ materially.*

More specific information, to the extent available, is included throughout this Official Statement and information more particularly describing the effects of the pandemic on the Light System is set forth under “Seattle City Light Department—COVID-19 Pandemic.” Also see generally “Other Considerations Relative to the City—Global Health Emergency Risk and COVID-19 Pandemic.”

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(1) Preliminary, subject to change.



## DESCRIPTION OF THE BONDS

### Authorization for the Bonds

The Bonds are to be issued by the City pursuant to the State Constitution, chapters 35.92, 39.46, and 39.53 of the Revised Code of Washington (“RCW”), and the Seattle City Charter. The Bonds are issued pursuant to the New Money Ordinance, passed on November 23, 2020, and Ordinance 125460, passed November 20, 2017, as amended by Ordinance 125987, passed on November 25, 2019 (as amended, the “Refunding Ordinance, and together with the New Money Ordinance, the “Bond Ordinance”). A copy of the New Money Ordinance is attached to this Official Statement as Appendix A.

The New Money Ordinance authorizes the issuance of the Bonds as Parity Bonds in a maximum aggregate amount not to exceed \$350 million and delegates to the Director of the Finance Division of the City’s Department of Finance and Administrative Services (the “Director of Finance”) the authority to execute, on behalf of the City, a certificate of bid award, a pricing certificate (the “Pricing Certificate”), and other documents (collectively, the “Bond Documents”) in accordance with the parameters set forth in the Bond Ordinance. The par amount of the Bonds issued under the New Money Ordinance is \$231,945,000<sup>(1)</sup> and no other bonds have been issued under this authorization. See “Capital Requirements—Financing Plans.”

### Principal Amounts, Dates, Interest Rates, and Maturities

The Bonds will be dated the date of the initial issuance and delivery (the “Issue Date”). The Bonds will mature on the dates and in the amounts set forth on page i of this Official Statement. Interest on the Bonds is payable semiannually on each January 1 and July 1, beginning January 1, 2022, at the rates set forth on page i of this Official Statement. Interest on the Bonds will be computed on the basis of a 360-day year consisting of twelve 30-day months.

### Registration and Book-Entry Form

*Book-Entry Form.* The Bonds initially will be issued in Book-Entry Form and registered in the name of the Securities Depository. The Bonds so registered will be held fully immobilized in Book-Entry Form by the Securities Depository in accordance with the provisions of the Letter of Representations. Neither the City nor the Bond Registrar, currently U.S. Bank National Association in Seattle, Washington (or such other fiscal agent or agents as the State may from time to time designate), will have any responsibility or obligation to participants of the Securities Depository or the persons for whom they act as nominees with respect to the Bonds regarding the accuracy of any records maintained by the Securities Depository or its participants of any amount in respect of principal of or interest on the Bonds, or any notice which is permitted or required to be given to Registered Owners under the Bond Ordinance (except such notice as is required to be given by the Bond Registrar to the Securities Depository). Registered ownership of a Bond initially held in Book-Entry Form, or any portion thereof, may not be transferred except (i) to any successor Securities Depository, (ii) to any substitute Securities Depository appointed by the City or such substitute Securities Depository's successor, or (iii) to any person if the Bond is no longer held in Book-Entry Form. For information about DTC and its book-entry system, see Appendix E—Book-Entry Transfer System. The City makes no representation as to the accuracy or completeness of the information in Appendix E obtained from DTC. Purchasers of the Bonds should confirm this information with DTC or its participants.

*Termination of Book-Entry System.* Upon the resignation of the Securities Depository from its functions as depository, or upon a determination by the Director of Finance to discontinue utilizing the then-current Securities Depository, the Director of Finance may appoint a substitute Securities Depository. If the Securities Depository resigns from its functions as depository and no substitute Securities Depository can be obtained, or if the Director of Finance determines not to utilize a Securities Depository, then the Bonds will no longer be held in Book-Entry Form and ownership of the Bonds may be transferred only as provided in the Bond Ordinance.

*Lost or Stolen Bonds.* In case any Bond is lost, stolen, or destroyed, the Bond Registrar may authenticate and deliver a new bond or bonds of like maturity, amount, date, tenor, and effect to the Registered Owner(s) thereof upon the Registered Owner(s) paying the expenses and charges of the City in connection therewith and upon filing with the Bond Registrar evidence satisfactory to the Bond Registrar that such bond or bonds were actually lost, stolen, or destroyed and of Registered Ownership thereof, and upon furnishing the City with indemnity satisfactory to both.

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(1) Preliminary, subject to change.

## Payment of Bonds

The Bonds will be payable in lawful money of the United States of America on the dates and in the amounts as provided in the Bond Ordinance. Principal of and interest on the Bonds will be payable solely out of the Seattle Municipal Light Revenue Parity Bond Fund (the “Parity Bond Fund”). The Bonds are not general obligations of the City. No Bonds will be subject to acceleration under any circumstances.

Interest on each Bond not held in Book-Entry Form is payable by electronic transfer on the interest payment date, or by check or draft of the Bond Registrar mailed on the interest payment date to the Registered Owner at the address appearing on the Bond Register on the Record Date. The City, however, is not required to make electronic transfers except pursuant to a request by a Registered Owner in writing received at least ten days prior to the Record Date and at the sole expense of the Registered Owner. Principal of each Bond not held in Book-Entry Form is payable upon presentation and surrender of the Bond by the Registered Owner to the Bond Registrar.

The Bond Ordinance defines “Record Date,” in the case of each interest or principal payment date, as the Bond Registrar’s close of business on the 15th day of the month preceding that interest or principal payment date. With regard to redemption of a Bond prior to its maturity, the Record Date means the Bond Registrar’s close of business on the day prior to the date on which the Bond Registrar sends the notice of redemption to the Registered Owner(s) of the affected Bonds.

## Redemption of Bonds

*Optional Redemption.* The Bonds maturing on or before July 1, 2031, are not subject to redemption prior to maturity. The City reserves the right and option to redeem the Bonds maturing on and after July 1, 2032, prior to their stated maturity dates at any time on and after July 1, 2031, as a whole or in part, at a price equal to 100% of the stated principal amount to be redeemed plus accrued interest to the date fixed for redemption.

*Mandatory Redemption.* If not redeemed or purchased at the City’s option prior to maturity, the Term Bonds maturing on July 1, \_\_\_\_, must be redeemed, at a price equal to 100% of the principal amount to be redeemed, plus accrued interest, on July 1 in the years and Sinking Fund Requirements as follows:

TERM BONDS	
Years	Amounts
(1)	

(1) Maturity.

If the City optionally redeems or purchases a Term Bond prior to maturity, the principal amount of that Term Bond that is so redeemed or purchased (irrespective of its redemption or purchase price) will be credited against the remaining Sinking Fund Requirements for that Term Bond in the manner as directed by the Director of Finance. In the absence of direction by the Director of Finance, credit will be allocated to the remaining Sinking Fund Requirements for that Term Bond on a *pro rata* basis.

*Selection of Bonds for Redemption.* If fewer than all of the outstanding Bonds are to be redeemed at the option of the City, the Director of Finance will select the maturity or maturities to be redeemed. If less than all of the principal amount of a maturity is to be redeemed, if the Bonds are held in Book-Entry Form, the portion of such maturity to be redeemed will be selected for redemption by the Securities Depository in accordance with the Letter of Representations, and if the Bonds are not then held in Book-Entry Form, the portion of such maturity to be redeemed will be selected by the Bond Registrar using such method of random selection as the Bond Registrar determines.

All or a portion of the principal amount of any Bond that is to be redeemed may be redeemed in any applicable Authorized Denomination. If less than all of the outstanding principal amount of any Bond is redeemed, upon surrender of that Bond to the Bond Registrar there will be issued to the Registered Owner, without charge, a new Bond (or Bonds, at the option of the Registered Owner) of the same seniority, maturity, and interest rate in any Authorized Denomination in the aggregate principal amount to remain outstanding.

## **Notice Redemption; Rescission of Notice**

*Notice of Redemption.* Notice of redemption of the Bonds while registered in the name of the Securities Depository or its nominee will be given in accordance with the Letter of Representations. The City must cause notice of any intended redemption of Bonds to be given not less than 20 nor more than 60 days prior to the date fixed for redemption by first-class mail, postage prepaid, to the Registered Owner of any Bond to be redeemed at the address appearing on the Bond Register on the Record Date, and that requirement will be deemed to have been fulfilled when notice has been mailed as so provided, whether or not it is actually received by the Owner of any Bond. Interest on Bonds called for redemption will cease to accrue on the date fixed for redemption unless the notice is rescinded or the Bond or Bonds called are not redeemed when presented pursuant to the call. See “—Registration and Book-Entry Form” and Appendix E.

*Rescission of Notice of Redemption.* In the case of an optional redemption, the notice may state that the City retains the right to rescind the redemption notice and the related optional redemption of Bonds by giving a notice of rescission to the affected Registered Owners at any time on or prior to the scheduled optional redemption date. Any notice of optional redemption that is rescinded by the Director of Finance will be of no effect, and the Bonds for which the notice of optional redemption has been rescinded will remain outstanding.

## **Purchase**

The City reserves the right and option to purchase any or all of the Bonds offered for purchase at any time at any price acceptable to the City plus accrued interest to the date of purchase.

## **Failure to Pay Bonds**

If any Bond is not paid when properly presented at its maturity or redemption date, the City will be obligated to pay, solely from the Parity Bond Fund and the other sources pledged in the Bond Ordinance, interest on that Bond at the same rate provided in that Bond from and after its maturity or redemption date until that Bond, principal, premium, if any, and interest, is paid in full or until sufficient money for its payment in full is on deposit in the Parity Bond Fund and that Bond has been called for payment by giving notice of that call to the Registered Owner of that Bond. See Appendix A—New Money Ordinance—Sections 10 and 24.

## **Refunding or Defeasance of Bonds**

The City may issue refunding bonds pursuant to the laws of the State or use money available from any other lawful source (i) to pay when due the principal of (including premium, if any) and interest on any Bond, or any portion thereof, included in a refunding or defeasance plan (the “Defeased Bonds”), (ii) to redeem and retire, release, refund, or defease the Defeased Bonds, and (iii) to pay the costs of such refunding or defeasance. If money and/or Government Obligations (defined below) maturing at a time or times and in an amount sufficient (together with known earned income from the investment thereof) to redeem and retire, release, refund, or defease the Defeased Bonds in accordance with their terms, is set aside in a special trust fund or escrow account irrevocably pledged to such redemption, retirement, or defeasance (the “Trust Account”), then all right and interest of the Owners of the Defeased Bonds in the covenants of the Bond Ordinance and in the Net Revenue and the funds and accounts pledged to the payment of such Defeased Bonds, other than the right to receive the funds so set aside and pledged, thereafter will cease and become void. Such Owners thereafter will have the right to receive payment of the principal of and interest or redemption price on the Defeased Bonds from the Trust Account. After establishing and fully funding such a Trust Account, the Defeased Bonds will be deemed to be no longer outstanding and the Director of Finance may then apply any money in any other fund or account established for the payment or redemption of the Defeased Bonds to any lawful purpose. Notice of refunding or defeasance will be given, and selection of Bonds for any partial refunding or defeasance will be conducted, in the manner provided for the redemption of Bonds. See “—Notice of Redemption; Rescission of Notice.”

The term “Government Obligations” is defined in the Bond Ordinance to mean any government obligation as that term is defined in RCW 39.53.010. In the Pricing Certificate for the Bonds, the City has limited eligibility to the following types of securities (provided that such securities are then permissible under the applicable statute): (i) direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, the United States of America, and bank certificates of deposit secured by such obligations; (ii) bonds, debentures, notes, participation certificates, or other obligations issued by the Banks for Cooperatives, the Federal Intermediate Credit

Bank, the Federal Home Loan Bank system, the Export-Import Bank of the United States, Federal Land Banks, or the Federal National Mortgage Association; (iii) public housing bonds and project notes fully secured by contracts with the United States; and (iv) obligations of financial institutions insured by the Federal Deposit Insurance Corporation or the Federal Savings and Loan Insurance Corporation, to the extent insured or to the extent guaranteed as permitted under any other provision of State law.

## USE OF PROCEEDS

### Purpose

The Bonds are being issued (i) to finance certain capital improvements to and conservation programs for the Light System, (ii) to make a deposit to the Reserve Fund, if necessary, to satisfy the Reserve Fund Requirement, (iii) to refund on a current basis, depending on market conditions, certain obligations of the Light System (described below under “—Refunding Plan,” and (iv) to pay the administrative costs of issuing the Bonds and, if applicable, the costs of administering the Refunding Plan.

### Sources and Uses of Funds

The proceeds of the Bonds and other available funds will be applied as follows:

#### SOURCES OF FUNDS

Par Amount of Bonds  
 Reoffering Premium  
 Bond Fund Contribution  
 Total Sources of Funds

#### USES OF FUNDS

Deposit to Project Fund  
 Deposit to Reserve Fund  
 Payment of Costs of Issuance<sup>(1)</sup>  
 Total Uses of Funds

(1) Includes legal, financial advisory, and rating agency fees, costs of printing and posting the Official Statement, underwriter’s discount, and other administrative costs of issuing the Bonds and, if applicable, the costs of administering the Refunding Plan.

### Refunding Plan

Depending on market conditions, a portion of the proceeds of the Bonds will be used to carry out a current refunding of the City’s Municipal Light and Power Improvement and Refunding Revenue Bonds, 2011A (the “Refunding Candidates”), as shown below, to achieve debt service savings. The Refunding Candidates that are refunded with the proceeds of the Bonds will be identified in the Bond Documents as the “Refunded Bonds.” The Refunded Bonds will be called on the closing date for the Bonds at the redemption price shown in the table below.

## REFUNDING CANDIDATES

Bond Component	Maturity Date	Interest Rate (%)	Par Amount	Redemption Date	Redemption Price (%)	CUSIP Number
<i>Municipal Light and Power Improvement and Refunding Revenue Bonds, 2011A</i>						
	2/1/2022	5.00	\$ 6,045,000	7/15/2021	100	812643 QR8
	2/1/2023	5.00	6,360,000	7/15/2021	100	812643 QS6
	2/1/2024	5.00	6,685,000	7/15/2021	100	812643 QT4
	2/1/2025	5.00	7,025,000	7/15/2021	100	812643 QU1
	2/1/2026	5.00	7,385,000	7/15/2021	100	812643 QV9
Total			<u>\$ 33,500,000</u>			

## SECURITY FOR THE BONDS

### Outstanding Parity Bonds

The Bonds are being issued on a parity basis with the Outstanding Parity Bonds, which currently include 21 series of bonds issued since 2010. See “Department Financial Information—Debt Service Requirements.”

#### OUTSTANDING PARITY BONDS

Series	Original Par Amount	Outstanding Principal as of 6/21/2021
2010A	\$ 181,625,000	\$ 177,055,000
2010C	13,275,000	13,275,000
2011A <sup>(1)</sup>	296,315,000	33,500,000
2011B	10,000,000	10,000,000
2012A	293,280,000	144,725,000
2012C	43,000,000	43,000,000
2013	190,755,000	118,340,000
2014	265,210,000	184,975,000
2015A	171,850,000	137,690,000
2016A	31,870,000	31,870,000
2016B	116,875,000	94,220,000
2016C	160,815,000	151,625,000
2017C	385,530,000	371,985,000
2018A	263,755,000	250,760,000
2018B-1 <sup>(2)</sup>	50,135,000	50,135,000
2018B-2 <sup>(2)</sup>	50,135,000	50,135,000
2018C-1 <sup>(2)</sup>	49,245,000	45,940,000
2018C-2 <sup>(2)</sup>	49,245,000	45,940,000
2019A	210,540,000	203,770,000
2019B	140,275,000	118,480,000
2020A	198,305,000	198,305,000
Total	<u>\$3,172,035,000</u>	<u>\$ 2,475,725,000</u>

(1) The Refunding Candidates, expected to be refunded and redeemed on the issue date of the Bonds with a portion of the proceeds of the Bonds.

(2) Issued as multimodal variable rate bonds.

### Pledge of Revenue

The Bonds are issued as Parity Bonds and are a special limited obligation of the City, payable from and secured solely by Gross Revenues of the Light System available after payment of Operating and Maintenance Expense (“Net Revenue”) and by money in the Parity Bond Fund and the Municipal Light and Power Bond Reserve Fund (the “Reserve Fund”). The pledge of Net Revenue to pay and secure the Parity Bonds constitutes a lien and charge upon such Net Revenue prior and superior to all other charges whatsoever. The payments that the City has pledged to pay into the Parity Bond Fund consist of amounts sufficient to pay the Parity Bonds (including principal, sinking fund redemption, redemption premium (if any), and interest) and required payments under Parity Reimbursement Obligations (if any) as such payments become due. The City has additionally pledged to make payments into the Reserve Fund sufficient to satisfy the Reserve Fund Requirement. See “—Reserve Fund and Reserve Fund Requirement” below. The Bonds are issued on a parity with the Outstanding Parity Bonds and all Future Parity Bonds (which term includes Parity Payment Agreements), without regard to date of issuance or authorization and without

preference or priority of right or lien with respect to participation of special funds in amounts from Net Revenue for payment thereof.

State law provides that the owner of a bond such as the Parity Bonds, the payment of which is pledged from a special fund, has a claim only against that fund and proportionate amounts of revenue pledged to that fund. Under State law, any bond owner may bring an action to compel a city to set aside and pay into the special fund, such as the Parity Bond Fund, the amount that a city is obligated to set aside and pay therein.

The Bond Ordinance defines “Net Revenue” for any period as Gross Revenues less Operating and Maintenance Expense. “Gross Revenues” include (i) all income, revenues, receipts, and profits derived by the City through the ownership and operation of the Light System, (ii) the proceeds received by the City directly or indirectly from the sale, lease, or other disposition of any of the properties, rights, or facilities of the Light System, (iii) Payment Agreement Receipts to the extent that such receipts are not offset by Payment Agreement Payments, and (iv) the investment income earned on money held in any fund or account of the City, including any bond redemption funds and the accounts therein, in connection with the ownership and operation of the Light System. Gross Revenues do not include (i) insurance proceeds compensating the City for the loss of a capital asset, (ii) income derived from investments irrevocably pledged to the payment of any defeased bonds payable from Gross Revenues, (iii) investment income earned on money in any fund or account created or maintained solely for the purpose of complying with the arbitrage rebate provisions of the Internal Revenue Code of 1986, as amended (the “Code”), (iv) any gifts, grants, donations, or other funds received by the City from any State or federal agency or other person if such gifts, grants, donations, or other funds are the subject of any limitation or reservation imposed by the donor or grantor or imposed by law or administrative regulation to which the donor or grantor is subject, limiting the application of such funds in a manner inconsistent with the application of Gross Revenues under the Bond Ordinance, (v) the proceeds of any borrowing for capital improvements (or the refinancing thereof), and (vi) the proceeds of any liability or other insurance (excluding business interruption insurance or other insurance of like nature insuring against the loss of revenues).

“Operating and Maintenance Expense” is defined in the Bond Ordinance to include all reasonable charges incurred by the City in causing the Light System to be operated and maintained in good repair, working order, and condition, including but not limited to all operating expenses under applicable generally accepted accounting principles included in the annual audited financial statements of the Light System, except those specifically excluded. The Bond Ordinance excludes from the definition of Operating and Maintenance Expense (i) extraordinary, nonrecurring expenses of the Light System or any judgments or amounts to be paid in settlement of claims against the Light System, (ii) non-cash expenses relating to a mark-to-market treatment of energy-related contracts, (iii) any costs or expenses (including interest expense) for new construction, replacements, or renewals of Light System property, (iv) Deferred Hydroelectric Project Relicensing Costs, the High Ross Capital Payments, or other similar payments under any agreement for the development or licensing of a capital improvement or asset, under which agreement the City agrees to make periodic payments in respect of its share of the capital expense, (v) any allowance for depreciation, amortization, or similar recognitions of non-cash expense items made for accounting purposes only (including non-cash pension expense), (vi) any taxes levied by or paid to the City (or payments in lieu of taxes) upon the properties or earnings of the Light System, or (vii) any obligation authorized pursuant to ordinance or resolution specifically excluding the payment of such obligation from Operating and Maintenance Expense. Certain contingent payment obligations that are unrelated to debt obligations (such as power purchase agreements or commodity derivative instruments) are permitted to be treated as Operating and Maintenance Expense. See “Power Resources and Cost of Power—Wholesale Energy Risk Management” and “Various Factors Affecting the Electric Utility Industry—Contingent Payment Obligations Unrelated to Debt Obligations.”

The complete definitions of the capitalized terms summarized above can be found in Appendix A—New Money Ordinance—Section 1.

The Bonds are not secured by a security interest in any physical plant or facility.

*The Bonds do not constitute general obligations of the City, the State, or any political subdivision of the State, or a charge upon any general fund or upon any money or other property of the City, the State, or any political subdivision of the State not specifically pledged thereto by the Bond Ordinance. Neither the full faith and credit nor the taxing*

*power of the City, nor any revenues of the City derived from sources other than the Light System, are pledged to the payment of the Bonds.*

### **Priority Expenditure of Gross Revenue; Flow of Funds**

The City has covenanted in the Bond Ordinance that all Gross Revenues are to be deposited as received in the Light Fund and used for the following purposes only, in the following order of priority:

- (i) To pay the Operating and Maintenance Expense of the Light System;
- (ii) To make all payments into the Parity Bond Fund required to be made in order to pay the interest on and principal of all Parity Bonds, including all Parity Bond Sinking Fund Requirements and all net payments under Parity Payment Agreements, and to make all payments (if any) required to be made in respect of Parity Reimbursement Obligations, when due;
- (iii) To make all payments required to be made (if any) into the Reserve Fund necessary to satisfy the Reserve Fund Requirement, to make all payments (if any) required to be made under Section 15(c)(i)(B) into a special account within the Light Fund for the replacement of an Alternate Reserve Security as to which the City has received a notice of cancellation, and to pay any reimbursement obligations under any Alternate Reserve Security;
- (iv) To make all payments required to be made (if any) in respect of Intermediate Lien Reimbursement Obligations;
- (v) To make all payments into the Junior Lien Debt Service Fund required to be made in order to pay the interest on and principal of all Junior Lien Bonds, including all net payments under Junior Lien Payment Agreements and all Junior Lien Reimbursement Obligations, when due;
- (vi) To make all required payments into any revenue bond redemption fund created to pay and secure the payment of the principal of and interest on any revenue bonds or short-term obligations of the City having a charge and lien upon Net Revenue subordinate to the lien thereon for the payment of the principal of and interest on the Parity Bonds and the Junior Lien Bonds; and
- (vii) Without priority, for any of the following purposes: to retire by redemption or purchase any outstanding revenue bonds or revenue obligations of the Light System; to make necessary additions, betterments, repairs, extensions, and replacements of the Light System; to pay City taxes or other payments in lieu of taxes payable from Gross Revenues; to make deposits to the Rate Stabilization Account; or for any other lawful Light System purpose.

See “—Parity Payment Agreements” and “—Subordinate Obligations” below.

### **Rate Covenant**

In the Bond Ordinance, the City has covenanted, among other things, to establish from time to time and maintain such rates for electric energy as will maintain the Light System in sound financial condition and provide sufficient revenues to pay all Operating and Maintenance Expense, to pay into the Parity Bond Fund the amounts that are required by the Bond Ordinance to be applied to the payment of the principal of and interest on the Parity Bonds (which term includes Parity Payment Agreements, if any) until the Parity Bonds have been paid in full, and to pay all bonds, warrants, and indebtedness for which any revenues of the Light System have been pledged.

The Bond Ordinance does not include a requirement that the City set rates to achieve a specific level of debt service coverage on Parity Bonds over and above the debt service requirements. See Appendix A—New Money Ordinance—Section 17(a)(ii). A coverage test is included as part of the test for issuing Future Parity Bonds. See “Department Financial Information—Financial Policies” and Appendix A—New Money Ordinance—Section 18(a)(ii).

### **Reserve Fund and Reserve Fund Requirement**

The City has created and is required to maintain the Reserve Fund for the purpose of securing the payment of the principal of and interest on the Parity Bonds (including all net payments due under any Parity Payment Agreements, if any). The Reserve Fund is a pooled reserve. See Appendix A—New Money Ordinance—Section 15.

So long as any Parity Bonds (including any Parity Payment Agreements) are outstanding, the City has covenanted to set aside and pay out of Net Revenue, into the Reserve Fund, an amount necessary to provide for the Reserve Fund Requirement within the time and manner required by the Bond Ordinance.

The Bond Ordinance provides that, if the amount in the Reserve Fund is less than the Reserve Fund Requirement (taking into account the method of funding over five years in connection with the issuance of Future Parity Bonds), the City must transfer to the Reserve Fund money in an amount sufficient to restore the Reserve Fund to the Reserve Fund Requirement within 12 months after the date of such deficiency. The City will transfer such money first from Net Revenue and only thereafter from money in any construction fund or account established with respect to any issue of Parity Bonds, first taking money from the unrestricted portion thereof, then taking money from the restricted portion thereof). If the amount in the Reserve Fund is greater than the Reserve Fund Requirement, then and only then may the City withdraw such excess from the Reserve Fund and deposit such excess in the Light Fund.

The Reserve Fund is held by the City in a “special fund” as that term is used in State law; it is not held by an independent trustee. In the context of bankruptcy proceedings, notwithstanding State law, there can be no assurance that the funds on deposit therein would be held intact for the benefit of holders of the Parity Bonds.

*Reserve Fund Requirement.* Under the Bond Ordinance, the aggregate Reserve Fund Requirement for all Parity Bonds is equal to the sum of the Reserve Fund Requirements for each issue of Parity Bonds outstanding. The Bond Ordinance permits the City to establish the Reserve Fund Requirement (which may be \$0) for each issue of Parity Bonds, including the Bonds, and any Future Parity Bonds in connection with approving the sale of each such issue. Solely for purposes of setting the Reserve Fund Requirement, all series issued pursuant to a common set of Bond Sale Terms are treated as a single “issue.”

The Pricing Certificate for the Bonds establishes the Reserve Fund Requirement for the Bonds as an amount equal to the additional amount necessary at the time of issuance to achieve an overall level of funding for the Reserve Fund that is equal to the maximum amount permitted by the Code as a “reasonably required reserve or replacement fund” for the Outstanding Parity Bonds. The incremental amount necessary to meet this requirement as to the Bonds will be calculated based on the debt service requirements for all Parity Bonds that are outstanding as of the Issue Date for the Bonds. Upon the expiration or termination of the Surety Bond, defined below (see “—Method of Satisfying Reserve Fund Requirement” and “—Information Regarding the Surety Bond” below), the Reserve Fund Requirement will be recalculated to exclude the debt service requirements of the multimodal variable rate 2018B-1, 2018B-2, 2018C-1, and 2018C-2 Bonds and any other issue of Future Parity Bonds that is excluded pursuant to the documents authorizing such Future Parity Bonds.

The City currently has an Alternate Reserve Security in the form of a surety bond (the “Surety Bond”) purchased from Financial Security Assurance, Inc. See “—Method of Satisfying the Reserve Fund Requirement” and “—Information Regarding the Surety Bond” below. Upon the expiration or termination of the Surety Bond (currently scheduled for August 1, 2029), the incremental Reserve Fund Requirements for the 2018B-1, 2018B-2, 2018C-1, and 2018C-2 Bonds, if outstanding at that time, will be reduced to \$0, resulting in a reduction in the aggregate Reserve Fund Requirement for all Parity Bonds secured by the Reserve Fund. Nonetheless, all Parity Bonds then outstanding (including any series of Parity Bonds for which the incremental Reserve Fund Requirement has been set at \$0, such as the Bonds) will remain secured by the Reserve Fund, despite any resulting reduction in the overall amount of the Reserve Fund Requirement.

*Method of Satisfying Reserve Fund Requirement.* The Bond Ordinance delegates to the Director of Finance the authority to determine in the Pricing Certificate the method of funding the Reserve Fund Requirement for each issue of the Bonds and for Future Parity Bonds from among the following methods: (i) depositing an amount equal to the Reserve Fund Requirement for that issue of Future Parity Bonds into the Reserve Fund at one time on the Issue Date, (ii) making periodic deposits of Net Revenue (or other legally available funds) so that by five years from the date of such Future Parity Bonds, there will have been paid into the Reserve Fund an amount which, together with the money already on deposit therein, will be at least equal to the Reserve Fund Requirement for all Parity Bonds outstanding at the end of that five-year period, or (iii) by obtaining one or more Alternate Reserve Securities for specific amounts required to be paid into the Reserve Fund sufficient to satisfy the incremental additional Reserve Fund Requirement.



Under the Bond Ordinance, a surety bond qualifies as an Alternate Reserve Security for purposes of satisfying the Reserve Fund Requirement if the provider's ratings are in one of the top two rating categories at the time the policy is issued. See Appendix A—New Money Ordinance—Section 1. The Bond Ordinance does not require that the Reserve Fund be funded with cash or an Alternate Reserve Security if the provider of qualified insurance is subsequently downgraded. See “—Information Regarding the Surety Bond.”

The City currently uses an Alternate Reserve Security in the form of a Surety Bond with a policy limit (the “Policy Limit”) that is currently \$71,527,073 to satisfy a large proportion of the aggregate Reserve Fund Requirement. See “—Information Regarding the Surety Bond.” As of April 30, 2021, the remainder of the Reserve Fund Requirement was satisfied by \$154,570,000 in cash held in the Reserve Fund.

As of the Issue Date of the Bonds, the aggregate Reserve Fund Requirement will be equal to approximately \$164.6 million<sup>(1)</sup>, which will be satisfied by the cash already on deposit and the Policy Limit of the Surety Bond.

*Information Regarding the Surety Bond.* The Surety Bond was issued by FSA in 2005; FSA was acquired by Assured Guaranty Corporation in 2009. In 2009, Assured Guaranty Corporation changed the name of its FSA subsidiary to Assured Guaranty Municipal Corporation (“AGM”).

The Surety Bond secures all Parity Bonds and Future Parity Bonds (including Parity Payment Agreements) and expires on August 1, 2029. The City holds approximately \$60,000,000 in additional cash, apart from the amounts deposited in satisfaction of the Reserve Fund Requirement, that is intended to be used to satisfy the Reserve Fund Requirement upon the expiration or termination of the Surety Bond, as discussed above under “—Reserve Fund Requirement.”

Whenever the aggregate Reserve Fund Requirement is reduced, the Policy Limit is reduced irrevocably by a like amount. See “—Method of Satisfying Reserve Fund Requirement.” The Policy Limit would also be reduced temporarily to the extent of any draw on the Surety Bond. In that event, the Policy Limit would be reinstated (up to the limit in effect prior to the draw) upon reimbursement in accordance with the terms of the City's reimbursement agreement with AGM. The City's reimbursement obligation is subordinate to the City's obligation to pay the principal of and interest on the Parity Bonds.

As of the date hereof, AGM is rated A2 and AA by Moody's Investors Service and S&P Global Ratings, respectively. AGM is subject to the informational requirements of the Exchange Act and in accordance therewith files reports, proxy statements, and other information with the U.S. Securities and Exchange Commission (“SEC”). Certain SEC filings of AGM are available on the company's website, [www.assuredguaranty.com](http://www.assuredguaranty.com). Such reports, proxy statements, and other information may also be inspected and copied at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549.

### **Future Parity Bonds**

The City has reserved the right to issue Future Parity Bonds (which term includes Parity Payment Agreements) for any lawful purpose of the City's Light System if the following Parity Conditions are met and complied with as of the issue date of such Future Parity Bonds, or as of the effective date of the Parity Payment Agreement, as appropriate:

- (i) No deficiency may then exist in the Parity Bond Fund or in any of the accounts therein; and
- (ii) Provision must be made to satisfy the Reserve Fund Requirement for all Parity Bonds then outstanding plus any additional amount required in connection with issuance and sale of the proposed Future Parity Bonds (if any) in accordance with the Bond Ordinance; and
- (iii) There must be on file with the City a Parity Certificate, as described below. However, if the proposed Future Parity Bonds (or any portion thereof) are to be issued for the purpose of refunding Outstanding Parity Bonds and the Annual Debt Service on the refunding portion of the proposed Future Parity Bonds is not more than \$5,000 greater than the Annual Debt Service on the Parity Bonds to be refunded thereby, then no Parity Certificate is required as to that portion issued for refunding purposes. If the requirements of the preceding sentence are not satisfied, Refunding Parity Bonds may alternatively be issued upon delivery of a Parity Certificate.

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(1) Preliminary, subject to change.

A Parity Certificate (if required) may be provided by either the Director of Finance or by a Professional Utility Consultant, as follows:

- (i) A Parity Certificate may be prepared by the Director of Finance, demonstrating that the amount of Adjusted Net Revenue in any 12 consecutive months out of the most recent 24 months preceding the delivery of the proposed series of Future Parity Bonds (the “Base Period”) was not less than 125% of Maximum Annual Debt Service in any future calendar year on all Parity Bonds then outstanding and the proposed series of Future Parity Bonds. For the purposes of a Parity Certificate delivered under this provision, the Director of Finance may further adjust Adjusted Net Revenue as described in the Bond Ordinance.
- (ii) A Parity Certificate may be prepared by a Professional Utility Consultant, demonstrating that the amount of the Adjusted Net Revenue in any 12 consecutive months out of the most recent 24 months preceding the delivery of the proposed series of Future Parity Bonds (the “Base Period”) is not less than 125% of the amount of Maximum Annual Debt Service on all Parity Bonds and the proposed Future Parity Bonds in any future calendar year on all Parity Bonds then outstanding and the proposed series of Parity Bonds. For the purposes of a certificate delivered under this provision, Adjusted Net Revenue may be further adjusted by the Professional Utility Consultant as described in the Bond Ordinance.

See Appendix A—New Money Ordinance—Section 18(a).

The Bond Ordinance defines “Adjusted Net Revenue” as Net Revenue, less any deposits into the Rate Stabilization Account (“RSA”) and plus any withdrawals from the RSA. See the discussion of the RSA under “Security for the Bonds—Rate Stabilization Account,” “Department Financial Information—Financial Policies,” and Appendix A—New Money Ordinance—Section 19.

In calculating Net Revenue, the Parity Certificate (whether prepared by the Director of Finance or by a Professional Utility Consultant) may include the tax credit subsidy payments the City expects to receive from the federal government in respect to the interest on any tax credit subsidy bonds. See also “Other Considerations Relative to the City—Federal Policy Risk and Other Federal Funding Considerations” for a discussion of the impact of sequestration on federal interest payments for certain Department bonds.

Nothing set forth in the Bond Ordinance prevents the City from issuing Refunding Parity Bonds to refund maturing Parity Bonds of the City for the payment of which money is not otherwise available.

### **Other Covenants**

In the Bond Ordinance, the City has entered into other covenants, including those with respect to the sale or disposition of the Light System and the maintenance and operation of the Light System. See Appendix A—New Money Ordinance—Section 17.

### **Amendments**

The Bond Ordinance reserves to the City the right to amend or supplement the Bond Ordinance, in certain cases without the consent of Owners of the Bonds, and in other cases upon the written consent of Owners of certain percentages of the Outstanding Parity Bonds.

*Springing Amendments.* Ordinance 125460 included certain springing amendments that went into effect on the “Parity Covenant Date,” defined in that ordinance as the earlier of the date on which the City has obtained consents of the requisite percentage of Registered Owners of the Parity Bonds then outstanding or the date on which all of certain Outstanding Parity Bonds issued between 2008 and 2015 have been redeemed or defeased. The Parity Covenant Date has occurred and those covenants are now in effect. Subsequently, the City in 2019 adopted an additional set of springing amendments that become effective on the “Second Parity Covenant Date,” as defined in Ordinance 125987, which amended Ordinance 125460 and summarized below. Purchasers of the Bonds are deemed to have consented to these amendments, which are further described as follows.

The Second Parity Covenant Date will occur when the City has obtained the consent of the owners of at least 60% of the Outstanding Parity Bonds to these amendments. The owners of all Parity Bonds issued in 2018 or later, including the Bonds, have been deemed to have consented to this set of amendments:

- (i) Section 1: The definition of the term “Annual Debt Service” will be amended to take into account assumed debt service on variable rate bonds calculated using an assumption that the interest rate on those bonds is equal to the highest 12-month rolling average of the SIFMA Municipal Swap Index over the preceding five years. The current language requires use of a ten-year rolling average assumption using the same index.
- (ii) Section 17: The covenant to provide books and financial statements within 120 days of the end of each calendar year will be extended to 180 days.
- (iii) Section 24: Bondholder remedies in an Event of Default will be limited by provisions for a Bond Owners’ Trustee.

See Appendix A—New Money Ordinance.

### **Parity Payment Agreements**

The City may enter into Parity Payment Agreements that constitute a charge and lien on Net Revenue equal to that of the Parity Bonds. A Parity Payment Agreement is a written contract entered into in connection with an issue of Future Parity Bonds, between the City and a Qualified Counterparty, for the purpose of managing and reducing the City’s exposure to fluctuations or levels of interest rates or for other interest rate, investment, asset, or liability management purposes that provides for an exchange of payments based on interest rates, ceilings, or floors on such payments, options on such payments, or any combination thereof or any similar device. The City currently has no Parity Payment Agreements in effect.

“Parity Payment Agreement” is defined in the Bond Ordinance as a Payment Agreement which is entered into in compliance with the Parity Conditions and under which the City’s payment obligations are expressly stated to constitute a lien and charge on Net Revenue equal in rank with the lien and charge upon such Net Revenue required to be paid into the Parity Bond Fund and the Reserve Fund to pay and secure the payment of principal of and interest on Parity Bonds in accordance with the Bond Ordinance. For purposes of determining percentages of ownership of Parity Bonds under the Bond Ordinance, Parity Payment Agreements are deemed to have no principal amount, and any consent or similar rights will be determined only as set forth in the applicable Parity Payment Agreement. The Parity Conditions described above for the issuance of Future Parity Bonds also apply to the City’s incurring parity obligations under any Parity Payment Agreements. See Appendix A—New Money Ordinance—Sections 1 and 18.

### **Rate Stabilization Account**

The RSA has been created as a separate account in the Light Fund. The City may at any time deposit in the RSA Net Revenue and any other money received by the Light System and available to be used for this purpose. Thereafter, the City may withdraw any or all of the money from the RSA for inclusion in Adjusted Net Revenue for any applicable year. Such deposits or withdrawals may be made up to and including the date 90 days after the end of the applicable year for which the deposit or withdrawal will be included as Adjusted Net Revenue. As of December 31, 2020, the balance in the RSA is approximately \$96.9 million. See the discussion of the RSA and the City’s current policies under “Department Financial Information—Financial Policies—Rate Stabilization Account” and Appendix A—New Money Ordinance—Section 19. ]

### **Defaults and Remedies; No Acceleration**

Each of the following constitutes an Event of Default with respect to the Bonds:

- (i) If a default is made in the payment of the principal of (including Sinking Fund Requirements and any redemption premium thereon) or interest on any Parity Bond when the same become due and payable; or
- (ii) If the City defaults in the observance and performance of any other of the Parity Bond covenants, conditions, or agreements on the part of the City set forth in the Bond Ordinance or the applicable Parity Bond Documents (except as otherwise provided in the Bond Ordinance or in such Parity Bond Documents) and such default or defaults has continued for a period of six months (the “cure period”) after the City has received from the

registered owners of not less than 25% in principal amount of the Parity Bonds then outstanding (or from a Bond Owners' Trustee duly appointed as set forth in the Bond Ordinance) a written notice specifying and demanding the cure of such default. However, if such default is one which cannot be completely remedied within the cure period, it will not be an Event of Default with respect to the Parity Bonds, so long as the City has taken active steps within the cure period to remedy the default and is diligently pursuing such remedy.

In the event of a default, Bond owners would be permitted to pursue remedies available under State law, including the right to bring action against the City to compel the setting aside and payment of the amounts pledged to be paid into the Parity Bond Fund in respect of the then-Outstanding Parity Bonds.

Nothing contained in the Bond Ordinance will, in any event or under any circumstance, be deemed to authorize the acceleration of the maturity of principal on the Bonds, and the remedy of acceleration is expressly denied to the registered owners of the Bonds under any circumstances including, without limitation, upon the occurrence and continuance of an Event of Default. The City is liable for principal and interest payments only as they become due. In the event of multiple defaults in payment of principal or interest on the Parity Bonds, the registered owners would be required to bring a separate action for each such payment not made. This could give rise to a difference in interests between registered owners of earlier and later maturing Parity Bonds. In addition, owners of variable rate Parity Bonds may have additional events of default, rights, and remedies under direct purchase or continuing covenant agreements that are not granted to Owners of the Bonds. See "Department Financial Information—Outstanding Variable Rate Parity Bonds."

Upon the Second Parity Covenant Date, bondholders' remedies will be limited as set forth in the springing amendments set forth in Section 24 of the Bond Ordinance. See "—Amendments—Springing Amendments" above and Appendix A—New Money Ordinance.

### **Subordinate Lien Obligations**

*Junior Lien Bonds.* In the Bond Ordinance, the City has established a Junior Lien position and has reserved the right to issue Junior Lien Bonds (which term includes Junior Lien Payment Agreements and Junior Lien Reimbursement Obligations) or other obligations with a charge or lien upon the Net Revenue subordinate to the payments required to be made from Net Revenue into the Parity Bond Fund and the accounts therein.

There are no currently outstanding Junior Lien Bonds. The City may in the future issue Future Junior Lien Bonds in accordance with a Junior Lien Additional Bonds Test, which would be junior to the Parity Bonds, but prior and superior to all other liens and charges. See Appendix A—New Money Ordinance—Section 18(b). Junior Lien Bonds may not be subject to acceleration. See Appendix A—New Money Ordinance—Section 24(b) and (d).

The Bond Ordinance authorizes the Director of Finance to designate some or all of the total par amount authorized as Junior Lien Bonds. In the Pricing Certificate, all of the Bonds have been designated as Parity Bonds and the City does not intend to issue any of the total par amount of bonds authorized by the Bond Ordinance as Junior Lien Bonds.

*Interfund Loans.* The City is also authorized to make interfund loans to the Department for Department purposes from the City's common investment portfolio. See "Department Financial Information—City Investment Pool." Repayment by the Department of such interfund loans would be subordinate to any Outstanding Parity Bonds and Junior Lien Bonds.

*Other Subordinate Lien Obligations.* Nothing set forth in the Bond Ordinance prevents the City from issuing revenue bonds or other obligations that are a charge upon the Net Revenue junior and inferior to the payments required to be made therefrom into the Parity Bond Fund for the payment of the Parity Bonds and subordinate to payments that may be made on Junior Lien Bonds in the future, provided that such subordinate bonds may not be subject to acceleration under any circumstances.

## SEATTLE CITY LIGHT DEPARTMENT

### Introduction

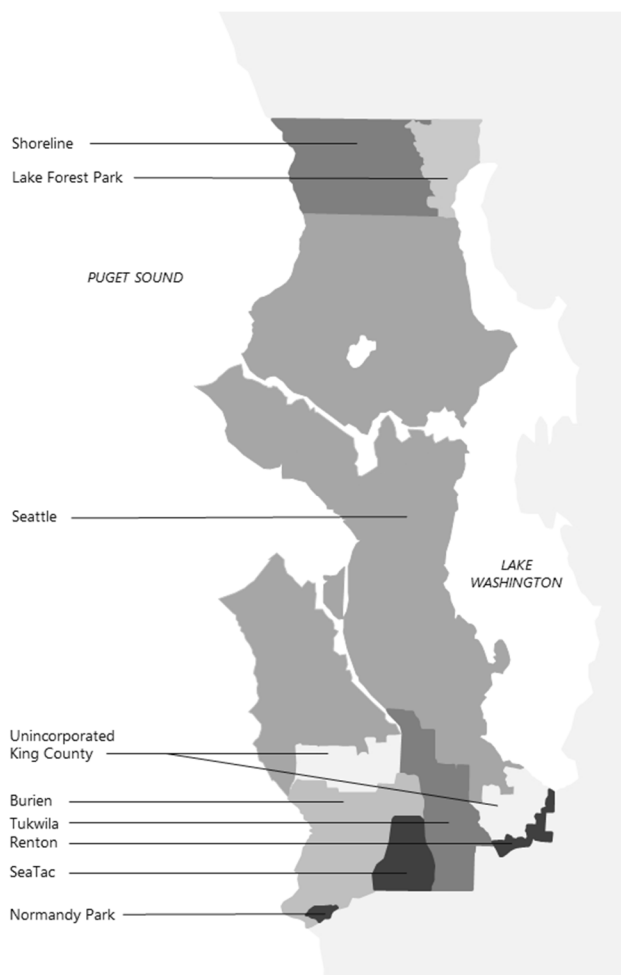
The Department is a municipally-owned electric utility. In 1905, the City began providing its customers with electricity generated by the Cedar Falls Hydroelectric Plant (the “Cedar Falls Project”), which was the first such municipally-owned facility in the nation. By 1910, operational responsibility for the City’s electric system had been assigned to the Department. In 1951, the Department purchased from Puget Sound Power and Light Company certain generation, transmission, and distribution facilities serving the City’s residents. The Department has operated without competition as the sole retail electricity provider in its service area since the 1951 purchase.

### Service Area

The Department’s 131-square-mile service area, depicted in the map in Figure 1, consists of all territory within the City plus areas extending three to four miles north and south of the City limits. The growth of the Department’s electric load since 1951 has resulted exclusively from development within the service area. The population of the Department’s service area is approximately 955,000.

Sales to customers located outside the City’s boundaries but within the service area represent approximately 16% of retail power sales. See “Department Financial Information—Retail Rates—Rates for Customers Outside the City of Seattle.”

FIGURE 1: SEATTLE CITY LIGHT DEPARTMENT’S SERVICE AREA MAP



Source: Seattle City Light Department, Financial Planning Unit

## Management

The Department is a department of the City and is subject to ordinances and resolutions adopted by the City Council and approved by the Mayor. The Mayor and City Council approve the Department's budget, set rates, and approve debt issuance, along with other functions set forth in the City Charter. The Department is under the direction of a General Manager and Chief Executive Officer, who is appointed by the Mayor and confirmed by the City Council, subject to reconfirmation every four years.

City of Seattle Ordinance 123256 created the City Light Review Panel (the "Review Panel") as an advisory board and specified the professions and qualifications that the members of the Review Panel should have. One is to be an economist, preferably with a background in energy economics or commodity risk management. Another is to be a financial analyst, preferably with a background in financing large capital projects. Five are to represent the Department's customer groups: residential, commercial, industrial, suburban franchise, and low income. These representatives should have knowledge and experience in areas such as the electricity industry, financial planning and budgeting, and navigating City government.

The Mayor and City Council appoint members of the Review Panel, and the term of appointment is generally three years. The Review Panel is charged with reviewing, assessing, and providing feedback on the Department's Strategic Plan (see "—Strategic Plan"), financial policies, cost allocation, rate design, operational efficiency and other issues requested by the Mayor or City Council, or that the Review Panel believes the Mayor and City Council should consider.

The Department consists of seven operating units: Facilities and Oversight Services; Financial Services; Transmission and Distribution Operations, Generation, and Engineering; Environment, Land and Licensing; Energy Innovation and Resources; People and Culture; and Customer Care and Energy Solutions.

Brief descriptions of the backgrounds of certain key officials of the Department are provided below:

*Debra Smith, General Manager and Chief Executive Officer*, joined the Department in October 2018. Prior to joining the Department, she served as CEO and General Manager of the Central Lincoln People's Utility District, which provides electricity on Oregon's central coast, since 2013. She previously spent more than 17 years in various roles, including Assistant General Manager and Chief Financial Officer, at the Eugene Water and Electric Board, another public utility in Oregon. Ms. Smith holds a bachelor's degree in Finance from Arizona State University.

*Jen Chan, Chief of Staff*, joined the General Manager's Office in May 2019. Prior to joining the Department, she was with the City of Seattle for more than 20 years in multiple leadership roles on policy, programming, financial, and operational issues ranging from public safety, human services, public health, capital projects, public/private partnerships, and organizational change management. In addition, she served as the founding Associate Director of Operations for a start-up organization aimed at closing the academic achievement gap across the region. Ms. Chan holds a Bachelor of Arts from Tufts University and a master's degree in Social Work from the University of Washington.

*Michael Haynes, P.E., Assistant General Manager*, was appointed to this position in June 2021 and has responsibility for all utility environment, generation, and technical services functions.. He joined the Department in 2000 and previously held the titles of Chief Operating Officer, Power Supply Officer, Energy Generation Operations and Engineering Officer, and Director of Power Production. He has an extensive background in hydroelectric power generation and engineering. Prior to joining the Department, he served in program management and engineering roles at HDR, Inc. and Puget Sound Energy. Mr. Haynes holds a bachelor's degree in Mechanical Engineering from Seattle University.

*James Baggs, Facilities and Oversight Services Officer*, joined the Department in 2011 as Chief Compliance Officer. Since that time, he has also served as the Interim General Manager and Chief Executive Officer, the Customer Service, Communications, and Regulatory Affairs Officer, and the Interim Power Supply and Environmental Affairs Officer. Prior to joining the Department, he was the Director of Regulatory Compliance at Idaho Power Company, where he also held a variety of positions including Manager of Rates and Contracts, General Manager of Customer Service and Metering, General Manager of Regional Operations, and General Manager of Grid Operations and Planning. Mr.

Baggs holds a bachelor's degree in Economics from the University of Colorado and a master's degree in Agricultural and Natural Resource Economics from the University of Arizona.

*Kirsty Grainger, Chief Financial Officer*, has been with the Department since 2007, serving in various roles in Corporate Performance and Finance. Before joining the Department, she worked at Puget Sound Energy and at pharmaceutical company Eli Lilly. Ms. Grainger holds a bachelor's degree in Mathematics from Whitman College and master's degree in Engineering-Economic Systems and Operations Research (now Management Science and Engineering) from Stanford University.

*Michelle Vargo, Chief Operating Officer*, was appointed to this position in June 2021 and has responsibility for all Transmission and Distribution Operations and the System Operations Center. She has been with the utility since 2013 and previously held the titles of Civil, Structural, and Mechanical Engineering Manager, Interim Power Production Director, Network, Substations, and Technical Services Director, and Deputy Chief Operating Officer. She is currently the executive cosponsor of the Department's Service to Bill Program. Prior to joining the Department, she worked for five years with an international cryogenics and industrial gases company as the LNG Technology and Market Development Manager and Midwest Account Manager, and various Engineering Officer positions in the United States Army, with two tours to Operations Iraqi Freedom. Ms. Vargo is a graduate of the United States Military Academy with a bachelor's degree in Civil Engineering and earned a Master of Business Administration from the University of Chicago.

*Emeka Anyanwu, Energy Innovation and Resources Officer*, joined the Department in 2018. He assumed his current role as part of the Department's reorganization in April 2019, after previously serving as Engineering and Technology Innovation Officer. Prior to joining the Department, he spent 16 years at Kansas City Power & Light Company in various roles in leadership and transmission and distribution operations. Mr. Anyanwu has a B.S. in Electrical Engineering from Iowa State University and a Master of Business Administration from Rockhurst University.

*DaVonna Johnson, People and Culture Officer*, joined the Department in 2004 and was appointed to her current position in 2009. Prior to her appointment to this position, she served as the Talent Acquisition and Development Manager in Human Resources. Before joining the Department, she worked for the City for five years and has worked in both the public and private sectors. Ms. Johnson has bachelor's and master's degrees in Business Administration from Washington State University.

*Craig Smith, Chief Customer Officer*, joined the Department in 2014 as Conservation Resources Director. He has more than 40 years of experience with the electric utility industry, including serving three years as the CEO of Richard Heath and Associates and six years as Assistant General Manager of Snohomish County Public Utility District. Mr. Smith received a bachelor's degree in Urban Planning from Antioch College.

### **Department Employment and Labor Relations**

As of March 2021, the Department had approximately 1,800 authorized full-time equivalent positions. Department employees participate in the City's pension plan and other post-employment retirement benefits. See "The City of Seattle—Pension Plans" and "—Other Post-Employment Benefits," and Appendix C—2020 Audited Financial Statements of the Department—Notes 13 and 14.

State law requires municipal agencies to bargain in good faith with the recognized bargaining agents. Approximately 86% of the Department's regular full-time employees are represented by labor unions. Most of the Department's 15 labor unions are part of the Coalition of City Unions (the "Coalition").

The collective bargaining agreement with the IBEW Local 77 bargaining unit that is specific to the Department expired on January 22, 2021, and has been opened for the purposes of negotiations, which are now ongoing. The collective bargaining agreements for the Coalition and AFSCME, the exclusive bargaining agent for the Department's managers, strategic advisors, and some supervisors, expires on December 31, 2021. The Department's union contracts are negotiated City-wide through the Department of Human Resources. See "The City of Seattle—Labor Relations."

Currently, 29% of the Department's workforce is eligible to retire. The Department currently has workforce development programs in place to reduce its attrition risk and retain its current employees. The highest retirement

risk is in the engineering staff, followed by skilled trades. The Department currently maintains a program of 45 college student interns. The Department operates its own apprenticeship program to ensure that it has high voltage workers available to meet the Department's needs. Currently 80% of the existing skilled trade workers were trained through the Department's apprenticeship program.

### **COVID-19 Pandemic**

On February 29, 2020, State Governor proclaimed a State of Emergency in response to the COVID-19 outbreak and confirmed person-to-person spread. Beginning March 11, 2020, the Governor began to close schools and businesses in select counties, culminating in a State-wide "Stay Home, Stay Healthy" order on March 24, 2020, requiring every Washingtonian to stay home unless pursuing an essential activity, banning all gatherings for social, spiritual, and recreational purposes, and closing all businesses except essential businesses.

On May 29, 2020, the Governor issued a four-phased county-by-county-based "Safe Start" reopening plan for resuming recreational, social, and business activities. On July 7, 2020, in response to rising infection numbers, the Governor and the Secretary of Health paused reopening, extending the Safe Start plan. On January 11, 2021, the Governor announced a revised COVID-19 recovery plan called "Healthy Washington," which allows for a staged resumption of recreational, social, and business activities when regions demonstrate decreasing trends in COVID-19 cases per hundred thousand population; decreasing trends in new COVID-19 hospital admission rates per hundred thousand population; intensive care unit occupancy of less than 90%; and COVID-19 test positivity rate of less than 10%. Under this most recent plan, a county may move into a new phase (forward or backwards) depending upon whether these metrics meet State Department of Health criteria. Effective March 22, 2021, the City and the State moved to Phase 3 of the State's Healthy Washington—Roadmap to Recovery plan. Phase 3 allows for indoor activities, including dining, event spaces, and more, at certain capacity levels. On May 13, 2021, the Governor announced that the State is moving toward a State-wide June 30, 2021, reopening date, and that full reopening could happen earlier than June 30 if 70% or more of Washingtonians over the age of 16 initiate vaccination. The State Department of Health has begun distributing COVID-19 vaccines under emergency use approvals according to the State allocation and priority plan. The plan began in December 2020 and opened to anyone 16 and older on April 15, 2021, and to anyone 12 and older on May 13, 2021.

*Department Responses and Impacts.* On March 4, 2020, the Department launched an Incident Management Team ("IMT") to effectively communicate the Department's response to COVID-19 with employees, customers, and business partners; to implement a plan to minimize the transmission of the virus among the workforce, families, customers, and business partners; and to deliver a staffing plan to support essential department operations, including restriction of critical locations such as operations centers and generation facilities, suspension of in-person meetings, and required telework for a majority of non-field positions. The Department maintained essential power production and delivery operations through the first half of 2020 and largely resumed business as usual operations—with COVID-19 safety protocols—in June 2020.

On March 9, 2020, the Mayor of the City issued Executive Order 2020-03, directing the Department, for the duration of the emergency, to:

- (i) allow extended payment arrangements for residential and commercial customers who cannot pay their bills on time;
- (ii) waive the current 1% late fee on past due balances;
- (iii) discontinue shut-off due to non-payment for customers who establish payment plans; and
- (iv) expedite enrollment of all qualifying low-income households into the City's Utility Discount Program ("UDP").

As of May 31, 2021, the Department continues to follow this Executive Order.

The Department experienced a sharp increase in overdue receivables at the beginning of the pandemic. Between January 2020 and May 2020, overdue receivables grew by approximately \$20 million, then remained relatively constant throughout the remainder of year, suggesting customers fell behind one or two bills and then resumed paying for service. As of May 2021, approximately 60,000 commercial and residential customers (12%) are more than



30 days past due. See “Department Financial Information—Billing and Collection Processes.” The increase in receivables was accounted for in the Allowance for Doubtful Accounts and included as part of expense for 2020 expense in the Department’s audited financial statements. Reductions in 2020 spending largely mitigated the impact of the foregone revenue.

In order to mitigate the impacts of the COVID-19 pandemic, the U.S. Treasury allocated \$25 billion in Emergency Rental Assistance funding in December 2020, of which the City received \$22.7 million. The Department received \$1.0 million of the City’s allocation to provide assistance to customers who have outstanding balances on their utility bills and are eligible for current emergency assistance programs.

As the COVID-19 pandemic unfolded in early 2020, the Department convened teams to create 17 project charters to be prepared for future federal, State, and other funding opportunities that might emerge in response to the crisis. The portfolio of charters was focused on project concepts that would realize the City’s vision of creating a clean energy delivery system. This early work has already led to several funding awards. With a significant Infrastructure Bill expected to pass by August 2021, the Department will be ready to assess and identify opportunities, apply for grants, and plan for project implementation. This portfolio of projects represents a significant ability on the part of the Department to leverage stimulus funding to augment and accelerate progress around grid modernization, electrification, and workforce development.

See “Department Financial Information—Billing and Collection Processes” and “—Management Discussion of Historical Operating Results 2016-2020.”

*COVID-19 Pandemic Procedures.* The Department continues to follow public health guidance around daily health screening procedures, temperature checks, and social distancing, and provides appropriate personal protective equipment, including facial coverings. In addition, disinfection procedures for frontline work (tools, vehicles, radios, cell phones), modified reporting locations, staggered start-times, and altered vehicle policies have been implemented. Resources and information about local and State-wide vaccine availability are regularly provided to employees. The Department continues to partner with the City as it explores opportunities to connect eligible employees to vaccines, prioritizing those employees who are reporting to work on-site at least three days per week.

Currently, most employees who are in roles that do not require an on-site presence continue to telework and will do so until at least September 12, 2021. Operations staffing levels increased following the Governor’s 2020 “Stay Home, Stay Healthy” order, and remain steady within Phase 3 Reopening Guidelines. Employees at increased risk or who might be at increased risk for serious COVID-19-related illness have returned to work with or without accommodations or are permitted to use paid or unpaid leave.

On-site work is conducted within COVID-19 guidelines from the Center for Disease Control, the State Department of Health, and the Washington Department of Labor and Industries. The essential functions the Department performs continue: generating/distributing electrical power, maintaining electric utility infrastructure, performing construction work related to essential activities, making emergency repairs, preventing spoliation, avoiding damage/unsafe conditions, and continuing the electrical system’s security measures. Classifications within Operations, Power Dispatching, Power Marketing, Engineering, Safety, Facilities, Fleets, Warehouse, Meter Reading, Electrical Service Representatives, Customer Accounts, Large Projects, Cyber Security/IT, and support functions such as Payroll, Office Services, Employee Relations, Contracting and Procurement, and Accounts Payable are deemed essential. The Department has not issued furloughs and/or layoffs.

## **Strategic Plan**

The City Council adopted Resolution 31819 approving the 2019-2024 Strategic Plan on July 9, 2018. An updated Strategic Plan for 2021-2026 was nearly finalized in March 2020, then was postponed one year due to the COVID-19 pandemic. The Department recently completed a 2022-2026 Strategic Plan update, which was transmitted to City Council on May 14, 2021; approval is expected in July 2021. The updated plan builds on previous plans and identifies five business strategies: (i) Improve the Customer Experience; (ii) Create Our Energy Future; (iii) Develop Workforce and Organizational Agility; (iv) Ensure Future Financial Stewardship and Affordability; and (v) We Power Seattle (providing customers with affordable, reliable, and environmentally responsible energy services). The 2022-2026 Strategic Plan calls for rate increases averaging 3.5% per year during 2022-2026.

## **Enterprise Risk and Emergency Response**

The Department evaluates and monitors all strategic risks at the enterprise level, including:

**EMERGENCY RESPONSE.** The Department has an active Emergency Management Program that meets Federal Emergency Management Agency (“FEMA”) standards and conducts semi-annual exercises and testing of its emergency response program. The Department’s Continuity of Operations Plan defines the Department’s program to prepare for and respond to an emergency. It establishes a response organization structure (consistent with the National Incident Management System and Incident Command System structure) designed to enhance coordination with other agencies and improve outage restoration responses. An Incident Management Team, comprised of approximately 200 trained management and staff members, can be activated during any increased readiness mode and serves the function of managing the Department’s emergency response activities. The Incident Management Team is handling COVID-19-related issues for the Department during the response and recovery periods of the pandemic.

**SEISMIC RISKS.** Due to the risk of seismic activity in the Puget Sound region and the age of portions of the utility infrastructure, the Department maintains a seismic hazard assessment program for substations and facilities consistent with requirements identified in documents and standards such as the International Building Code. As upgrades and/or improvements are made to these substations and facilities, appropriate seismic mitigation features are incorporated into the infrastructure. The seismic hazard assessment also includes a method for establishing priorities within the Department’s service territory beginning with control centers, substations, and service centers. Similar attention is applied to the generation facilities as part of ongoing Federal Energy Regulatory Commission (“FERC”) licensing, inspections, and reporting obligations.

**CYBER SECURITY.** Cyber attacks continue to become more sophisticated and are increasingly capable of impacting control systems and components. The Department, working in conjunction with the Seattle Information Technology Department (“Seattle IT”), has instituted processes, training, and controls to maintain the reliability of its systems and protect against cyber threats as well as mitigate intrusions and plan for business continuity via data recovery. The City also maintains insurance with coverage for cyber security events. The policy covers all City departments, including the Department. See “The City of Seattle—Emergency Management and Preparedness—Cyber Security.”

Work plans specific to the Department are developed to address issues and recommendations to support the cyber security program. The Department’s program to protect critical infrastructure also conforms to North American Electric Reliability Corporation (“NERC”) Critical Infrastructure Protection standards. FERC/NERC standards regularly evolve and change, with Critical Infrastructure Protection standard requirements some of the most dynamic. The Department has established structured and coordinated processes to ensure Department compliance with all current and evolving standard obligations, even as new infrastructure, systems, or contractual obligations are added. See “Transmission and Distribution—Federal Regulations.”

**PHYSICAL PLANT SECURITY.** Physical attacks on critical energy infrastructure also present an increased concern to the electric utility industry. The Department’s physical security program includes extensive measures for physical protection, including on-site security officers, fences, camera systems, access control, security monitoring by the Security Monitoring Center, and extensive mobile patrol presence. The Department has developed a number of security processes in collaboration with local, regional, and federal law support and actively shares best practices with national, regional, and local electrical utility security departments.

**DISASTER RECOVERY.** The Department has formalized its information technology, business continuity, and disaster recovery program. The Department has built and currently conducts operations from an out-of-region co-located data center, and instituted various iterative processes in support of Departmental resiliency and rapid recoverability.

PROPERTY INSURANCE. City hydroelectric generation and transmission equipment and certain other utility systems and equipment are not covered by a property insurance policy. See “The City of Seattle—Risk Management.”

## POWER RESOURCES AND COST OF POWER

### Overview of Resources

The Department has three major power sources: the Boundary Hydroelectric Project (the “Boundary Project”), the Skagit Hydroelectric Project, which includes the Ross, Diablo and Gorge hydroelectric plants (the “Skagit Project”), and a long-term contract with the Bonneville Power Administration (“BPA”). Together, these three sources provide approximately 113% of the energy needed to meet the Department’s retail demand under average water conditions. Under firm water conditions, the Department’s owned and contracted resources are sufficient to meet approximately 100% of retail sales on an annual basis. Firm water conditions are defined as the lowest water conditions observed for 12 consecutive months during the period 1929 to 2008. The firm period for the Boundary Project and federal dams remarketed by BPA is 1936-1937; the firm period for the Skagit Project is 1943-1944. The Boundary Project and the Skagit Project together include four large hydroelectric facilities and, combined with three small hydroelectric facilities (the Newhalem Creek Hydroelectric Project (the “Newhalem Project”), the Cedar Falls Project, and the South Fork Tolt River Hydroelectric Project (the “South Fork Tolt Project”)), generated approximately 6.0 million megawatt hours (“MWh”) of electrical energy in 2020, which was about 47% of the Department’s total resources. Like most non-federal hydroelectric projects in the U.S., all of the Department’s hydroelectric plants except the Cedar Falls Project are licensed by FERC. See Table 1—Owned and Purchased Power Resources for 2020 and “—Department-Owned Resources—Small Hydro-Cedar Falls Project.” Output from the Department’s hydroelectric plants can vary significantly from year to year due to the variability in water conditions.

The Department and 15 other public and investor-owned utilities in the Pacific Northwest have agreed to coordinate the operation of their power generation systems through the Pacific Northwest Coordination Agreement (the “Coordination Agreement”), in order to maximize the firm capability and reliability of the coordinated system. The Coordination Agreement went into effect in 1965 and terminates in 2024. Though members are considering whether to extend the Coordination Agreement, no decisions have been made and no negotiations are currently underway.

On April 1, 2020, the Department entered the California Independent System Operator’s (“CAISO”) Western Energy Imbalance Market (“EIM”), a real-time wholesale energy trading market that supports integration of renewable resources by enabling participants to buy and sell imbalance energy in response to changes in supply and demand. The Department and the other EIM participants provide load and resource information to CAISO’s EIM platform, which automatically finds lower-priced resources to meet demand while managing congestion on transmission lines to maintain grid reliability. It will then dispatch all resources to serve all load at the lowest price, given the supply resources and available transmission.

Table 1 lists the Department’s owned and purchased power resources as of March 30, 2021, and gives estimates of output under firm and average water conditions based on historical data. Table 2 provides actual output for power resources, including exchanges and market sales and purchases, for the past five years. Table 3 provides actual payments by the Department for purchased resources. The Department does not assign individual capital or debt service allocations to Department-owned resources and, therefore, does not calculate a comprehensive cost of power for each resource. See “—Wholesale Market Sales and Purchases” for a discussion of the 2021 water year and market prices.

**TABLE 1**  
**OWNED AND PURCHASED POWER RESOURCES FOR 2020**  
**(AS OF MARCH 2021)**

	Nameplate Capacity (MW)	Energy Available Under Firm Water Conditions (MWh) <sup>(1)</sup>	Energy Available Under Average Water Conditions (MWh) <sup>(2)</sup>	Year FERC License Expires	Year Contract Expires
<b>Department-Owned Resources</b>					
Boundary Project <sup>(3)</sup>	1,118	2,674,340	4,028,691	2055	N/A
Skagit Project					
Gorge	207	698,909	1,018,924	2025	N/A
Diablo	180	583,621	880,968	2025	N/A
Ross	450	556,354	834,281	2025	N/A
Small Hydro Projects <sup>(4)</sup>	48	149,962	111,941	Varies	N/A
<b>Department's Share of Purchased Resources</b>					
BPA Block <sup>(5)</sup>		4,101,391	4,101,391	N/A	2028
Priest Rapids	6	16,552	20,976	2052	2052
CBH <sup>(6)</sup>	64	237,755	244,935	2030/2032	2022/2026
High Ross <sup>(7)</sup>	72	310,222	308,844	N/A	2066
Lucky Peak <sup>(8)</sup>	113	N/A	N/A	2030	2038
Stateline Wind Project <sup>(9)</sup>	175	N/A	344,968	N/A	2021
Small Renewables <sup>(10)</sup>	20	N/A	104,832	N/A	Various

- (1) Firm water conditions represent the lowest sequence of stream flows experienced in the Pacific Northwest over a historical period of record (1929-2008). The firm energy capability of hydroelectric resources is the amount of electrical energy produced under low water conditions, current operating constraints, generation technology, and availability. Actual water conditions would be expected to be better than firm water conditions about 95% of the time.
- (2) Figures in this column represent the average historical amount of electrical energy that would be produced over all of the water conditions in the period 1929-2008.
- (3) Amounts are net of the 48 megawatts ("MW") obligated to Public Utility District No. 1 of Pend Oreille County ("Pend Oreille PUD") under contract between the Department and Pend Oreille PUD. See "—Department-Owned Resources—Boundary Project."
- (4) Includes the Newhalem Project (FERC license expires in 2027), the Cedar Falls Project (not subject to FERC licensing requirements), and the South Fork Tolt Project (FERC license expires in 2029).
- (5) The Department does not own a fixed percentage of nameplate capacity. See "—Purchased Power Arrangements—Bonneville Power Administration." Since October 1, 2017, the Department's long-term contract power purchase from BPA has been only the Block product, which provides a fixed amount of power that varies each month. The purchase is the largest in the winter when the Department's retail requirements are highest.
- (6) Columbia Basin Hydropower ("CBH") (formerly Grand Coulee Project Hydroelectric Authority), the Department's 50% share of installed capacity of five hydroelectric plants, has varying FERC license expiration dates. The plants are part of an irrigation project and do not provide capacity in the Department's winter peak period.
- (7) The Department's contract with British Columbia provides capacity from November through March in an amount equal to 532 MW minus the actual peak capability of the Ross Plant for each week, which varies between 50 MW and 150 MW depending on water conditions.
- (8) The project is part of an irrigation project and does not provide capacity in the Department's winter peak period. In 2021, the Department has resold the output and is receiving fixed quantities of power in April, May, June, and August.
- (9) The project is not a hydroelectric project; therefore, average output is based on historic performance under the contract.
- (10) Small renewables include Columbia Ridge Landfill Gas and King County West Point Treatment Plant. See "—Purchased Power Arrangements—Small Renewables." Average output is based on historic performance under each contract.

*Sources: Seattle City Light Department*

**TABLE 2**  
**HISTORICAL ENERGY RESOURCES**  
**(MWh)**

	2016	2017	2018	2019	2020
<b>Department-Owned Generation</b>					
Boundary Project	3,888,316	3,825,302	4,008,235	3,307,074	3,576,351
Skagit Hydroelectric Project					
Gorge	1,036,540	998,676	947,000	832,815	958,211
Diablo	870,216	692,828	626,127	610,968	703,719
Ross	791,415	741,493	690,006	524,516	655,524
Cedar Falls/Newhalem	68,429	83,461	89,250	41,376	81,065
South Fork Tolt	52,348	54,803	58,518	29,624	42,306
Subtotal	6,707,264	6,396,563	6,419,136	5,346,373	6,017,176
<b>Energy Purchases</b>					
Bonneville	5,138,417	5,482,904	4,435,838	4,388,973	4,299,280
Priest Rapids	25,249	24,532	25,732	19,866	25,596
CBH	253,628	228,789	241,236	219,094	258,498
High Ross	308,478	313,973	310,700	307,599	309,960
Lucky Peak	340,474	463,403	347,669	364,089	254,619
Stateline Wind Project	373,389	330,161	342,873	338,452	380,795
Columbia Ridge	99,487	96,096	102,617	101,615	102,421
Seasonal and Other Exchange <sup>(1)</sup>	676,186	581,909	547,638	503,881	541,909
Wholesale Market Purchases <sup>(2)</sup>	936,289	904,362	1,167,441	1,028,182	633,111
Subtotal	8,151,597	8,426,129	7,521,744	7,271,751	6,806,189
Total Department Resources	14,858,861	14,822,692	13,940,880	12,618,124	12,823,365
<b>Minus Offsetting Energy Sales</b>					
Firm Energy Sales and Marketing Losses <sup>(3)</sup>	344,383	328,666	344,435	387,615	505,727
Seasonal and Other Exchange <sup>(1)</sup>	773,443	825,753	593,928	570,672	497,728
Wholesale Market Sales <sup>(4)</sup>	4,044,452	3,695,173	3,329,288	2,123,263	2,605,592
<b>Total Net Energy Resources</b>	9,696,583	9,973,100	9,673,229	9,536,574	9,214,318

(1) Includes exchange contracts with Grant County Public Utility District (“Grant PUD”), the Lucky Peak Project, Northern California Power Agency (“NCPA”), which expired on April 30, 2018, and Sacramento Municipal Utility District (“SMUD”), which expired on July 31, 2017. See “—Purchased Power Arrangements.”

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

(3) Energy provided to Pend Oreille PUD under an agreement to support the Boundary Project’s FERC license. Figures on this line also include incremental transmission losses due to expanded activity in the wholesale market.

(4) Wholesale market sales are highly dependent on regional hydro flows. Regional hydro flows measured at The Dalles Dam on the Columbia River between January and July were 96% of the average for the overall period 1948 to 2020, and 96% of average in 2016, 131% of average in 2017, 114% of average in 2018, 88% of average in 2019, and 99% of average in 2020.

Source: Seattle City Light Department, Accounting Division

**TABLE 3**  
**COST OF PURCHASED POWER SUPPLY RESOURCES**  
**(\$000)**

	2016	2017	2018	2019	2020
BPA <sup>(1)</sup>	\$ 157,412	\$ 164,802	\$ 161,382	\$ 159,519	\$ 157,658
Priest Rapids	2,314	1,913	1,478	1,793	1,179
CBH	6,166	6,830	6,723	6,012	7,882
High Ross	13,437	13,445	13,456	13,467	13,470
Lucky Peak	6,860	9,345	7,818	8,418	6,711
State Line Wind Project	24,777	22,077	23,892	22,658	26,293
Columbia Ridge - Biogas	7,377	6,723	7,554	7,905	7,887
SMUD - Biomass <sup>(2)</sup>	1,344	916	-	-	-
Seasonal and Other Exchange <sup>(2)(3)</sup>	7,725	6,370	7,753	4,506	9,388
<b>Total</b>	<b>\$ 227,412</b>	<b>\$ 232,421</b>	<b>\$ 230,056</b>	<b>\$ 224,278</b>	<b>\$ 230,468</b>
Contracted Resources (MWh)	7,215,308	7,521,767	6,354,303	6,243,569	6,173,078
Average Unit Cost (Dollars/MWh) <sup>(4)</sup>	\$ 33.60	\$ 32.57	\$ 38.28	\$ 39.07	\$ 39.26

(1) Net of billing credits received from BPA for the South Fork Tolt Project.

(2) The arrangement with SMUD for Burlington Renewable Biomass expired on July 31, 2017, and was not renewed.

(3) Includes exchange contracts with Grant PUD, the Lucky Peak Project, NCPA, which expired on April 30, 2018, and SMUD, which expired on July 31, 2017. The exchange with Grant PUD delivers the output of some of the CBH projects, which is different and separate from the Priest Rapids Project.

(4) Average cost of purchased power supply resources excluding exchanges and wholesale market purchases.

Source: Seattle City Light Department, Accounting Division

### Department-Owned Resources

The Department owns and operates the Boundary Project in northeastern Washington, the Skagit Project in western Washington, and three smaller hydroelectric plants in western Washington: the Newhalem Project, the Cedar Falls Project, and the South Fork Tolt Project.

**Dam Safety.** The Department's Dam Safety Program manages the FERC and State regulatory compliance program for protecting life, health, property, and the environment of the Department's regulated projects by implementing and coordinating FERC's Owners Dam Safety Program, including the physical security program, cyber security program, public safety program, changes to the installed capacities, and development of a web-based asset management and compliance tool. The Chief Dam Safety Engineer/Dam Safety Program Manager responsible for the Owners Dam Safety Program reports to the Deputy and Chief Operating Officers. FERC annually issues a letter, signed by the Chief Dam Safety Engineer, reminding the Department of the Department's obligations and responsibilities as the FERC license holder (the "licensee") for the Department's hydropower facilities. The FERC annual letter informs the Department about changes in the dam safety program and its responsibilities to ensure that the licensed hydroelectric projects are operated and maintained in compliance with FERC Regulations and the terms and conditions of the Department licenses.

The Department operates, manages, and maintain its dams in a safe manner as required by FERC and the Department's Standard Operating Procedure for the Owners Dam Safety Program ("SOP I-604"). The Department SOP I-604 designates a Chief Dam Safety Engineer to oversee the implementation of the dam safety program as annually reviewed by and signed by Department executive team members and the Chief Dam Safety Engineer.

FERC has proposed an overhaul of Part 12 dam safety regulations through a Notice of Proposed Rulemaking ("NOPR") in July 2020. The three major changes to the existing FERC dam safety regulations are a direct response to the 2017 Oroville Dam spillway incident and recent Michigan State dam failures (Edenville and Sanford dams).

The first of three major NOPR changes provides for a two-tiered inspection process that maintains the current five-year interval between inspections, but alternates between “comprehensive assessments,” which are more in depth than the current Part 12 inspections, and “periodic inspections,” which are slightly narrower in scope than current Part 12 inspections. The second major NOPR change revises the process for evaluating the independent consultants that perform the Part 12 inspections to ensure that the inspection team possesses the specific expertise necessary for the particular project. These first two (of three) regulations proposed would replace the existing Subpart D in its entirety. Finally, the third proposed rule codifies existing FERC guidance that requires licensees of one or more high or significant hazard potential dams to have an Owners Dam Safety Program to raise licensee awareness, given that a proactive conscientious licensee is the first line of defense against potential dam safety issues.

The Department regularly inspects all of its projects to ensure safety, and has current Emergency Action Plans, Surveillance and Monitoring Plans, Physical and Cyber Asset Security Plans, ongoing operations and maintenance (“O&M”) and CIP projects, Public Safety Plans, and other common requirements, primarily from Title 18, Parts 8 and 12, of the Code of Federal Regulations, for all of its dams. FERC requirements apply at the Boundary, Skagit, South Fork Tolt, and Newhalem Creek Projects. The Department anticipates increases in O&M and CIP work during the 2021-2026 timeframe for project improvements resulting from recent seismic hazard assessments, focused spillway inspections, detailed gate inspections and analyses, updated Supervisory Control and Data Acquisition systems, water level changes, and five-year independent consultant inspection reviews for the Boundary, Skagit, and South Fork Tolt Projects. The Department also anticipates further work or license requirements resulting from pending 2021 FERC audits, including a renewed focus on risk-informed decision making; expanding existing requirements for evaluating spillway adequacy to include the potential for misoperations of, failure to operate, blockage of, and debilitating damage to a spillway, as well as the resulting impacts related to reservoir levels; appurtenant structures (outlet works, power plants); organizational structures; and Owners Dam Safety Program audit.

*The Boundary Project.* The Boundary Project is located on the Pend Oreille River in northeastern Washington near the British Columbia and Idaho borders. The plant was placed in service in 1967 and is a significant contributor to the Department’s ability to meet its load requirements. The Boundary Project has a current net nameplate capability of 1,118 MW and expected net power output of 3.4 million MWh under average water conditions. The Department delivers up to 68 MW of energy to Pend Oreille PUD. In September 2016, FERC granted the Department’s request to amend the FERC license and revise the annual charges due to recent efficiency upgrades to two of the generating units, resulting in an authorized installed capacity of 992 MW. The Department recently submitted an amendment to the license to revise the June 2019 Spill Prevention Control and Counter Measure Plan to include additional information on spare transformers. The Boundary Project provides between 20% and 30% of the Department’s total resource requirements and supplied approximately 28% of the Department’s total resources in 2020.

The FERC license for the Boundary Project, which was received in 2013, has a 42-year term and incorporates the terms and conditions of a settlement filed by the Department in 2010 (the “Settlement”) among the Department, multiple State and federal agencies, a tribal government, several environmental groups, and Pend Oreille PUD. As part of the Settlement, Pend Oreille PUD surrendered its license for the Sullivan Lake Hydroelectric Project to FERC, and the project has been decommissioned. The 2010 Settlement and 2013 license conditions made no material changes to previous operations at the Boundary Project, and operations remain consistent with ensuring the Department’s ability to generate electrical energy from the Boundary Project in a manner that follows the Department’s need to provide retail service to customers. Pursuant to the Settlement and FERC license conditions, the Department is undertaking various protection, mitigation, and enhancement measures at the Boundary Project and in Sullivan Creek, the primary tributary to the Boundary Reservoir, to provide substantial natural resource benefits. The levelized cost of these measures over the license term is estimated to be less than \$5/MWh in 2020 dollars; the total estimated cost in 2020 dollars for the remainder of the license period is \$357 million. A portion of the Department’s CIP includes environmental and other improvements to the Boundary Project that meet the requirements of the Settlement and FERC license. See “Capital Requirements.”

The Settlement extends the Department’s historical commitment to deliver energy to Pend Oreille PUD at the Boundary Project’s production cost through the term of the FERC license. In February 2021, the Department and Pend Oreille PUD agreed to modify the delivery for the period 2021 to 2029, at which time they will revisit the delivery. The Settlement and FERC license terms also preserve the Department’s operational flexibility at the

Boundary Project, including the ability to ramp up or down quickly within the hour in immediate response to customer demand and to assist in regional management of variable renewable energy resources.

In September 2020, the City Council approved an agreement between the Department and Pend Oreille County on impact payments related to the Boundary Project for 2020-2029 that total \$29.8 million. The Department paid a total of \$19 million over a ten-year period that began in 2010, to Pend Oreille County and other affected local governments and school districts. Pend Oreille County supported FERC's issuance of the license consistent with the Settlement.

As authorized in the High Ross Agreement (described below under “—Skagit Project”), British Columbia Hydro (“B.C. Hydro”) increased the reservoir elevation of its Seven Mile Project on the Pend Oreille River in 1988, thereby extending its reservoir across the international border to the tail-race of the Boundary Project. A contract between the City and B.C. Hydro was signed in 1989 to provide energy to the Department in the amount of the encroachment of Seven Mile Reservoir on the Boundary Project concurrent with the High Ross Agreement. In 2020, this encroachment amounted to 0.20% of the Boundary Project's electrical energy output.

The Department will conduct the FERC-required five-year and annual dam safety inspections at the Boundary Project in August 2021 and the Potential Failure Modes Analysis and semi-quantitative risk assessment in October and November 2021, to focus surveillance, monitoring, and prioritized maintenance and/or capital improvements. The dam continues to be safe for operations. The Department will continue to work with FERC and an independent consultant team on future studies and analysis to ensure continued safe operations of the Boundary Project. Daily, weekly, and monthly visual inspections and quarterly manual readings of all instruments are conducted by the Department's dam safety staff. Annual dam safety inspections are performed by FERC and Department staff. The 2020 five-year inspection was delayed due to impacts of the COVID-19 pandemic. See “Seattle City Light Department—COVID-19 Pandemic.”

The Boundary Project has multiple objectives including power supply, flood control, recreation, fish and wildlife protection, and other uses. The Hungry Horse Project, operated by the Bureau of Reclamation, stores water during the fall and winter for release in the spring and summer, when it is needed for downstream juvenile fish migration in the lower Columbia River. This can reduce generation at the Boundary Project in the fall and winter, when the region experiences its highest sustained energy demand. The water not released in the fall and winter from reservoirs upstream from the Boundary Project on the Pend Oreille River is released in the spring and summer, when it is sometimes spilled because the Boundary Project does not have sufficient hydraulic capacity to use all the available water for generation. This can reduce the Boundary Project's firm capability under the terms of the Coordination Agreement. Operations at the Albeni Falls Dam, which is managed by the U.S. Army Corps of Engineers (the “Corps”), can ameliorate this loss of winter power due to storage operations at the Hungry Horse Project. Water levels at the Albeni Falls Dam are lowered in the winter each year to provide flood risk management and lower lake levels during the kokanee spawning periods, and for power generation through the winter. See “Environmental Matters—Endangered Species Act” for a discussion of the impact of the Endangered Species Act on the Boundary Project. See “—Purchased Power Arrangements—Columbia River Treaty” for a discussion of potential impacts to Boundary Project operations.

*Skagit Project.* The Gorge, Diablo, and Ross hydroelectric plants, which comprise the Skagit Project, began operation in 1924, 1936, and 1952, respectively. The Skagit Project is located on a 35-mile stretch of the Skagit River above Newhalem, Washington, approximately 120 miles northeast of Seattle. Power is delivered to the Department's service area via two double-circuit Department-owned 230,000-volt transmission lines. The Ross Plant, located upstream of the other two projects, has a reservoir with usable storage capacity of 1,052,000 acre-feet. Because the Diablo Plant, with usable storage capacity of 50,000 acre-feet, and the Gorge Plant, with usable storage capacity of 6,600 acre-feet, are located downstream from the Ross Dam, their operation is coordinated with water releases from the Ross Reservoir, and the three plants are operated as a single system. The combined nameplate capability of the three plants is 837 MW. Expected power output under average water conditions is 2.1 million MWh. The Skagit Project supplied 18% of the Department's total resources in 2020.

The three Skagit Project developments are licensed as a unit by FERC under a license that expires in 2025. The Department began the relicensing process in 2017 and filed a Proposed Study Plan with FERC in December 2020. See “Environmental Matters—Endangered Species Act—Department Mitigation Efforts.” As a condition of the



current FERC license, the Department has taken and will continue to take various mitigating actions relating to fisheries, wildlife, erosion control, archaeology, historic preservation, recreation, and visual quality resources. Independent safety inspections of the Skagit Project required by the FERC license and initiated in 2016 revealed no significant dam safety issues, and the final report was submitted to FERC in December 2017. Daily, weekly, and monthly visual inspections and quarterly manual readings of all instruments are conducted by the Department's dam safety staff. Annual dam safety inspections are performed by FERC and Department staff. Department staff completed five-year inspections at the Skagit Project in 2016-2017, with the next five-year inspection, to include a semi-quantitative risk assessment, scheduled for 2021-2022.

Although the original plans for the Skagit Project included raising the height of Ross Dam by 122.5 feet to maximize the hydroelectric potential of the plant, the Canadian province of British Columbia protested on environmental and other grounds. After a protracted period of litigation and negotiation, an agreement (the "High Ross Agreement") was reached under which British Columbia agreed to provide the Department, for 80 years commencing in 1986, with power equivalent to the planned increase in the output of the Ross Plant in lieu of the Department's construction of the addition in exchange for payments from the City, as described in the following paragraph. The agreement is subject to review by the parties every ten years. The 1998 review did not result in any changes to the agreement. The 2008 review resulted in no changes, and the parties informally agreed to forego the ten-year reviews in the future. Review of the High Ross Agreement may occur as part of the current FERC relicensing process.

Under the High Ross Agreement, annual payments are due from the Department to British Columbia representing the estimated debt service costs that would have been incurred had the addition to Ross Dam been constructed and financed with bonds. These amounts included a fixed charge of \$21.8 million due annually through 2020. However, since 2000, the Department has deferred \$9.1 million of each \$21.8 million annual payment and will start amortizing the deferred portion over 15 years starting in 2021. Payment by the Department to British Columbia of equivalent annual maintenance and operation costs and certain other charges began in 1986 and will continue for 80 years. The power delivered from B.C. Hydro under this agreement amounted to 309,960 MWh in 2020. The Department's contract with British Columbia provides capacity from November through March in an amount equal to 532 MW minus the actual peak capability of the Ross Plant, which fluctuates with reservoir levels and the number of units in service, and from April through October in an amount up to 150 MW minus system losses.

If British Columbia discontinues power deliveries, the High Ross Agreement authorizes the Department to proceed with the originally proposed construction and obligates British Columbia to return to the Department sufficient funds to permit the Department to increase the height of Ross Dam and make other improvements as originally proposed. This obligation has been guaranteed by the federal government of Canada.

#### *Small Hydro.*

**CEDAR FALLS PROJECT.** The Cedar Falls Project, built in 1905, is located on the Cedar River, approximately 30 miles southeast of Seattle. The Cedar Falls Project was constructed before the adoption of the Federal Water Power Act of 1920 and is not subject to licensing by FERC, making it a State-jurisdictional project under the Washington State Department of Ecology ("Ecology"). Cedar Falls Project power is delivered through an interconnection with Puget Sound Energy. The nameplate capability of the plant is 30 MW. Power production in 2020 at the Cedar Falls Project was 81,065 MWh. As a State-jurisdictional project, the Cedar Falls Project is not required to have independent inspections. However, the Department chose to conduct an independent inspection in 2013 and received the final report on the project in 2014. The 2014 report concluded that the project is suitable for continued safe and reliable operation, with some recommendations that the Department is implementing. The most recent periodic inspection by the State was conducted in 2020 and concluded that the project was in good condition and safe for operations. The Department will conduct an independent inspection in 2021 in accordance with the Department SOP I-604. See "—Dam Safety." Daily, weekly, and monthly visual inspections and drain measurements are performed by the Department and Seattle Public Utilities ("SPU") crews. The Cedar River and the South Fork of the Tolt River (discussed below) also contain water facilities that are operated by SPU and comprise a critical part of the City's water supply infrastructure.

**NEWHALEM PROJECT.** The Newhalem Project is located on Newhalem Creek, a tributary of the Skagit River, and was built in 1921 to supply power for the construction of the Skagit Project. The plant was rebuilt and

modernized in 1970. It is operated under a FERC license that expires on January 31, 2027. The plant's power is delivered directly to the Gorge Plant station service bus. The nameplate capability of the plant is 2.3 MW. The Newhalem Project stopped generating power in 2015, due in part to certain repairs associated with the Goodell Creek fire (see "Environmental Matters—Wildfire Risk"), and was intermittently generating power from June 2018 until late 2019. Five-year inspections by FERC are not required of the Newhalem Project, due to its small size and low hazard criticality; nonetheless, FERC inspections are conducted approximately every three to six years. In-house review of the project is performed annually.

**SOUTH FORK TOLT PROJECT.** The South Fork Tolt Project is located approximately 30 miles east of Seattle on the south fork of the Tolt River and was placed in commercial operation in 1995. The South Fork Tolt Project operates under a 40-year FERC license that expires in 2029. The nameplate capability of the installed unit is 16 MW. Power production at the South Fork Tolt Project was 42,306 MWh in 2020. To reduce its cost of power from the South Fork Tolt Project, the Department entered into a Billing Credits Generation Agreement with BPA in 1993, under which BPA makes payments to the Department that have the effect of making the cost of power from the South Fork Tolt Project approximately equal to the cost of equivalent power from BPA. This agreement expires in 2028. Payments to the Department under the agreement commenced in 1996 and amounted to \$3.05 million in 2020. Without this agreement, the cost of power would still be relatively low, as all project debt has been paid off and the only expenses are associated with operations and capital refurbishment.

The FERC-mandated five-year dam safety inspection was completed in 2017 and concluded that the South Fork Tolt Project was in good condition. The 2018 annual inspection of the South Fork Tolt Project included a Special Spillway Inspection as required by FERC due to the 2017 incident at the Oroville Dam in California. The Department reviewed the 2018 inspection results and initiated additional assessments in 2019 and 2020 to make changes to operations, maintenance, or inspections, as appropriate. Daily, weekly, and monthly visual inspections and manual readings of all instruments are conducted by SPU dam safety staff. Annual dam safety inspections are performed by FERC, the Department, and Seattle Public Utilities staff. See "Department-Owned Resources—Dam Safety."

### **Purchased Power Arrangements**

In 2020, the Department purchased approximately 53% of its total resources from other utilities and energy suppliers in the region, including BPA, under long-term purchase contracts. Some of these contracts obligate the Department to pay its share of the costs of the generating facilities providing the power, including debt service on bonds issued to finance construction, whether or not it receives any power. The Department treats payment of such costs as part of its purchased power expense and includes such costs in its operating and maintenance expenses. See "Security for the Bonds—Pledge of Revenue."

The Department regularly purchases power under the WSPP Inc. (formerly Western Systems Power Pool) Agreement and the Power Sales Agreement with BPA, described below under "Bonneville Power Administration." Some of those agreements include an obligation on the part of the Department to post collateral contingent upon the occurrence or nonoccurrence of certain future events, such as future credit ratings or payment defaults. The Department also has entered into, and may in the future enter into, agreements that include an obligation on the part of the Department to make payments or post collateral contingent upon the occurrence or nonoccurrence of certain future events that are beyond the control of the Department. Such contingent obligations are permitted to be characterized as maintenance and operation charges and would be payable from Gross Revenues of the Department prior to the payment of Parity Bond debt service.

*Bonneville Power Administration.* BPA markets power from the Federal Columbia River Power System (the "Federal System"), comprised of 31 federal hydroelectric projects, several non-federally-owned hydroelectric and thermal projects in the Pacific Northwest region, and various contractual rights. Currently, for Federal Fiscal Year ("FFY") 2020 and 2021, under low water conditions, approximately 7,025 average annual megawatts are available annually for sale, at BPA's cost-based rate to preference customers, including the Department. One average annual megawatt ("aMW") is the number of megawatt hours of electric energy used, transmitted, or provided over the course of a year and is equal to 8,760 MWh. The federal hydroelectric projects are built and operated by the U.S. Bureau of Reclamation and the Corps, and are located primarily in the Columbia River basin. The Federal System currently

produces more than 33% of the electric power consumed in the region. BPA's transmission system includes more than 15,000 circuit miles of transmission lines and provides about 75% of the high-voltage bulk transmission capacity in the Pacific Northwest. Its service area covers more than 300,000 square miles and has a population of about 12 million.

Federal law requires BPA to meet certain firm loads in the Pacific Northwest placed on BPA by contract by various preference customers. BPA sells electric power at cost-based wholesale rates to more than 125 utility, industrial, and governmental customers in the Pacific Northwest. In its wholesale power sales, BPA is required by law to give preference to consumer- or publicly-owned utilities and to customers in the Pacific Northwest region.

The Department's Power Sales Agreement with BPA provides for purchases of power by the Department over the 17-year period ending October 1, 2028. BPA and all preference customers, including the Department, are in active discussions about the next power sales contracts. BPA has begun a "Provider of Choice" process. The timeline at present is for BPA to gather customer feedback this year, produce an Issue Paper at the end of 2021, and then develop those issues into products, services, rates, and contract terms, as appropriate. BPA would develop and adopt necessary policies in 2022 and 2023 such that it can offer contracts in 2025.

Power is delivered in two products: a shaped block product ("Block"), which is power provided in pre-determined amounts at pre-determined times, and a slice of the system product ("Slice"), which is a proportionate amount of power if, as, and when generated by the Federal System. Until October 1, 2017, the Department's Slice and Block deliveries were approximately equal on an annual basis. Effective October 1, 2017, the Department exercised an option under the Power Sales Agreement to switch to 100% Block. The Department's BPA purchase for 2021 will be for 499 aMW, which will vary from a high of 808 aMW in January 2021 to a low of zero aMW in June 2021.

Under the BPA contract, the amount of power that BPA's preference customers (including the Department) may purchase under BPA's cost-based rate (the "Tier 1 Rate") is limited to an amount equal to the generating output of the current Federal System, with some limited amounts of augmentation. Any incremental purchases by preference customers from BPA above this base amount of power would be purchased at a different rate (the "Tier 2 Rate"), reflecting the incremental cost to BPA of obtaining additional power to meet such incremental load. Each preference customer's right to purchase power at Tier 1 Rates is based in part on the proportion that its net requirements bore to all preference customers' net requirements placed on BPA in a defined period prior to FFY 2011. The Department currently purchases all of the power it receives under the BPA contract at the Tier 1 Rate. The Department determined not to purchase additional energy from BPA through the contract period 2020-2024, and will evaluate the remaining future purchase based on need and cost.

*BPA Rates.* BPA is required by federal law to recover all of its costs through the power and transmission rates it charges its customers. As of October 1, 2019, BPA's average net cost for Tier 1 power will be \$35.62 per MWh, excluding delivery charges and without a financial reserves policy ("FRP") surcharge. In 2019, BPA finalized a policy setting minimum and maximum financial reserves by business line and agency-wide. The policy includes mechanisms to increase revenue collection if reserves fall below the minimum and to use reserves should they accumulate above the maximum. In November 2019, BPA imposed the full 3% surcharge on applicable power rates for FFY 2020. BPA conducts a rate case every two years, but the rates are subject to a cost recovery adjustment clause that allows power rates to increase within a two-year rate period if certain events occur. On July 25, 2019, BPA published rates effective for the period October 1, 2019, to September 30, 2021. The Tier 1 average net cost change was -0.1% without the FRP surcharge, and may be up to a 1.4% increase if BPA were to impose the maximum surcharge. BPA suspended the surcharge in effect for FFY 2020 and did not impose it in 2021. On April 22, 2021, BPA announced its proposal for power and transmission rates for the period October 1, 2021, to September 30, 2023. BPA proposed a 4.6% decrease to power rates on average, and an 11.2% increase to the rates for the transmission service the Department takes. See "Department Financial Information—Retail Rates—Automatic BPA Rate Pass-Through."

There are many factors that have impacted and could impact BPA's cost of service and rates, including federal legislation, BPA's obligations regarding its outstanding federal debt, number of customers, water conditions, fish and other environmental regulations, capital needs of the Federal System, outcome of various litigation, regional transmission issues, natural gas prices, and the economy. See "Department Financial Information—Retail Rates—Automatic BPA Rate Pass-Through."

*Energy Northwest.* The City is a member of Energy Northwest, a municipal corporation and joint operating agency organized under State law, whose members currently include 27 public utility districts and cities within the State. Energy Northwest has the authority to acquire, construct, and operate plants, works, and facilities for the generation and transmission of electric power.

Energy Northwest was originally engaged in the construction of five nuclear generating facilities (Projects 1 through 5), only one of which (Columbia Generating Station, formerly Project 2) was placed in commercial operation, in 1984. Construction of the others was terminated in the 1980s and 1990s. The Department, Energy Northwest, and BPA entered into separate Net Billing Agreements with respect to Projects 1 and 3 and the Columbia Generating Station (the “Net Billed Projects”), under which the Department purchased a share of the Net Billed Projects from Energy Northwest and assigned that share to BPA. The Department’s share of each is as follows: 8.605% of Project 1, 7.193% of the Columbia Generating Station, and 7.206% of Project 3.

Under the Net Billing Agreements, the Department is obligated to pay Energy Northwest its share of the total annual costs of the Net Billed Projects, including debt service on approximately \$4.7 billion of bonds outstanding (as of March 1, 2021) on the Net Billed Projects, and accept assignment of the shares of defaulting participants, subject to a cap of 25% of the Department’s share. BPA is obligated to credit the Department the same amount of the Department’s share (plus any assigned shares) under any power sales agreement between BPA and the Department. These obligations exist regardless of the status, operability, or output of the Net Billed Projects. To the extent that BPA cannot credit the Department because the Department’s obligations under a power sales agreement are not sufficient to allow BPA to credit the Department its full share, BPA is obligated, after certain assignment procedures, to pay the uncredited and unassigned amount to the Department, subject to available appropriations.

In 2006, Energy Northwest and BPA executed agreements with respect to the Net Billed Projects (the “Direct Pay Agreements”) pursuant to which BPA agreed to pay directly to Energy Northwest all costs (including the debt service on the outstanding bonds) for the Net Billed Projects, including the Department’s share. Since 2006, this has resulted in no payments by or credits to the Department under the Net Billing Agreements. If BPA fails to make a payment or the parties terminate the Direct Pay Agreements, the original obligations of the Net Billing Agreements would resume. BPA has always met all of its obligations to Energy Northwest.

*Columbia River Treaty.* The U.S. and Canada entered into the 1964 Columbia River Treaty (the “Treaty”) to increase reservoir capacity in the Canadian reaches of the Columbia River basin for the purposes of power generation and flood control. Although the Treaty does not expire under its own terms, either the U.S. or Canada may elect to terminate it by providing not less than ten years’ notice. The Treaty impacts stream flow and power generation in the Columbia River and some of its tributaries. The Treaty’s computation of energy benefits that result from the Canadian improvements to upstream storage is of particular interest to utilities because it creates an energy return obligation (the “Canadian Entitlement”) for U.S. operators of Columbia River dams, including BPA. Treaty modernization (described further below) could impact energy received under the Department’s BPA and Priest Rapids Project contracts, as well as stream flows and generation at the Boundary Project. See “—Purchased Power Arrangements—Bonneville Power Administration” and “—Priest Rapids Project” and “—Department-Owned Resources—Boundary Project.”

In 2013, the United States Entity (which is comprised of BPA and the Corps) sent a final regional recommendation concerning the future of the Treaty to the U.S. Department of State (the “State Department”), which includes modernizing the Treaty to more fairly reflect the distribution of operational benefits between the U.S. and Canada, to ensure that flood risk management and other key river uses are preserved, and to address key ecosystem functions in a way that complements the significant investments made since 1964 to protect Columbia River basin fish and wildlife. The Department has been an active participant in the United States Entity’s regional review process leading up to the final regional recommendation and supports that recommendation. Engagement between negotiators for the U.S. and Canada is underway, without any timeline for completion of negotiations.

*Priest Rapids Project.* Under two agreements effective through 2052, the Department purchases a portion of the output of the Priest Rapids Project. The Department is currently obligated to purchase 6.14% of the Priest Rapids Project’s output after Grant PUD meets its retail load. As Grant PUD’s retail load increases, less electrical energy is

available for the Department. The Department currently receives about 2 aMW from these contracts. The Department also receives a portion of the revenues from an auction of 30% of the Priest Rapids Project's power, totaling \$2.4 million per year in 2016 and 2017, \$1.5 million in 2018, and \$1.8 million per year in 2019 and 2020. Under the contracts, the Department is responsible for its percentage share of the costs of the Priest Rapids Project, including debt service on bonds issued to finance improvements to the Priest Rapids Project. In 2020, the Department paid \$1 million to receive the auction revenue.

*Columbia Basin Hydropower (formerly Grand Coulee Project Hydroelectric Authority).* The Department, in conjunction with the City of Tacoma Department of Public Utilities, Light Division ("Tacoma Power"), has power purchase agreements with three Columbia River basin irrigation districts for the acquisition of power from five hydroelectric plants under 40-year contracts expiring between 2022 and 2027. These plants, which utilize water released during the irrigation season, are located along irrigation canals in eastern Washington. The plants generate power only in the summer and thus have no winter peak capability. Plant output and costs are shared equally between the Department and Tacoma Power. In 2020, the Department received 258,498 MWh from the project. The Department and Tacoma Power are in discussions with Columbia Basin Hydropower about whether contract amendments and extensions are in all parties' mutual interest.

*High Ross Agreement.* See "—Department-Owned Resources—Skagit Project."

*Lucky Peak.* The Lucky Peak Hydroelectric Power Plant ("Lucky Peak") was developed by three Idaho irrigation districts and one Oregon irrigation district (the "Districts"). Since it began operation in 1988, the Department has purchased all the power generated by Lucky Peak in exchange for payment of costs associated with the plant and royalty payments to the Districts. The Department also signed a transmission services agreement with Idaho Power Company ("Idaho Power") to provide for transmission of power from Lucky Peak to a point of interconnection with the BPA transmission system. The FERC license for Lucky Peak expires in 2030. The plant is located on the Boise River, approximately ten miles southeast of Boise, Idaho, at the Lucky Peak Dam and Reservoir. Power generation was 254,619 MWh in 2020. The nameplate capacity is 113 MW, but the plant operates only during the irrigation season, so it provides no peak capacity during the Department's winter peak period. See "—Seasonal and Other Exchanges."

*Stateline Wind Project.* Pursuant to an agreement effective on January 1, 2002, the Department purchases wind-generated power and associated renewable energy credits ("RECs") from the Stateline Wind Project ("Stateline") in eastern Washington and Oregon. The counterparty to that agreement is currently Exelon Corporation. Wind power received by the Department has a maximum delivery rate of 175 MW per hour; historical output has been about 27% of the maximum delivery rate. The project contributes to the Department's I-937 compliance. See "—Washington's Renewable Portfolio Standard (Initiative 937 and CETA)." The contract ends in 2021; the Department will not purchase power from Stateline after the current contract ends. However, the Department agreed to buy RECs from Stateline for the period 2022-2026, which will extend the I-937 compliance component of the project. The Department received 380,795 MWh of wind-generated power under the Stateline purchase contract in 2020.

The Department also entered into a related ten-year agreement with PacifiCorp to purchase integration and exchange services for all of the Department's 175 MW share of Stateline output. Under this agreement, PacifiCorp delivers the Department's share of Stateline output to the Department two months after it is generated. The integration and exchange agreement with PacifiCorp terminates after final delivery in February 2022, two months after the power purchase ends.

#### *Small Renewables.*

BURLINGTON RENEWABLE BIOMASS (EXPIRED). The Department previously entered into an agreement with SMUD that expired on July 31, 2017. Under that expired agreement, SMUD purchased the output from the Sierra Pacific Industries Burlington Biomass Facility. The Department provided scheduling and delivery services to SMUD for up to 15 MW of power at the California-Oregon border and received financial compensation for these services. The Department purchased from SMUD all of the renewable energy and environmental attributes associated with the resource output in excess of 15 MW. The arrangement is no longer in effect, and the Department no longer receives renewable energy or environmental attributes from this source.

COLUMBIA RIDGE LANDFILL GAS. In 2009, the Department began taking delivery from Columbia Ridge, located in Arlington, Oregon, under a 20-year agreement. The plant, which has a nameplate capacity of 6.4 MW and generates an average of 50,500 MWh per year, burns methane produced by the decomposition of solid waste in the landfill. Waste Management Renewable Energy (“WMRE”) is the developer, owner, and operator of the project. The Department has firm transmission for project output to the Department’s retail load. WMRE added approximately 6.0 MW of additional generation in summer 2014, and the Department is buying the output from the expansion under contract. The Department received 102,421 MWh of power under the Columbia Ridge purchase contracts in 2020.

KING COUNTY WEST POINT TREATMENT PLANT. In 2010, the Department executed a power purchase agreement with the County for the output of a cogeneration plant at the West Point Wastewater Treatment Facility in Seattle, which began commercial operation in 2014. The 4.6 MW plant is providing about 2 aMW of electrical energy and associated renewable energy credits. The contract has specific prices and annual escalation and extends until 2034.

*Seasonal and Other Exchanges.* An exchange agreement with NCPA expired on April 30, 2018, and is no longer in effect. Until its termination, the agreement provided for the Department to deliver 60 MW of capacity and 90,580 MWh of power to NCPA in the summer. In return, NCPA delivered 46 MW of capacity and 108,696 MWh of power to the Department in the winter.

Since 2007, the Department has entered into agreements to exchange the entire output of the Lucky Peak project for a fixed amount of firm winter energy. For calendar years 2020 and 2021, the counterparty is Morgan Stanley Capital Group, which will also take on and pay for the associated transmission services from Idaho Power. The Department is considering seasonal exchange of the output in the future.

### **Wholesale Market Sales and Purchases**

The Department has historically bought and sold power in wholesale power markets to balance its loads and resources. The amount of wholesale power purchased or sold has varied with water conditions and with changes in the Department’s loads and firm resource base. On an annual basis, the Department expects to be a net seller of power in the wholesale market, even under adverse water conditions. See “—Integrated Resource Plan.” Market sales are the highest during the spring and early summer, when river flows and runoff are the highest. Market sales are the lowest, and the Department may purchase power, in the late summer and early fall, when river flows and runoff are the lowest.

In 2020, hydro flows were very close to average on rivers where the Department’s primary generation hydro facilities are located. The hydro flows at the Boundary Project and Ross Dam were 100% and 99% of the historical average, respectively. The average revenue per MWh realized from surplus sales in 2020 was \$24.34/MWh. Net wholesale revenue in 2020 was \$47.7 million, slightly lower than the budgeted amount of \$50 million. As of April 28, 2021, net wholesale revenue for 2021 is forecast to be \$64.4 million, \$4.4 million above the budgeted amount of \$60.0 million. This variance will be transferred to the RSA. See “Department Financial Information—Management Discussion of Historical Operating Results 2016-2020,” “—Expectations for 2021 Operating Results,” and “—Financial Policies—Rate Stabilization Account.”

Table 4 displays the Department’s purchases and sales of power in the wholesale market over the 2016-2020 period.

**TABLE 4**  
**SUMMARY OF WHOLESALE MARKET SALES AND PURCHASES**

	2016	2017	2018	2019	2020 <sup>(2)</sup>
Cost of Wholesale Purchases (\$000) <sup>(1)</sup>	\$ 21,414	\$ 19,880	\$ 22,576	\$ 41,839	\$ 15,753
Wholesale Market Purchases (MWh in 000s)	936	904	1,167	1,028	633
Average Cost (\$/MWh)	\$ 22.88	\$ 21.99	\$ 19.35	\$ 40.70	\$ 24.89
Revenue from Sales (\$000) <sup>(1)</sup>	\$ 74,632	\$ 70,422	\$ 72,509	\$ 57,307	\$ 63,434
Wholesale Market Sales (MWh in 000s)	4,044	3,695	3,329	2,123	2,606
Average Revenue (\$/MWh)	\$ 18.45	\$ 19.06	\$ 21.78	\$ 26.99	\$ 24.34
Net Wholesale Revenue (\$000) <sup>(1)</sup>	\$ 53,218	\$ 50,542	\$ 49,933	\$ 15,468	\$ 47,681
Sales Net of Purchases (MWh in 000s)	3,108	2,791	2,162	1,095	1,973

- (1) Shown as gross, prior to netting of bookouts. Audited financial statements are shown net of bookouts (only short-term bookouts netted against purchases while both short-term and long-term bookouts netted against sales). Bookouts occur when energy is financially settled net without physical delivery, upon agreement among the counterparties, because sales and purchases were separately transacted for delivery at the same time and point of delivery.
- (2) On April 1, 2020, the Department entered the CAISO EIM. Since the EIM is not a traditional bilateral market, MWh volume statistics are currently unavailable and not reported in this table. If the MWh volumes were included, the average cost and average revenue per MWh would be lower than presented.

*Source: Seattle City Light Department, Accounting Division*

### Wholesale Energy Risk Management

The Department sells its surplus power in the wholesale power markets, and the revenue generated is used to offset costs that would otherwise be borne by the Department’s retail ratepayers. The Department’s wholesale energy marketing activities are managed by its Power Management Division, and the Department’s risk management activities are carried out by its Risk Oversight Division. Additionally, the Department’s Risk Oversight Council (“ROC”) serves as the primary body with the authority and responsibility for overseeing and implementing the Department’s Wholesale Energy Risk Management (“WERM”) Policy and leading the Department’s energy risk management efforts. ROC is comprised of four voting and three non-voting members: the Facilities and Oversight Services Officer (Chair), Director of Risk Oversight (Acting-Chair), Chief Financial Officer, and Energy Innovation and Resources Officer. Each has a single vote. The three non-voting members are the Director of Power Management, Manager of Power Marketing, and Risk Oversight Strategic Advisor. ROC meets at least twice per month to review recent events in the wholesale power markets and the Department’s market positions, exposures, WERM Policy compliance, and portfolio-balancing strategies and plans.

Under the WERM Policy, the Department has the authority to enter into agreements to manage various risks associated with power transactions as long as any agreements are not purely speculative and can be tied to managing an underlying power purchase, asset, or price risk. The Department has not entered into any hedging agreements under an International Swaps and Derivatives Master Agreement. However, the Department does enter into certain forward purchase and sale of electricity contracts that meet the Governmental Accounting Standards Board (“GASB”) definition of a “derivative instrument,” and they are intended to result in the purchase or sale of electricity delivered and used in the normal course of operations. See Appendix C—2020 Audited Financial Statements of the Department—Note 18.

*Energy Market Risk.* For the Department, energy market risk is the risk of adverse water conditions and fluctuations in the price of wholesale electricity. Factors that contribute to energy market risk include regional planned and unplanned generation plant outages, transmission constraints or disruptions, the number of active creditworthy market participants willing to transact, and environmental regulations that influence the availability of generation resources.

To limit energy risk exposure, the Department is not authorized to buy or sell physical energy and associated products in the wholesale energy market more than 60 months prior to the hour of delivery. For longer-term transactions, City Council approval is required. The Department's principal objective is to ensure that the Department meets retail customer demand in a way that generates additional value from its generation portfolio, with due consideration of risk. Risk tolerance levels are documented in the WERM Procedures document.

The Department's exposure to variable output from its hydroelectric resources and market price risk is managed by the Director of Power Management under the supervision of the Energy Innovation and Resources Officer, with oversight and approval from ROC. The Department engages in market transactions to meet its load obligations and to realize earnings from surplus energy resources. Except for limited intraday and day-ahead transactions, to take advantage of the ability to store water at certain generating facilities to meet operational obligations, the Department does not take speculative market positions in anticipation of generating revenue.

With historically about 6% to 13% of the Department's revenue coming from wholesale energy market sales, the Department emphasizes the management of risks of this activity. Policies, procedures, and processes have been established to manage, control, and monitor these risks and ensure proper segregation of duties.

*Credit Risk.* If a counterparty fails to perform on its contractual obligation, the Department may find it necessary to procure or sell electricity at current market prices, which may be unfavorable compared to the contract price. If a counterparty fails to pay its obligation in a timely manner, this has an impact on the Department's revenue and cash flow. As with market risk, the Department has policies and procedures in place to mitigate credit risk.

Wholesale counterparties are assigned credit limits based on evaluations of their financial condition, including consideration of liquidity, cash flow, credit ratings, and other indicators from debt and capital markets as deemed appropriate. Credit limits are also used to manage counterparty concentration risk. There is potential for the concentration of credit risk related to geographic location, as a large number of counterparties with which the Department transacts are in the western U.S. This concentration of counterparties and of geographic location may impact the Department's overall exposure to credit risk, either positively or negatively, because counterparties may be similarly affected by changes in conditions.

Credit limits, exposures, and credit quality are actively monitored. Despite such efforts, defaults by counterparties may occur. The Department's risk policies and some of its contracts require either party to post collateral if certain conditions occur. Posted collateral may be in the form of cash or letters of credit and may represent prepayment or credit exposure assurance. The Department is not currently posting collateral under any of its contracts and does not expect to do so.

### **Washington's Renewable Portfolio Standard (Initiative 937 and CETA)**

*I-937.* I-937, also referred to as the Energy Independence Act, was approved by State voters in 2006 and was last amended in 2019 with the passage of the Clean Energy Transformation Act ("CETA"). Under I-937, utilities such as the Department with more than 25,000 retail customers in the State are required to serve certain percentages of retail load with eligible renewable resources and/or purchase equivalent quantities of RECs. This requirement increases over time: 3% of load by January 1, 2012, 9% by January 1, 2016, and 15% by January 1, 2020. I-937 also requires utilities to pursue all available conservation that is cost-effective, reliable, and feasible, and imposes deadlines for meeting conservation targets. The law specifies what types of renewable generation are eligible to meet the renewable portfolio standard. Existing hydropower is not considered a renewable resource, but incremental hydropower is considered renewable if it is the result of efficiency improvements completed after March 30, 1999, and meets other qualifications. The Department considers I-937 during the preparation of its Integrated Resource Plans ("IRP"), as discussed further below, and the potential for cost-effective, reliable, and feasible conservation measures that could be derived from more efficient energy use by customers and by the Department's production and distribution facilities.

I-937 allows for alternative compliance options if a utility has no load growth or if the utility reaches a cost cap on spending for eligible resources. For the period in which the Department has no load growth as defined by I-937, it will likely use the no load growth compliance option. The Department used the no load growth compliance option for 2019 and will continue to do so for 2020 and 2021.



*Clean Energy Transformation Act.* Enacted in 2019, CETA amends the Energy Independence Act and sets additional milestones for reaching 100% renewable or non-emitting electricity supply by 2045. By 2022, each utility must prepare and publish a clean energy implementation plan setting its own targets for energy efficiency, demand response, and renewable energy. By 2025, utilities must eliminate coal-fired electricity. By 2030, utilities must supply energy from 100% greenhouse gas-neutral resources, allowing for the use of offsets. The 2030 milestone specifies that at least 80% of retail sales must be met with generation sources that do not emit greenhouse gases and remaining sources of greenhouse gas emissions must be offset with specified project types. By 2045, utilities must supply State customers with electricity that is 100% renewable or non-emitting, with no allowance for offsets. CETA includes provisions to study the effects of these goals on cost and reliability, and provides off-ramps and alternative compliance means at various points. CETA also requires utilities to provide an equitable transition to cleaner energy through consideration of the energy and non-energy impact of resource decisions. The Department is participating in the rulemaking activities relating to CETA implementation by the Washington State Department of Commerce (“Commerce”) and will be evaluating compliance strategies for CETA requirements in the near future. The Department has no coal-fired resources (meeting the 2025 milestone) and is well positioned to meet the 2030 requirements, given its low carbon energy portfolio. Over the next several years, the Department expects to develop strategies to meet the 2045 goal.

## **Conservation**

The Department measures energy conservation results in terms of cost, amount, and duration of savings using regionally and nationally recognized methods. In 2020, the Department achieved 9.2 aMW (80,731 MWh) of energy savings from completed projects, which cost the Department \$26.7 million in incentives and expenditures associated with the delivery of the energy savings. Total savings in place in 2020 amounted to approximately 194 aMW (1,699,742 MWh), representing approximately 20% of the Department’s total retail sales in 2021. The Department’s retail load has been declining since 2011, due in part to its robust conservation program. See “Department Financial Information—Management Discussion of Historical Operating Results 2016-2020.”

Under I-937, the Department is required to establish two-year conservation targets. For the 2020-2021 biennium, the I-937 total energy savings target is 21.30 aMW, which the Department is on track to meet.

The Department’s Conservation Resources Division has a long-standing relationship with BPA. Through various contractual agreements over a 30-year period, BPA has provided funding for energy conservation activities, including \$10.5 million for energy conservation activities over FFY 2020 and 2021, which will fund approximately 15% of the Department’s total energy savings delivered during this time period. In addition to the current funding, BPA is providing technical assistance for industrial projects and offering regional conservation programs to the Department.

## **Integrated Resource Plan**

The Department’s IRP evaluates a range of resource portfolios that are designed to meet its future resource needs in compliance with federal, State, and local regulations. The IRP is one planning tool used by the Department and is informed by the utility’s Strategic Plan and Conservation Potential Assessment. The IRP is reviewed and updated every two years to help inform resource decisions resulting from regional growth, technological changes, customer choices, and regulation. A key objective of the IRP is to ensure that long-term customer demand can be met with sufficient dependable resources under variable hydro and weather conditions. The IRP preferred resource portfolio is selected after being evaluated against four criteria: reliability, cost, environmental impact, and risk.

In 2020, due to the COVID-19 pandemic and CETA rule-making, the Department requested and received permission from Commerce to complete a 2020 IRP Progress Report instead of the full IRP update that would have been due. The purpose was to update its evaluation framework to better account for CETA and account for still unfolding impacts from the pandemic in the utility’s plans and customer outreach. Additionally, climate change, energy efficiency, and clean technology advancements are changing the regional resource mix. The new IRP framework helps the Department stay ahead of these fundamental changes in regional generation. The 2020 Progress Report approved by the City Council on February 22, 2021, affirms the conservation-centered resource strategy to meet I-937 and CETA for up to the next ten years. The Progress Report and framework will support the Department’s completion of CETA’s required 2022-2025 Clean Energy Implementation Plan, due December 31, 2021, to Commerce. However, the

Department's long run plans will benefit by waiting for the 2022 IRP update, which will allow for greater alignment in resource strategy with the Department's evolving conservation, demand response, distribution system and transportation, and building electrification plans. This timeline permits the opportunity for renewed and more equitable customer engagement before it is due by September 1, 2022.

## **TRANSMISSION AND DISTRIBUTION**

### **Introduction**

The Department owns transmission facilities for the delivery of energy from the Skagit Project to the Department's service area. The Department also owns transmission lines interconnecting the Boundary and Cedar Falls Projects to other utilities' transmission systems that allow delivery to the Department's customers or to wholesale markets. See “—Transmission Contracts—Transmission Arrangements with BPA” and “—Other Transmission Contracts.” In addition, the Department has entered into contracts with BPA and others to provide additional transmission capacity for the Boundary Project and all contracted resources that require transmission. These owned facilities and contracted transmission capacity provide the Department with sufficient capacity for meeting its projected winter peak load and delivering the maximum output from all remote resources.

### **Department-Owned Transmission**

The Department owns and operates 667 miles of transmission facilities. The principal transmission lines are the generation interconnection lines transmitting power from the Skagit Project to the Department's service area. Other important facilities include the tie lines connecting the Boundary, South Fork Tolt, and Cedar Falls Projects with BPA's and Puget Sound Energy's transmission grid and transmission within the Department's service area.

In 1994, the Department signed an agreement with BPA for the acquisition of ownership rights to one-thirtieth (160 MW at full rating) of the transmission capability over BPA's share of the Third AC Intertie, which connects the Pacific Northwest with California. The benefits from this investment include avoidance of BPA's transmission charges associated with power sales and the ability to conduct exchanges over the Intertie and enter into long-term firm contracts with out-of-State utilities.

### **Transmission Contracts**

*Transmission Arrangements with BPA.* The bulk of the Department's remote generation (the Boundary Project, BPA products, and other long-term contracts) and other market transactions utilize BPA's point-to-point (“PTP”) transmission service agreement. See “Power Resources and Cost of Power—Department-Owned Resources—Boundary Project.” The agreement with BPA provides the Department with 1,962 MW of transmission capacity through 2025. In 2019, BPA changed its tariff implementation practices for PTP, resulting in the Department determining the need to request to add 279 MW of transmission capacity to the 1,962 MW of existing transmission capacity, for a total of 2,241 MW. This request is pending at BPA. The Department has the right to extend the current terms, and plans to negotiate a suitable extension prior to 2025. This capacity amount ensures that the Department can deliver the maximum output of the Boundary Project and the BPA purchase contract to its customers. Effective October 1, 2019, BPA has raised its PTP transmission and other associated rates by a cumulative 3.2% for the rate period FFY 2020-2021. On April 22, 2021, BPA proposed increases to transmission rates for the period October 1, 2021, to September 30, 2023, that will increase the Department's BPA transmission bill by approximately 11% per year. BPA is expected to announce the final rates in late July 2021. The new transmission costs, along with power costs, will be used in the BPA passthrough calculation. See “Power Resources and Cost of Power—Purchased Power Arrangements—Bonneville Power Administration” and “Departmental Financial Information—Retail Rates.”

Power supplied to the Department by B.C. Hydro under the High Ross Agreement is transmitted over BPA's lines under a separate PTP transmission service agreement extending through 2035. This agreement has been assigned to Powerex Corporation, a British Columbia corporation tasked with carrying out certain responsibilities of B.C. Hydro with respect to the High Ross Agreement, including the delivery of High Ross power. Under the provisions of the transmission assignment agreement, Powerex pays BPA directly for all costs associated with the High Ross PTP contract. See “Power Resources and Cost of Power—Department-Owned Resources—Skagit Project.”

*Other Transmission Contracts.* The Department transmits power under contracts with Idaho Power for the transmission of power from Lucky Peak, with Avista and Grant PUD for transmission of power from Columbia Basin Hydropower, with Puget Sound Energy for transmission of power from the Cedar Falls and South Fork Tolt Projects, and with other utilities. The Department also has a contract with PacifiCorp for integration and exchange of output from Stateline.

The Department may require additional purchases of transmission in the future to accommodate the delivery of power from additional resource acquisitions to the Department's retail customers. The Department may purchase short-term and/or non-firm transmission for its sales of power in the wholesale market and may sell excess transmission that is not needed to serve load and balance resources.

### **Northern Grid (Formerly Columbia Grid)**

Columbia Grid, formed in 2006 by a group of investor-owned and public utilities, including the Department, and BPA, currently provides inter-utility regional transmission planning services to its members in the Pacific Northwest. Columbia Grid is not a Regional Transmission Organization under FERC policies but provides services on a bilateral, contractual basis. Columbia Grid's planning role enables the Department to meet federal requirements for regional transmission planning.

As of January 1, 2020, the members of the Columbia Grid, along with several additional public and private electric utilities in the Pacific Northwest, transitioned to a new organization called the Northern Grid, creating a single stakeholder forum for transmission planning in the region. The new organization's goals include collaborating on transmission-related matters relevant to the Pacific Northwest and Intermountain region and facilitating FERC transmission planning compliance, including economic studies and cost allocation.

### **Open Access Transmission Services**

The Department is committed to offering comparable open access transmission service upon receiving a valid transmission service request. In 2009, the City Council approved legislation authorizing the Department to implement and administer an open access transmission tariff. The Department began offering open access transmission service effective January 2021 and currently has no open access transmission customers.

### **Retail Service**

The Department owns, operates, and maintains overhead and underground transmission and distribution facilities within its 131-square-mile service territory. The Looped Radial distribution system consists of 2,331 miles of overhead and underground wiring. The Looped Radial design consists of single feeder providing electrical energy to customers. The Department operates 16 major substations throughout the service area, which supply power to the distribution system's primary feeders and ultimately to the Department's retail customers. Customers in the downtown Seattle, University District, and First Hill neighborhoods are served by a more reliable multiple-feeder Network Distribution design system. The Network Distribution system consists of 348 miles of 13 kilovolt ("kV") and 26 kV underground wiring.

### **Operation and Maintenance**

The Department updates its load forecast periodically to track changes in electricity consumption throughout the distribution system. Based on this forecast, the Department makes provisions and recommendations for capacity projects related to transmission, substation, telecommunications, and distribution facilities to serve the system loads.

The Department's System Control Center controls hydroelectric power operations and monitors delivery of power to the service area. Staff use a real-time Energy Management System that provides information about loads and resources to the power dispatchers so they can properly balance load and resources and respond to system disturbances.

The Department's Outage Management System is designed to improve operational efficiencies and provide timely information to customers while staff are responding to service interruptions. The Department installed a work and asset management system, the foundational technology for an asset management practice, to assist in work scheduling and asset cost tracking and act as a data repository.

The Department inspects the vaults through which transmission lines run, and maintenance programs have been established for steel lattice tower and monopole transmission equipment. The Department conducts periodic inspections and maintenance on batteries that supply control power to protection systems for certain higher capacity transmission lines. Protective relays are tested and maintained on a periodic basis to satisfy NERC requirements.

*Pole Maintenance.* Since 2009, the Department has inspected approximately 92,000 wood poles in the service area and replaced 12,000 wood poles between 2010 and 2019. In April 2019, an incident occurred involving the simultaneous failure of a section of 26 wood poles during a high wind event. The Department engaged an engineering firm to conduct an independent review of the incident and identify potential causes of the failure. A final report was published in November 2019. Some of the key recommendations included a narrowing of the rating criteria and establishment of a program for the rapid replacement of the aging wood poles in the service area. Subsequently, the Accelerated Pole Replacement Program was launched to help replace 6,000 pole backlogs in the first three years of the program and continue to identify replacement and rehabilitation candidates through the new test and treatment program.

*Underground Cable Replacement.* The Underground Cable Replacement program is an ongoing system-wide reliability-improvement program. The Cable Replacement program, kicked off in 2013, has begun installing nearly 25 miles of new duct systems to begin replacing roughly 300 miles of the remaining old direct buried cables over the next decade.

## **Federal Regulations**

The Department's Regulatory Affairs Office ("Regulatory Affairs") manages the Department's regulatory programs associated with transmission and wholesale sale of power. Regulatory Affairs ensures compliance, oversees regulatory interactions, and advises on regulatory matters that could affect proposed activities. The Department's largest oversight program concerns bulk power system reliability, with moderate programs for other pertinent regulatory areas. The Director of Regulatory Affairs, who also serves as the Chief Compliance Officer, reports to the Facilities and Oversight Services Officer, and has direct access to the General Manager and Chief Executive Officer. Regulatory Affairs functions independently of the Department's operating divisions.

*Reliability Compliance Program.* Because the Department owns, operates, and uses the bulk power system, Section 215 of the Federal Power Act requires the Department to comply with electric reliability standards. The objective of the Department's reliability compliance program is to achieve and maintain compliance with FERC reliability standards, foster a culture of compliance, and enable reliable, secure, and efficient electric system operations. The Electric Reliability Compliance Program Policy documents the Department's regulatory compliance program for FERC reliability standards, providing the framework and key elements of the Department's Compliance Program and describing the responsibilities of the Department's officers and employees. The program incorporates a compliance framework of five interdependent elements, including policies and operating procedures, communication and training, assessment, processes for addressing and remedying compliance concerns, and periodic operating division review, and is designed to ensure compliance and prevent, detect, and correct non-compliance.

Regulatory Affairs conducts assessments on both a regular and periodic basis. Assessments may be performed internally or by external consultants. Regulatory Affairs uses risk assessment to determine when a periodic assessment should occur and to determine FERC reliability standards to evaluate in the assessment. Risk criteria include substantially complex standards, standards with a Department compliance violation history, or standards affected by changes in Department operational practices and/or personnel. Regular assessments occur triennially and annually. Regulatory Affairs engages a consultant to perform the triennial assessment for both due diligence and independence, and to aid Department preparation for its regulatory compliance audit. Annual assessments occur as part of the Department's self-certification process.

Regulatory Affairs conducts Standard Assurance Projects to ensure Department compliance associated with regulatory and operational change. Regulatory Affairs, together with the responsible Department operating divisions, establishes structured and coordinated processes to ensure Department compliance with prior enforcement obligation for new standards infrastructure, systems, or contractual obligations. Recent Standard Assurance Projects included the new

Denny Substation and the new standard implementation for CIP-013-1 Cyber Security—Supply Chain Risk Management.

The Western Electricity Coordinating Council (“WECC”) audits the Department triennially, most recently in 2020. Consistent with the Electric Reliability Enterprise Risk-Based Compliance Monitoring and Enforcement Program, WECC performed an Inherent Risk Assessment of the Department in 2019. The results of the Inherent Risk Assessment identified a new Compliance Oversight Plan for the Department for the next three years; the Compliance Oversight Plan establishes which standards and oversight processes WECC will use to evaluate the Department’s Compliance. For the Department’s 2020 audit engagement, WECC performed separate audits for Cyber Security/Critical Infrastructure Protection (“CIP”) and Operations and Planning (“O&P”) standards. WECC identified a standard scope comparable to 2017 for the CIP audit. However, the standards identified for O&P audit were fewer (four standards, seven requirements), with an oversight shift to the annual self-certification process. The Compliance Oversight Plan reflects WECC’s desire to continue emphasis in the cyber security space, including review of standard requirements effective since 2017, together with its confidence in the Department’s performance relative to risk.

In June 2020, a 14-member WECC Audit Team completed its evaluation of the Department’s compliance with nine CIP standards and 22 individual requirements, and found potential non-compliance for three requirements. The WECC Audit Team judged the instances of potential non-compliance as minimal risk. In February 2021, WECC Enforcement, which performs the final evaluation and adjudication, acknowledged potential noncompliance for two requirements. The Department has fully mitigated these instances and will work with WECC to close the enforcement actions.

On November 6, 2020, a five-member WECC Audit Team completed its evaluation of the Department’s O&P Standard compliance and found no potential non-compliance.

*Federal Energy Market Legislation.* Section 222 of the Federal Power Act prohibits electric energy market manipulation. The catalyst for these regulations was the market manipulation associated with the 2000-2001 Western energy crisis. The regulations and rules broadly apply to and affect municipal utilities such as the Department. The Department requires annual training for employees with responsibilities associated with the purchase and sale of energy and transmission, finance/risk management, and regulatory compliance.

Federal legislation allows the Commodity Futures Trading Commission to regulate clearing and exchange requirements for the purchase and sale of commodity derivatives, including energy derivatives, which legislation affects entities that transact with municipal utilities.

## **DEPARTMENT FINANCIAL INFORMATION**

### **Historical Sales**

Residential customers make up roughly one-third of total customer sales. Retail power sales in the Department’s service area are most affected by economic growth and weather conditions, mainly temperature. Annual peak load occurs in the winter season, due to the use of electricity for residential space heating. Short winter days also increase the consumption of power for both residential and nonresidential lighting. Increased load on hot summer days is due to nonresidential air conditioning. Summer peak load is well below winter peak load.

Table 5 shows that the number of residential and non-residential customers has been increasing during the last five years, at an average annual growth rate of 2.6%. Retail energy sales largely varied with weather between 2016 and 2020. Retail energy sales were flat in 2016, a cold 2017 drove retail energy sales up by 2%, significantly warmer than normal weather during parts of 2018 drove sales down by almost 4%, and a combination of warmer than normal weather and lower than expected industrial production from key customers resulted in only a slight increase in 2019. Retail energy sales dropped just over 5% in 2020 due to the COVID-19 pandemic-related public health measures and the related economic recession. Peak energy sales for the period 2016-2020 were 1,870 MW in January 2017 compared to the record peak load of 2,055 MW recorded in December 1990 due to unusually cold weather.

**TABLE 5**  
**RETAIL CUSTOMER ACCOUNTS, ENERGY SALES, AND ENERGY REQUIREMENTS**

	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
Average Number of Customer Accounts					
Residential	397,074	403,888	410,664	419,601	426,359
Non-Residential	50,258	50,608	50,859	50,779	51,219
Total Customer Accounts	447,332	454,497	461,523	470,380	477,577
Energy Sales (MWh) <sup>(1)</sup>					
Residential	2,917,984	3,132,079	2,992,914	3,091,019	3,192,877
Non-Residential	6,262,454	6,276,580	6,081,148	6,030,940	5,446,010
Total Energy Sales	9,180,438	9,408,659	9,074,062	9,121,959	8,638,887
Peak Demand (MW)	1,785	1,870	1,764	1,806	1,757
Energy Requirements (MWh)					
Total Energy Sales	9,180,438	9,408,659	9,074,062	9,121,959	8,638,887
Energy Used in Operation	24,912	26,691	25,642	26,962	26,203
System Losses <sup>(2)</sup>	491,233	537,750	573,525	387,653	549,228
Total Energy Requirements <sup>(3)</sup>	9,696,583	9,973,100	9,673,229	9,536,574	9,214,318

(1) Amounts include an allocation for the net change in unbilled revenues.

(2) Includes transmission and distribution losses.

(3) Firm energy required in the Department's service area.

Source: *Seattle City Light Department, Accounting Division*

## Largest Customers

Table 6 provides a list of the Department's ten largest customers in 2020.

**TABLE 6**  
**TOP TEN CUSTOMERS<sup>(1)</sup>**

<b>Customer</b>	<b>Customer Profile</b>	<b>Annual Dollars Billed</b>	<b>% Total Retail Revenue</b>
University of Washington	Higher Education	\$ 31,069,630	3.4%
Nucor Corporation	Steel Manufacturer	26,667,062	2.9%
Amazon	Technology Company	19,922,477	2.1%
Boeing	Airplane Manufacturer	14,375,676	1.6%
King County	Government	13,517,387	1.5%
Sabey Corporation	Data Center	12,907,550	1.4%
2001 Sixth LLC	Data Center	10,342,071	1.1%
City of Seattle	Government	9,623,450	1.0%
US Government	Government	8,388,653	0.9%
Ardagh Glass	Glass Containers Manufacturer	6,669,388	0.7%
		<b>\$ 153,483,343</b>	<b>16.6%</b>

- (1) Beginning in September 2016, the Department began recording Service Agreements rather than customer accounts as part of the implementation of the new retail electric billing system. One customer account can have several Service Agreements for the different types of services. Service Agreements determine how the Department and SPU charge customers for services provided. In 2018, the Department changed its method of reporting its top ten customers to define a customer based on a specific Service Agreement, resulting in some differences from top ten reports published in previous years.
- (2) Includes street lighting, which covers both the costs to provide electricity to street lights and the costs to install, service, repair, and replace street lights.

Source: Seattle City Light Department, Finance Division

## Financial Policies

In 2010, the City Council established revised financial policies and additional parameters for the RSA within the Light Fund. The financial policies include three main elements: (i) additional parameters for the funding, operation, and expenditure of amounts in the RSA, together with the creation of automatic rate surcharges to replenish the RSA, (ii) a rate-setting guideline to maintain debt service coverage, and (iii) a requirement for revenue funding a portion of the Department's capital program. Each provision is discussed in greater detail below.

*Rate Stabilization Account.* The RSA is drawn down to supplement revenues when surplus power sales revenues are below the budgeted amount (due to low water or lower wholesale prices, for example), and deposits are made to the RSA if surplus power sales exceed expectations. The financial policies specify the target size of the RSA between \$100 million and \$125 million and authorize the collection of a temporary automatic surcharge on electric rates in the event the RSA drops to \$90 million or below. Pursuant to City ordinance, the City Council is required to take action to bring the RSA balance down to \$125 million within a period of 12 or fewer months if, at any time, the balance exceeds \$125 million. See “—Retail Rates—Rate Changes 2013-2022” and “Security for the Bonds—Rate Stabilization Account.”

The RSA has been in use since January 1, 2011. The RSA balance of \$89.1 million in June 2016 fell below the surcharge trigger of \$90 million, which caused the automatic implementation of a 1.5% surcharge on August 1, 2016. The RSA balance of \$78.5 million in September 2019 fell below the second surcharge trigger of \$80 million, which caused the automatic implementation of an additional 1.5% surcharge on November 1, 2019. Both surcharges were removed March 31, 2021. See “Department Financial Information—Expectations for 2021 Operating Results.”

**TABLE 7**  
**AUTOMATIC SURCHARGES**

RSA Balance	Action
Less than or equal to \$90 million but greater than \$80 million	Automatic 1.5% surcharge
Less than or equal to \$80 million but greater than \$70 million	Automatic 3.0% surcharge
Less than or equal to \$70 million but greater than \$50 million	Automatic 4.5% surcharge
Less than or equal to \$50 million	City Council must initiate rate review within 45 days and determine actions to replenish RSA to \$100 million within 12 months

The 2022-2026 Strategic Plan includes the final step of the transition to less dependence on sales of surplus wholesale power that aligns with lower expected net wholesale volumes and market prices. The Department began implementing this reduction gradually in 2013 and transition is expected to continue through 2022. See “Seattle City Light Department—Strategic Plan.”

*Debt Service Coverage.* The Department’s financial policies require setting rates designed to achieve a debt service coverage ratio (Net Revenue divided by Debt Service) of 1.80x based on the annual Department budget. See Table 12—Historical Debt Service Coverage. The Bond Ordinance requires that gross revenues be sufficient to pay the Department’s maintenance and operation expenses and provide for the payments required to be made into the Parity Bond Fund.

*Funding of Capital Improvement Program.* The Department’s policy is to fund its CIP so that on average, over the term of any given six-year CIP, approximately 40% of the expenditures will be funded with cash from operations, including contributions to fund connections or extensions. The percentage of cash from operations available to fund the CIP in a given year varies, depending on the Department’s revenues and expenses. The Department intends to use cash from operations that was previously identified to be used for capital purposes for the retirement of outstanding debt. Cash from operations utilized for this purpose will be included toward meeting the target of 40% of CIP funding from cash from operations. See “Capital Requirements—Financing Plans.”

### **City Investment Pool**

The City’s Finance Department invests the Department’s funds. See “The City of Seattle—Investments” and Appendix C—2020 Audited Financial Statements of the Department—Note 5. The City’s Director of Finance is authorized to make loans to individual funds participating in the City’s common investment portfolio (the “Investment Pool”), including the Light Fund, by carrying such funds in a negative cash position for a period of up to 90 days, or for a longer period upon approval by the City Council by ordinance, to the extent such loans can be supported prudently by the Investment Pool and the borrowing fund is reasonably expected to be able to repay the loan. Such loans bear interest at the Investment Pool’s rate of return. Currently there are no Investment Pool loans to the Department. See “The City of Seattle—Investments—Interfund Loans.”

### **Taxation and Intergovernmental Payments**

The Department pays a utility tax to the City equal to 6% of Gross Revenues from retail sales, less certain adjustments. The proceeds of this tax are deposited into the City’s General Fund. The City Charter does not permit the Department to pay taxes to the City’s General Fund “until ample provision has been made for the servicing of the debts and obligations of the utility and for necessary betterments and replacements for the current year.” A State public utility tax is paid at a rate of 3.8734% of Gross Revenues from sales within the State, less certain adjustments.

Certain contractual payments are made to Pend Oreille and Whatcom Counties for services rendered by these jurisdictions where the Department has generating facilities. In addition, under the terms of franchise agreements with several suburban cities, the Department makes monthly payments to the cities of Shoreline, Burien, Lake Forest Park, SeaTac, and Tukwila (the “Franchise Cities”) in amounts ranging from 4% to 6% of the revenue from rates charged to customers residing in those cities. The Department is in the process of negotiating a franchise agreement with the



County for the unincorporated service area. See “—Retail Rates—Rates for Customers Outside the City of Seattle.” The Department incorporates expected payments to the suburban cities into the retail rates that it charges retail customers residing in those cities. See “—Retail Rates.”

## **Retail Rates**

*Rate Setting.* The City Council has exclusive jurisdiction with respect to establishing and revising the Department’s retail rates. State law requires that rates be fair, nondiscriminatory, and fixed to produce revenue that is adequate to pay operation and maintenance expenses of the Department and to meet all debt service requirements payable from such revenue. In its retail rate-setting capacity, the City Council is not subject to control by the Washington Utilities and Transportation Commission, but it is subject to certain rate-making provisions of the Public Utility Regulatory Policies Act of 1978 (“PURPA”). The Department has never been cited for failing to comply with PURPA, and believes that it is operating in compliance with PURPA’s requirements.

Since 1980, the City Council has conducted periodic reviews of the Department’s rate levels and rate structure, normally at intervals of two or three years. In the course of its rate reviews, the City Council holds public meetings to consider the Department’s proposed operating budget, capital improvements plan, load forecast, and resource plans. Based on these planning documents, as approved by the City Council, the Department’s staff estimates the Department’s revenue requirements and develops a rate proposal that is expected to produce the required amount of revenue and will allocate the revenue requirement among the various rate classes in accordance with adopted City policies. The City Council makes final decisions regarding rates through passage of a rate ordinance.

The current rate-setting objectives recommended by the Review Panel include maintaining transparency so that customers easily understand what services they are paying for, establishing rates sufficient to meet the annual revenue requirement, maintaining cost-based rates that are stable and predictable, encouraging the efficient use of resources needed to provide electrical service, designing rates that reflect the City’s Climate Action Plan with the goal of decarbonization, maintaining affordable rates for all customers including discounted rates for qualified low-income residential customers, and providing for customer choice in rates and billing options to reflect the diversity of customers’ energy needs and interest. The Department has a rate redesign initiative underway with the goal of meeting these objectives and providing customers a variety of pricing programs and pilots that will empower customers to manage how they consume and pay for the energy they need. The Department currently has three active rate pilots: (i) Residential Time-of-Day, (ii) Commercial Charging Time-of-Day, and (iii) Energy Equity, a comprehensive pilot geared towards assisting very low income customers not adequately supported by the current discount program. On March 29, 2021, the City Council approved a 3% base-rate increase on April 1, 2021, coincident with removing the existing 3% RSA surcharge, resulting in no net change to customers’ effective 2021 rates. At the same time, the City Council approved a 3.9% increase to base rates effective January 1, 2022.

*Automatic BPA Rate Pass-Through.* The City Council passed an ordinance in 2001 that allows the Department to pass through to its customers the financial impact of any increase or decrease in rates charged by BPA. The pass-through was amended by City Council ordinance in 2013 to clarify that the pass-through applies to both power and transmission rate changes. The Department uses forecast values for future BPA costs when it sets retail rates. When final BPA rates/costs are adopted, any differences in costs will be passed through to the Department’s customers via a per-kWh credit or charge. These rate changes take effect without passage of a new ordinance by the City Council. On April 22, 2021, BPA updated its preliminary October 1, 2021, rate changes to include a 4.6% average decrease in power rates and 11.2% increase in transmission rates. Final BPA rates are expected to be announced in July 2021. Given the decrease in BPA power rates and purchase volumes, the Department expects a BPA passthrough credit, effective January 1, 2022. See “Power Resources and Cost of Power—Purchased Power Arrangements.”

**TABLE 8**  
**RATE CHANGES, 2013-2021**

Effective Date	Percent Change	Type
January 1, 2013	4.4%	Base Rate Increase
October 1, 2013	1.2%	BPA Pass-Through
January 1, 2014	5.6%	Base Rate Increase
January 1, 2015	4.2%	Base Rate Increase
October 1, 2015	1.0%	BPA Pass-Through
January 1, 2016	4.9%	Base Rate Increase
August 1, 2016 <sup>(1)</sup>	1.5%	RSA Surcharge
January 1, 2017	5.6%	Base Rate Increase
October 1, 2017	-1.6%	BPA Pass-Through
January 1, 2018	5.6%	Base Rate Increase
January 1, 2019	5.8%	Base Rate Increase
November 1, 2019	-1.9%	BPA Pass-Through
November 1, 2019 <sup>(1)</sup>	1.5%	RSA Surcharge Increase
January 1, 2020	5.5%	Base Rate Increase
April 1, 2021 <sup>(2)</sup>	-3.0%	RSA Surcharge Decrease
April 1, 2021 <sup>(3)</sup>	3.0%	Base Rate Increase
January 1, 2022	3.9%	Base Rate Increase

(1) Temporary surcharge effective until the quarter-end RSA balance is \$100 million or more. The surcharge rate remains in effect. See “—Financial Policies—Rate Stabilization Account.”

(2) The 3% temporary RSA surcharge was removed on April 1, 2021.

(3) Base rates were increased by 3% on April 1, 2021.

*Rates for Customers Outside the City of Seattle.* The Department provides electric service to the residents and businesses in the Franchise Cities and unincorporated parts of the County under individual franchise agreements. The agreements grant the Department a non-exclusive franchise to operate within the right-of-way owned by the Franchise Cities and the County, and establish terms and conditions under which the Department works with the Franchise Cities and the County on a variety of related issues, including rates as established by the City Council, fees, and operational requirements. Rates for Department customers in the Franchise Cities and unincorporated parts of the County are up to 8% higher than rates for customers located within the Seattle city limits. The exact rate difference varies and depends on the terms of each franchise agreement.

Fifteen-year franchise agreements are currently in place for four Franchise Cities. Recently renewed agreements expire in 2029 (Shoreline) and 2030 (Lake Forest Park, SeaTac, and Burien). Tukwila’s franchise agreement expired in March 2018, and services are continuing under the expired agreement. The Department has two franchise agreements with the County that have expired, but services are continuing to be provided to those unincorporated areas under the expired contracts. The Department is in negotiations with the County to renew its expired agreements. The Franchise Cities represent approximately 84% of the Department’s retail power sales outside the City but within the service area; the unincorporated areas of the County represent approximately 15.8%.

The franchise agreements include provisions for payment for service levels that exceed the standard levels normally provided by the Department. The Department currently collects revenue from customers in Shoreline and Burien to reimburse the capital costs of seven completed undergrounding projects: five in Shoreline and two in Burien. These undergrounding charges will be in effect for approximately 25 years, or until the Department has been reimbursed with interest for the capital cost of the projects.

The Department's service area also includes portions of the cities of Normandy Park and Renton, which represent less than 1% of sales outside the City's boundaries. These areas are charged the suburban rates but do not have franchise agreements with the Department.

*Voluntary Green Power Program.* Pursuant to State law, since 2002 the Department has provided customers the option of making voluntary payments to fund new renewable resources. Currently, there is one voluntary green power program for residential and non-residential customers, Green Up, which allows customers to purchase green power at a retail price of \$10 per MWh. Green Up revenues are used to acquire RECs, to administer and market the program, and to invest in new local solar projects with a community benefit. Residential and non-residential customers may participate by purchasing as many blocks of 100 kWh for \$1 as they choose or by matching their billed electricity consumption at the percentage of their choosing. Non-residential customers may also purchase RECs separately from their bill, for example, to earn LEED (Leadership in Energy and Environmental Design) credits, or to purchase green power for events. As of December 31, 2020, 10,625 customers participated in Green Up through payments on their bills. Green Up revenue in 2020 totaled \$921,243. REC purchases on behalf of Green Up customers totaled 92,124 MWh in 2020. Green Up is certified and annually audited by Green-e, a clean energy certification program offered by the non-profit Center for Resource Solutions.

*Rate and Bill Comparisons.* Table 9 shows average rates and bills paid by the various customer classes, and Table 10 compares annual amounts paid by the Department's customers and the customers of neighboring utilities. The Department's rates are competitive within the Puget Sound region and among large cities in the United States, according to a comparison of the largest 25 cities based on the Edison Electric Institute Summer 2020 Typical Bills and Average Rates Report and direct survey.

**TABLE 9**  
**AVERAGE RATE IN CENTS PER KWH AND MONTHLY BILLS**  
**(AS OF APRIL 1, 2021)**

	Average Revenue in Cents per kWh							Average Monthly Bills (\$)						
	City Standard	City Network <sup>(1)</sup>	Burien	Lake Forest Park	SeaTac and Shoreline	Suburban <sup>(2)</sup>	Tukwila	City Standard	City Network <sup>(1)</sup>	Burien	Lake Forest Park	SeaTac and Shoreline	Suburban <sup>(2)</sup>	Tukwila
<b>Residential</b>														
500 kWh per month	11.8	(3)	12.9	12.9	12.9	11.8	12.8	59	(3)	64	64	64	59	64
1,000 kWh per month	12.5		13.5	13.5	13.5	12.5	13.4	125		135	135	135	125	134
2,000 kWh per month	12.9		13.8	13.8	13.8	12.9	13.8	258		277	277	277	258	275
<b>Small General Service</b>														
10,000 kWh per month (40kW)	10.5	(3)	11.1	11.1	11.1	10.5	11.0	1,053	(3)	1,105	1,105	1,105	1,053	1,100
<b>Medium General Service</b>														
20,000 kWh per month (60kW)	9.2	12.5	10.0	10.0	10.0	9.2	10.0	1,847	2,492	1,996	1,996	1,996	1,847	1,993
200,000 kWh per month (500kW)	9.0	12.0	9.8	9.8	9.8	9.0	9.8	18,065	24,055	19,525	19,525	19,525	18,065	19,500
<b>Large General Service</b>														
400,000 kWh per month (1,000kW)	8.9	11.3	9.5	9.7	9.6	8.8	34.0	35,610	45,134	38,156	38,600	38,451	35,204	136,200
1,800,000 kWh per month (5,000kW)	9.0	11.5	9.7	9.8	9.7	8.9	34.2	162,169	207,291	173,783	175,782	175,110	160,344	614,973
<b>High Demand General Service</b>														
6,000,000 kWh per month (20,000kW)	8.7	(4)	(4)		(4)	(4)	9.4	519,920	(4)	(4)		(4)	(4)	564,973
18,000,000 kWh per month (60,000kW)	8.7						9.4	1,559,759						1,694,919

- (1) City Network includes Medium and Large General Service customers in downtown Seattle that are served by an underground, interconnected distribution network, which provides a higher level of reliability than typical radial distribution. City Network's higher rates reflect the higher costs of building and maintaining this type of distribution service.
- (2) All jurisdictions outside the City of Seattle, except the cities of Burien, Lake Forest Park, SeaTac, Shoreline, and Tukwila.
- (3) Residential and Small General Service customers receiving City Network service are charged City standard rates.
- (4) All High Demand General Service customers are located in Seattle or Tukwila.

Source: Seattle City Light Department, Finance Division

**TABLE 10**  
**ANNUAL BILL COMPARISONS WITH OTHER PUGET SOUND UTILITIES**  
**(AS OF APRIL 1, 2021)**

Monthly Use		Seattle	Puget Sound	Snohomish	Tacoma
kWh	kW	City Light (\$) <sup>(1)</sup>	Energy (\$) <sup>(2)</sup>	County PUD (\$) <sup>(3)</sup>	Power (\$) <sup>(4)</sup>
Residential					
100		187	212	205	304
500		708	678	682	692
1,000		1,504	1,364	1,492	1,176
3,000		4,686	4,208	3,900	3,113
Small General Service					
300	1	379	518	488	569
3,000	10	3,791	3,992	3,593	3,156
12,000	40	15,163	15,572	13,942	11,777
Medium General Service					
150,000	500	168,600	193,115	167,233	141,950
200,000	500	216,780	234,811	211,626	171,926
360,000	900	390,204	421,536	379,733	308,700
Large General Service					
300,000	1,000	332,038	384,825	332,975	282,940
1,000,000	5,000	1,183,793	1,501,539	1,214,979	1,111,092
2,500,000	7,500	2,728,483	3,085,529	2,709,579	2,265,690
High Demand General Service					
6,000,000	20,000	6,239,036	7,669,785	6,631,155	5,640,552
18,000,000	60,000	18,717,108	23,006,543	19,890,483	16,919,736
24,000,000	60,000	24,032,144	28,010,082	25,217,619	20,516,928
Last Rate Change		04/01/21	01/01/21	10/1/2017	7/1/2020

(1) The Department's rates include municipal taxes.

(2) Puget Sound Energy's Large Demand General Service is compared to the Department's Medium, Large, and High Demand General Service. Bills are adjusted by 6% to reflect city taxes.

(3) Snohomish PUD's General Service, Medium Load, is compared to the Department's Medium, Large, and High Demand General Service. Bills are adjusted by 6% to reflect the City of Everett's utility tax rate.

(4) Tacoma Power's Small General Service is compared to the Department's Small General Service. Electric rates include municipal taxes.

Source: Seattle City Light Department, Finance Division

### Billing and Collection Processes

The City's utility billing function is co-managed by both SPU and the Department. SPU provides customer service through the call center and walk-in center. The Department operates and manages the billing system. SPU and the Department bill and reimburse each other for these services. The Department currently bills the majority of its residential customers and some small commercial customers bi-monthly and all other customers monthly. All bills are due within 21 days of receipt.

The Department has established various payment programs for its customers, including a levelized payment program (to allow for monthly payments) and an Automatic Bill Payment program. The majority of the customers on the levelized payment program are billed bi-monthly. An exception is made when a customer is enrolled in both the levelized payment plan and the automatic bill payment program, in which case all of the billed amount is drafted from the customer's bank account by the bill due date.

If the customer is not able to pay the entire amount of the billed charges by the due date, the Department allows the customer to make a payment plan. Customers also have the option to either make a one-time online payment or sign up for recurring automatic online payments using debit/credit cards or bank account information, as long as the account is in good standing.

Due to the COVID-19 pandemic, walk-in payment centers and customer service counters are temporarily closed and bills are collected by phone or mail or online. In addition, the Department has modified its current payment plan of paying the balance within 60 days with 50% down payment to 120 days with as low as 0% down payment. These payment plans are eligible for all customers including residential, commercial, and industrial. The maximum amount to be deferred for high-energy users is \$50,000. When the customer receives a billing statement within the deferment payment, the customer may continue to defer that billing statement for up to an additional 120 days, if needed, with 0% down payment.

City Light Credit and Collection teams have been contacting delinquent customers to provide assistance with payment plans and payment arrangements or offering information on the UDP, including external federal agencies for further assistance, *e.g.*, Byrd Barr, Multiservices, LIHEAP.

Customers who have lost significant income may apply to the UDP for a reduction of 60% from billing statement energy consumption charges. Pre-COVID-19, residential customers could apply only if at least 70% of poverty federal guidelines were met. Applicants went through a rigorous process of paper proof documentation, which could take up to two months to be approved. In the COVID-19 era, a paperless system created by an auto-enrollment website is used, in which it asks the question of monthly income without requiring proof. However, customers will be required to provide proof of identification and income six months from applying on the website. If a customer's gross income and the number of dependents meet requirements, then the customer is auto-enrolled in future discounts for two years (three years for seniors). It takes an average of one to two billing statements for the customer to receive a 60% discount energy bill statement credit. Before the discounted benefit expires, the customer will receive an email reminder, or a postcard for those customers who do not have email access, to review the customer's gross income to ensure that the qualifications are met appropriately. The Department also has programs to provide financial assistance to the customer if a past due notice is received and the customer potentially qualifies for the Department's Emergency Low Income Assistance program and/or Project Share. These two programs assist customers with reducing the past due amount in order to catch up, when a payment plan may be set up for short- or long term payments.

As of April 3, 2020, the Department's customers have not been charged a late fee (1% of balance past due). All customers are included: residential, commercial, and industrial. If the customer calls to make a late payment on the account, late fees applied prior to April 3, 2020, may be waived as a one-time adjustment. Additional COVID-19-related measures include more generous customer arrangement payment terms and increased leniency with respect to the UDP application process.

The total balance of accounts overdue at least 30 days significantly increased as a result of the COVID-19 pandemic, increasing from \$30.6 million at the end of the 2019 to \$52.0 million at the end of 2020. The balance as of May 31, 2021, was \$57.6 million. As of May 2021, approximately 60,000 commercial and residential customer accounts (12%) are past due by at least 30 days.

As permitted by State law, the Department's collection policy provides for disconnection of power for nonpayment of amounts due the Department. No customer has been disconnected for nonpayment since 2016. As part of the Department's response to the COVID-19 pandemic, customers will not have their power disconnected as a result of nonpayment. The COVID-19-related measures implemented by the Department and discussed above are expected to lead to higher rates of delinquency in the near term.

The State-wide moratorium on disconnections for nonpayment is in effect until July 31, 2021, and prohibition on late fees is in effect until October 27, 2021, or until the state of emergency is lifted, whichever is sooner. These dates may be further extended.

The current Customer Case Billing system was implemented in 2016 after a series of delays. The system has the capability to perform remote disconnection for customers that possess an Automated Meter Infrastructure. Currently, this option is not being utilized.

### **Historical Operating Results 2016-2020**

Table 11 presents information on operating results for the period 2016-2020, along with revenue available for debt service. Revenue available for debt service is then used in Table 12 to calculate the debt service coverage ratio in each of those years.

Note that historical information may not be indicative of future expectations in light of the COVID-19 pandemic. See “Seattle City Light Department—COVID-19 Pandemic.”

*The financial statements of the Department as of and for the fiscal year ended December 31, 2020, included herein as Appendix C, have been audited by Baker Tilly Virchow Krause, LLP (“Baker Tilly”), independent accountants, as stated in its report appearing herein. The City has not requested that Baker Tilly provide consent for inclusion of its audited financial statements in this Official Statement, and neither the City’s independent auditors nor the State Auditor nor any other independent accountants have compiled, examined, or performed any procedures with respect to this Official Statement or any financial information contained herein, nor have they expressed any opinion or any other form of assurance on such information, and they assume no responsibility for, and disclaim any association with, this Official Statement and such information.*

**TABLE 11**  
**SUMMARY OF HISTORICAL OPERATING RESULTS**  
(\$000)

	2016	2017	2018	2019	2020
<b>OPERATING REVENUES:</b>					
Retail power revenues	\$ 788,029	\$ 875,235	\$ 868,611	\$ 938,871	\$ 926,678
Short-term wholesale power revenues	62,909	60,868	61,025	43,223	51,322
Other power-related revenues <sup>(1)(2)(3)</sup>	32,558	35,791	45,923	52,183	40,790
Transfers from/(to) Rate Stabilization Account <sup>(4)</sup>	(142)	(2,264)	(3,518)	22,771	(22,706)
Other operating revenues	19,821	20,080	19,573	22,376	19,682
<b>Total Operating Revenues</b>	<b>\$ 903,175</b>	<b>\$ 989,710</b>	<b>\$ 991,614</b>	<b>\$ 1,079,424</b>	<b>\$ 1,015,766</b>
<b>OPERATING EXPENSES:</b>					
Long-term purchased power—Bonneville and other	\$ 219,795	\$ 224,857	\$ 217,765	\$ 215,934	\$ 216,635
Short-term wholesale power purchases	15,048	15,223	18,524	34,292	10,049
Other power expenses	60,052	65,358	70,243	74,369	72,500
Transmission <sup>(5)</sup>	53,488	52,514	54,200	52,450	54,582
Distribution	63,522	60,402	61,927	60,433	56,319
Customer service	42,636	49,390	55,723	33,680	58,606
Conservation	30,217	32,505	32,945	33,377	33,301
Administrative and general	104,998	128,687	96,189	122,853	127,299
Taxes	85,202	94,765	91,766	100,072	101,242
Depreciation and amortization	120,808	128,768	123,956	145,809	149,785
<b>Total Operating Expenses</b>	<b>\$ 795,766</b>	<b>\$ 852,469</b>	<b>\$ 823,238</b>	<b>\$ 873,269</b>	<b>\$ 880,318</b>
<b>Net Operating Revenue <sup>(6)</sup></b>	<b>\$ 107,409</b>	<b>\$ 137,241</b>	<b>\$ 168,376</b>	<b>\$ 206,155</b>	<b>\$ 135,448</b>
<b>Adjustments to Net Operating Revenue <sup>(7)</sup></b>					
City taxes <sup>(8)</sup>	\$ 48,456	\$ 54,414	\$ 53,410	\$ 58,431	\$ 57,567
Depreciation and amortization	120,807	128,768	123,956	145,809	149,785
Depreciation and amortization included in operating and maintenance expenses <sup>(9)</sup>	29,871	32,412	32,996	30,824	32,476
Pension expense <sup>(10)</sup>	40,797	37,055	21,985	33,640	24,655
Pension contributions <sup>(10)</sup>	(25,331)	(23,714)	(24,657)	(24,825)	(28,746)
Valuation on exchange power, net <sup>(2)(3)</sup>	16	20	875	0	0
BPA Conservation Augmentation/Agreement revenue <sup>(11)</sup>	(1,233)	(1,592)	(1,884)	(2,143)	(2,392)
Investment income <sup>(12)</sup>	7,342	7,422	10,946	10,731	10,756
Non-cash expenses <sup>(13)</sup>	1,806	2,362	841	1,005	3,383
Other <sup>(14)</sup>	1,988	2,405	1,564	3,028	3,403
<b>Total Adjustments</b>	<b>\$ 224,519</b>	<b>\$ 239,552</b>	<b>\$ 220,032</b>	<b>\$ 256,501</b>	<b>\$ 250,887</b>
<b>Net Revenue Available for Debt Service</b>	<b>\$ 331,928</b>	<b>\$ 376,793</b>	<b>\$ 388,408</b>	<b>\$ 462,656</b>	<b>\$ 386,335</b>



**NOTES TO TABLE:**

- (1) Includes conservation and renewable credits under the power sales contract with BPA, the recognition of payments from BPA for the purchase of conservation savings, revenue from deliveries of power to Pend Oreille PUD pursuant to the Boundary Project's FERC license, and other energy credits.
- (2) Effective January 1, 2016, the Department adopted GASB Statement No. 72, *Fair Value Measurements and Application*. Non-monetary transactions are measured at fair value and are valued at market.
- (3) Includes significant activity for the valuation of energy delivered under seasonal exchanges, basis sales, and other power exchange contracts. Energy exchanges have both revenue and expense components; therefore, a net revenue or expense adjustment is made for a given year.
- (4) Transfers from/(to) the RSA in accordance with Ordinance 123260, primarily to address fluctuations in surplus power sales.
- (5) Net of revenue from the short-term sale of excess transmission capacity.
- (6) Operating income per audited financial statements.
- (7) Significant non-cash transactions are adjusted from Net Operating Revenue to calculate Revenue Available for Debt Service. Furthermore, some types of revenue in addition to Operating Revenue are included to calculate Revenue Available for Debt Service. These adjustments are listed in the remaining lines in this table, and are unaudited.
- (8) City taxes are included as an adjustment to Net Operating Revenue when determining Net Revenue Available for Debt Service because the lien of such taxes on revenue is junior to debt service in accordance with the Bond Ordinance.
- (9) The majority of the depreciation and amortization (non-cash) expenses included in Operating and Maintenance Expense are for amortization of conservation expenses that are recognized over a 20-year period.
- (10) Pension expense is the amount recorded for compliance with GASB Statement No. 68, implemented in 2015, a non-cash item. Pension contributions are the Department's cash contributions to the Seattle City Employees' Retirement System.
- (11) Payments received for conservation measures are initially recorded as unearned revenue. The adjustment represents the amount of revenue amortized and recognized over future periods for financial reporting, a non-cash transaction.
- (12) Investment income is not included in Total Revenue in this table; therefore, an adjustment is made to Net Operating Revenue, consisting primarily of interest earnings from the City's cash pool and interest receipts from suburban underground charges. This amount excludes unrealized gains and losses, which are non-cash adjustments.
- (13) Effective 2018, includes adjustment for GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, in addition to claim expenses and capital project expenditures from prior years that were determined not to be capital expenditures.
- (14) Includes proceeds from sale of properties, principal receipts from suburban underground charges from local jurisdictions, and miscellaneous items.

*Source: Audited Financials through Net Operating Revenue; the remainder is unaudited information; Seattle City Light Department, Accounting Division*

*Historical Debt Service Coverage.* The Bond Ordinance does not define a "coverage requirement" beyond what is necessary to pay all Operating and Maintenance Expense, to pay into the Parity Bond Fund the amounts required to be applied to the payment of debt service on the Outstanding Parity Bonds, to pay into the Junior Lien Debt Service Fund the amounts (if any) required to be paid into that fund in respect of outstanding Junior Lien Bonds, and to pay all other indebtedness to which revenues of the Light System have been pledged. See "Security for the Bonds—Rate Covenant" and Appendix A—New Money Ordinance—Section 17(a)(ii). The Department's financial policies require the Department to set electric rates designed to achieve a debt service coverage ratio of 1.80x, based on the annual Department budget. The test for the issuance of Future Parity Bonds requires delivery of a Parity Certificate demonstrating coverage of Net Revenue equal to 125% of Maximum Annual Debt Service on all Parity Bonds then outstanding plus the proposed series of Future Parity Bonds, with certain permitted adjustments. See "Security for the Bonds—Future Parity Bonds" and Appendix A—New Money Ordinance—Section 18(a)(ii).

Historically, the ordinances authorizing bonds have not provided a definition for the phrases describing operating and maintenance expense as used in those ordinances in the definitions of Net Revenue, the rate covenant, and the Parity Conditions. Nonetheless, the Department has historically calculated the operating expenses for these purposes in accordance with applicable Generally Accepted Accounting Principles ("GAAP"). For purposes of clarification, beginning in 2017 ordinances authorizing the issuance of Parity Bonds, including the Bond Ordinance, have adopted a definition for the term "Operating and Maintenance Expense" that is consistent with its historical practice. See Appendix A—New Money Ordinance—Section 1.

The debt service coverage calculations set forth below are intended to reflect compliance with the rate covenant and the Future Parity Bond covenant contained in the Bond Ordinance and described under “Security for the Bonds” and for no other purpose. Such calculations reflect the application of non-recurring or extraordinary accounting transactions permitted under the Bond Ordinance and GAAP.

In providing a rating on the Bonds, certain rating agencies may have performed independent calculations of coverage ratios using their own internal formulas and methodology, which may not reflect the provisions of the Bond Ordinance. See “Other Bond Information—Ratings on the Bonds.” The City makes no representation as to any such calculations, and such calculations should not be construed as a representation by the City as to past or future compliance with any bond covenants or the availability of particular revenues for the payment of debt service, or for any other purpose.

**TABLE 12**  
**HISTORICAL DEBT SERVICE COVERAGE**  
**(\$000)**

	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
Net Revenue Available for Debt Service	\$ 331,928	\$ 376,793	\$ 388,408	\$ 462,656	\$ 386,335
Debt Service on Parity Bonds <sup>(1)</sup>	\$ 196,548	\$ 203,264	\$ 212,427	\$ 220,785	\$ 223,000
Debt Service Ratios-Times Covered on Parity Bonds <sup>(2)</sup>	1.69	1.85	1.83	2.10	1.73

(1) Net of federal subsidy payments. See “Other Considerations Relative to the City—Federal Policy Risk and Other Federal Funding Considerations.”

(2) Net Revenue Available for Debt Service (see Table 11) divided by Debt Service on Parity Bonds.

*Source: Seattle City Light Department, Accounting Division*

### **Management Discussion of Historical Operating Results 2016-2020**

This section provides a discussion of operating results for the period 2016-2020, based on information in Tables 11 and 12, and an expanded discussion for the period 2019-2020, based on a summary of the Management’s Discussion and Analysis included in Appendix C—2020 Audited Financial Statements of the Department.

*Summary 2016-2020.* Retail revenues increased from \$788.0 million in 2016 to \$926.7 million in 2020, primarily due to the Department’s average system rate increases during this period (see “—Retail Rates”). This increase in retail revenues also reflects the increase in the number of customers, from 447,332 in 2016 to 477,577 in 2020.

Net wholesale revenue (excluding bookouts) varied during this period, ranging from a high of \$53.2 million in 2016 to a low of \$15.5 million in 2019. This variability is primarily due to fluctuations in hydro volumes, wholesale power market prices, and retail load. The RSA has been in place since January 1, 2011; less-than-budgeted net wholesale revenue in 2019 was offset by greater RSA rate surcharge revenue and resulted in a net cash transfer from the operating cash to the RSA. An RSA rate surcharge of 1.5% has been in effect since August 1, 2016, as the RSA balance dropped below \$90.0 million at the end of June 2016. An additional RSA rate surcharge of 1.5% was imposed effective November 1, 2019, because the RSA balance fell below the next trigger level of \$80.0 million at the end of the third quarter. A total 3.0% RSA rate surcharge remained in effect for all of 2020. These surcharges were removed on March 31, 2021. The RSA balance was \$96.8 million at the end of 2020. See “—Financial Policies—Rate Stabilization Account.”

Debt service on Parity Bonds increased from \$196.5 million in 2016 to \$223.0 million in 2020. Debt service coverage ranged from a low of 1.69x in 2016 to a high of 2.10x in 2019. See Table 12. Debt service coverage for 2020 was significantly lower than projected as a result of the economic impacts of the COVID-19 pandemic, including lower than planned operating revenues, higher bad debt expense, and higher administrative and general (“A&G”) costs. The Department’s financial policies require the Department to set electric rates designed to achieve a debt service coverage ratio of 1.80x, based on the annual Department budget. Table 12 shows that, historically, the Department achieved this level of coverage except in years 2016 and 2020.

Billed retail sales decreased by 5.3% between 2019 and 2020, due primarily to changes in customer energy usage as a result of COVID-19. The majority of the changes in the Department's billed retail sales from 2016-2020 is attributed to impacts of weather. On a weather-adjusted basis, retail sales are estimated to be relatively flat, showing only a small gradual decline over this time period. The number of customers has been growing significantly but the use per customer has been declining because of efficiencies including LED lighting, appliance standards, and improved building standards. The Department's robust conservation program is also contributing to the declining use per customer. See "Capital Requirements—Conservation." The Department's adopted 2020 retail sales forecast projects a gradual decline of retail sales over the next six years. See "Seattle City Light Department—Strategic Plan."

*Operating Revenues—2020 vs. 2019.* Retail revenues in 2020 were \$926.7 million, \$12.2 million or 1.3% lower than in 2019 and \$35 million lower than the amount budgeted for 2020. The effect of the COVID-19 pandemic yielded positive results for revenues from residential customers as many customers worked remotely from home, resulting in increased billed consumption of 4.1%. Conversely, due to the pandemic, many nonresidential customers reduced normal operations resulting in lower billed consumption of 3.9%. Retail power revenues were also affected by the 5.5% average rate increase at the beginning of the year, the additional 1.5% RSA surcharge in effect since November 2019 for a total 3.0% surcharge during 2020, the BPA rate pass-through negative adjustment of 1.9%, also effective since November 2019, and the effect of colder than normal weather in March. Rate discounts to certain customers also reduced revenues because of increased UDP participation. Lower unbilled revenue followed the same general trend as billed revenue at the end of the year. The number of retail customers increased to 477,577 in 2020, a 1.5% increase from 2019.

Net wholesale revenue was \$47.7 million, an increase of \$32.2 million, or 207.6%, from the historically low levels seen in 2019. Wholesale power sales were \$51.3 million in 2020, an increase of \$8.1 million from 2019, while wholesale power purchases decreased by \$24.2 million to \$10.0 million. The considerable increase in net wholesale power revenues was in large part due to lower short-term wholesale purchased power because of lower load requirements due to COVID-19 and the Department's entry into the EIM with CAISO in April. Lower overall power market prices for purchases also contributed to the higher net short-term wholesale power revenues. See "Power Resources and Cost of Power—Wholesale Market Sales and Purchases."

Other power-related revenues, including valuation of power exchanges, decreased by \$11.4 million to \$40.8 million in 2020. Other power-related purchases, including valuation of power exchanges, decreased by \$6.7 million to \$15.2 million in 2020, resulting in net other power-related revenues of \$25.6 million in 2020, a net decrease of \$4.7 million or 15.4% from net other power-related revenues of \$30.3 million in 2019. In 2020, net transfers to the RSA unearned revenue account were \$22.7 million, the net effect of the RSA rate surcharge revenues, transfers from the RSA unearned revenue account for lower wholesale power revenues compared to budget, and interest earnings. In 2019, net transfers from the RSA were \$22.8 million, the result of similar comparable components with different amounts.

Revenues from other sources decreased slightly by \$2.7 million, totaling \$19.7 million in 2020.

*Operating Expenses—2020 vs. 2019.* In 2020, long-term purchased power (BPA and other) increased by \$0.7 million to \$216.6 million. Other power expenses, including generation, power exchanges, and other at \$72.5 million, were \$1.9 million lower because of lower volumes and market prices for exchange contracts and ancillary purchase contracts. Transmission expenses, including wheeling, were \$54.6 million in 2020, an increase of \$2.1 million from 2019. See "Power Resources and Cost of Power—Department-Owned Resources—Skagit Project." Distribution expenses decreased by \$4.1 million to \$56.3 million.

Other operating and maintenance expenses for customer service, conservation, and A&G, at \$219.2 million, increased by \$29.3 million from 2019. Customer service expenses were higher by \$24.9 million, driven primarily by higher bad debt expense for retail sales and sundry billings. Collection activity was suspended for the majority of 2020 in response to the economic impacts of COVID-19 on Department customers. This resulted in higher bad debt expense of \$19.0 million for retail electric accounts. See "Legal and Tax Information—Other Litigation." Sundry billings experienced higher bad debt expense of \$1.7 million, also related to the economic impacts of COVID-19. Conservation expense increased by \$0.2 million.

A&G costs, offset by general overhead allocation, increased a net \$4.4 million. Labor, related overhead, and other expenses increased by \$8.4 million for emergency management and administrative-related work as a result of adherence to necessary COVID-19 adjustments to operations. Higher expenses of \$3.4 million were incurred for estimated injury claims and damages, based on most recent studies. Employment benefits expenses decreased by \$11.0 million, due to lower pension expenses, based on the most recent actuarial study, and the allocation of employment benefits from A&G costs increased by \$10.1 million. Other costs for normal operations increased \$1.1 million. The pandemic interrupted work on capital projects, and the general overhead allocation from A&G was \$12.6 million lower.

Taxes in 2020 were \$101.2 million, an increase of \$1.1 million from 2019. Depreciation and amortization, at \$149.8 million, increased by \$4.0 million as a result of recent additions to plant in service for distribution, generation, and general plant.

*Net Operating Revenue—2020 vs. 2019.* Net operating revenue in 2020 was \$135.4 million, \$70.7 million lower than in 2019, primarily because of the economic impacts of COVID-19, including lower operating revenues, higher bad debt expense, and higher A&G costs related to COVID-19 response.

Although not included in Table 11, changes in nonoperating revenues and expenses provide additional information on the financial condition of the Department. Nonoperating revenues increased by \$0.9 million to \$26.7 million in 2020. The largest increase was attributable to release of easements to the City of Bellevue in connection with the construction of the regional light rail system in progress. The remaining balance increase was for normal operations.

Nonoperating expenses at \$93.7 million were higher by \$0.7 million. Net interest expense for bonds was higher by \$3.4 million on account of additional bonds outstanding in 2020. This was offset by \$2.7 million of net amortization of bond costs, mostly for bond premium amortization. The Department elected not to apply interest during construction to capital projects in progress effective beginning 2019 in accordance with GASB Statement No. 89—Accounting for Interest Cost Incurred Before the End of a Construction Period.

Capital contributions and grants decreased by \$10.0 million to \$53.8 million in 2020, primarily due to interruption in service connection projects because of the pandemic.

### **Expectations for 2021 Operating Results**

The Department expects 2021 financial performance to improve compared to 2020. The Department's 2021 debt service coverage ratio is currently expected to be 1.84x, exceeding the City Council-adopted financial policy target of 1.80x. Net income for 2021 is expected to be \$122.7 million.

Retail revenue is currently expected to be approximately 1% higher than 2020, driven by a gradual recovery in commercial retail sales from initial COVID-19 impacts and partially offset by declining sales due to energy efficiency. Operating expenses are expected to be approximately at planned levels and include \$30 million of targeted budget reductions to help offset some of the impacts of lower retail sales compared to pre-pandemic expectations. Long-term purchased power costs and power marketing costs are expected to come in slightly below planned levels.

Q1 2021 generation was above average at the Department's main generating facilities. As of April 23, 2021, runoff flows (April-September) at the Skagit Project are expected to be above average at 107%; however, runoff flows at the Boundary Project are expected to be much lower than expected, at 85%. Net wholesale revenue is expected to be \$64.4 million, \$4.4 million above the budgeted amount of \$60 million. There has been a 1.5% RSA surcharge in effect since August 1, 2016, and an additional 1.5% surcharge was triggered on November 1, 2019. Both were removed effective March 31, 2021, and replaced with a 3.0% increase to base rates. The RSA balance is expected to remain over its \$100 million target level for the remainder of the year. See “—Financial Policies—Rate Stabilization Account.”

Currently the Department does not anticipate receiving significant federal relief funding relative to the COVID-19 pandemic and the Department's projections do not assume the receipt of any such funding.

**Debt Service Requirements**

As of June 21, 2021, the principal amount of Outstanding Parity Bonds (excluding the Bonds and including the Refunding Candidates) totaled \$2,475,725,000. See “Security for the Bonds—Outstanding Parity Bonds.” Principal and interest payments due on the Department’s Outstanding Parity Bonds are shown in Table 13. See “Capital Requirements—Financing Plans” for a discussion of the Department’s future financing plans.

**Outstanding Variable Rate Parity Bonds**

As of June 21, 2021, the City has \$192,150,000 of variable rate Parity Bonds outstanding, consisting of \$100,270,000 Municipal Light and Power Revenue Bonds, 2018B-1 and 2018B-2 (SIFMA Index) and \$91,880,000 Municipal Light and Power Revenue Bonds, 2018C-1 and 2018C-2 (SIFMA Index).

**Subordinate Obligations**

In the Bond Ordinance, the City has established a Junior Lien position and has reserved the right to issue Junior Lien Bonds (which term includes Junior Lien Payment Agreements and Junior Lien Reimbursement Obligations) in the future under certain conditions set forth in the Bond Ordinance. There are no currently outstanding Junior Lien Bonds. See “Security for the Bonds—Subordinate Lien Obligations.”

**TABLE 13**  
**DEBT SERVICE REQUIREMENTS**

Year	Outstanding Parity Bonds <sup>(1)</sup>			The Bonds <sup>(3)</sup>			Total Parity Bonds		
	Principal	Interest <sup>(2)</sup>	Total	Principal	Interest	Total	Principal	Interest <sup>(2)</sup>	Total
2021 <sup>(4)</sup>	\$ 117,665,000	\$ 113,079,229	\$ 230,744,229	\$ -	\$ -	\$ -	\$ 117,665,000	\$ 113,079,229	\$ 230,744,229
2022	121,005,000	108,210,211	229,215,211	2,970,000	9,247,234	12,217,234	123,975,000	117,457,445	241,432,445
2023	123,530,000	102,198,101	225,728,101	2,845,000	9,472,900	12,317,900	126,375,000	111,671,001	238,046,001
2024	127,330,000	96,047,452	223,377,452	2,990,000	9,330,650	12,320,650	130,320,000	105,378,102	235,698,102
2025	117,390,000	89,693,998	207,083,998	3,140,000	9,181,150	12,321,150	120,530,000	98,875,148	219,405,148
2026	113,065,000	84,591,588	197,656,588	3,295,000	9,024,150	12,319,150	116,360,000	93,615,738	209,975,738
2027	91,115,000	79,579,849	170,694,849	3,460,000	8,859,400	12,319,400	94,575,000	88,439,249	183,014,249
2028	95,035,000	75,268,430	170,303,430	3,635,000	8,686,400	12,321,400	98,670,000	83,954,830	182,624,830
2029	89,560,000	71,323,339	160,883,339	3,815,000	8,504,650	12,319,650	93,375,000	79,827,989	173,202,989
2030	75,570,000	67,750,812	143,320,812	4,005,000	8,313,900	12,318,900	79,575,000	76,064,712	155,639,712
2031	78,615,000	64,553,582	143,168,582	4,205,000	8,113,650	12,318,650	82,820,000	72,667,232	155,487,232
2032	81,710,000	61,300,117	143,010,117	4,415,000	7,903,400	12,318,400	86,125,000	69,203,517	155,328,517
2033	84,955,000	57,916,013	142,871,013	4,595,000	7,726,800	12,321,800	89,550,000	65,642,813	155,192,813
2034	87,245,000	54,740,155	141,985,155	4,775,000	7,543,000	12,318,000	92,020,000	62,283,155	154,303,155
2035	92,420,000	51,140,832	143,560,832	12,020,000	7,352,000	19,372,000	104,440,000	58,492,832	162,932,832
2036	101,380,000	47,391,603	148,771,603	12,495,000	6,871,200	19,366,200	113,875,000	54,262,803	168,137,803
2037	91,760,000	43,378,675	135,138,675	13,000,000	6,371,400	19,371,400	104,760,000	49,750,075	154,510,075
2038	95,345,000	39,751,948	135,096,948	6,380,000	5,851,400	12,231,400	101,725,000	45,603,348	147,328,348
2039	99,080,000	35,983,692	135,063,692	13,800,000	5,596,200	19,396,200	112,880,000	41,579,892	154,459,892
2040	102,965,000	32,033,926	134,998,926	14,355,000	5,044,200	19,399,200	117,320,000	37,078,126	154,398,126
2041	93,035,000	28,319,188	121,354,188	14,925,000	4,470,000	19,395,000	107,960,000	32,789,188	140,749,188
2042	80,195,000	25,180,800	105,375,800	15,525,000	3,873,000	19,398,000	95,720,000	29,053,800	124,773,800
2043	83,590,000	22,245,125	105,835,125	16,150,000	3,252,000	19,402,000	99,740,000	25,497,125	125,237,125
2044	76,115,000	19,183,375	95,298,375	7,070,000	2,606,000	9,676,000	83,185,000	21,789,375	104,974,375
2045	70,130,000	16,485,400	86,615,400	7,355,000	2,323,200	9,678,200	77,485,000	18,808,600	96,293,600
2046	57,285,000	10,195,925	67,480,925	7,650,000	2,029,000	9,679,000	64,935,000	12,224,925	77,159,925
2047	46,320,000	4,046,775	50,366,775	7,955,000	1,723,000	9,678,000	54,275,000	5,769,775	60,044,775
2048	33,745,000	2,047,550	35,792,550	8,270,000	1,404,800	9,674,800	42,015,000	3,452,350	45,467,350
2049	19,640,000	856,150	20,496,150	8,600,000	1,074,000	9,674,000	28,240,000	1,930,150	30,170,150
2050	6,710,000	268,400	6,978,400	8,945,000	730,000	9,675,000	15,655,000	998,400	16,653,400
2051	-	-	-	9,305,000	372,200	9,677,200	9,305,000	372,200	9,677,200
Total	\$ 2,553,505,000	\$ 1,504,762,237	\$ 4,058,267,237	\$ 231,945,000	\$ 172,850,884	\$ 404,795,884	\$ 2,785,450,000	\$ 1,677,613,121	\$ 4,463,063,121

(1) Includes the Refunding Candidates.

(2) Reflects taxable rates on bonds issued as taxable bonds with a federal subsidy, but does not reflect the interest credit associated with those bonds. For a description of the effect of federal sequestration on these direct-pay tax credit bonds, see “Other Considerations Relative to the City—Federal Policy Risk and Other Federal Funding Considerations.” Includes candidates for potential cash defeasance that the Department is considering for later in 2021. See “Capital Requirements—Financing Plans.” Assumes interest rate of 4.00% on variable rate bonds, per the Department’s financial plan.

(3) Preliminary, subject to change. Assumes new-money portion of the Bonds only, sold at an original issue premium with interest rates of 4.00% to 5.00%.

(4) Reflects full year of debt service.

## **CAPITAL REQUIREMENTS**

The Department owns, maintains, and operates a multi-billion-dollar physical plant that includes power generation hydroelectric plants, transmission lines, distribution system, substations, and other utility assets. The Department's CIP is the vehicle for repairing, upgrading, and expanding this infrastructure. Every year during its annual budget process, the City adopts a six-year CIP, which outlines anticipated investments over that time frame. The Department's CIP is a part of the City's CIP. This section describes the adopted 2021-2026 CIP and other capital requirements that the Department intends to implement over the six-year period. Any amounts listed for specific projects are for expenses expected to occur only during the period 2021-2026.

Significant cost reductions and deferments were incorporated into the adopted CIP for 2021-2026 due to the financial impacts of the COVID-19 pandemic. This includes an \$84 million reduction in CIP in 2021, including \$14 million in power supply projects, \$59 million in transmission and distribution engineering projects, and \$10.6 million in customer focused projects.

### **Central Utility/General Plant**

These expenses are related to general plant and include investments in non-electrical system assets including buildings and facilities, such as the North and South Service Centers, and investments in office-related computer equipment, information and communications systems, furniture, and mobile equipment. Over the six-year planning period, the largest expenditures are expected for transportation electrification projects (\$55.8 million) and replacement of fleet equipment (\$43.9 million), and for comprehensive substation improvements (\$13.0 million).

### **Distribution**

Distribution plant includes substations, poles, wires and cables, transformers, manholes, vaults, ducts, and other electrical equipment and infrastructure needed to deliver power from the substation to the customer connection at home or business in both network and non-network areas. Over the six-year planning period, the largest projects are expected to be replacement of underground (\$229.8 million) and overhead equipment (\$224.1 million), and overhead and underground service connection work for Medium General Service customers (\$110.1 million). The Department inspected and replaced wood poles between 2010 and 2020 and plans to continue. The Department is also accelerating its pole replacement project on the recommendation of an independent study following a pole failure incident, and the expenditures are included with the overhead equipment projects. See "Transmission and Distribution—Operation and Maintenance-Pole Replacement." The updated pole replacement program expenditures (\$106.8 million) are included in the overhead equipment replacement project (\$224.1 million) over the 2021-2026 period.

### **External Projects**

These projects include work related to requests from local jurisdictions such as relocating infrastructure for transportation projects, maintaining and upgrading the streetlight system, and various undergrounding work. Over the six-year planning period, the largest projects are expected to be the relocation of streetlights due to transportation projects (\$41.2 million), and the overhead and underground relocations of electrical lines to accommodate transportation projects (\$39.9 million), ongoing public and private street lighting projects (\$19.3 million), and the utility relocations associated with the replacement of the Alaskan Way Viaduct and improvements to the seawall and waterfront (\$19.1 million).

### **Power Supply**

Power supply includes generation facilities used to produce electricity. Typical assets are reservoirs, dams, waterways, waterwheels, turbines, generators, and accessory electrical equipment. A large percentage of generation investment is dedicated to core Department functions that maintain or add to generation infrastructure and ensure system reliability and power availability to customers, including the Department's generator and turbine runner rebuild program. Over the six-year planning period, the largest projects are expected to be license mitigation at the Boundary Project (\$108.5 million) and relicensing at the Skagit Project (\$51.9 million), and for minor capital improvement projects at the Skagit facilities (\$26.3 million).

## **Transmission**

Transmission plant includes poles, towers, and conductors used to carry electricity from generation facilities to substations. Over the six-year planning period, the largest projects are expected to be transmission lines for the Denny Substation (\$62.0 million), transmission reliability (\$18.2 million), and transmission line inductor installations (\$4.0 million).

## **Conservation**

Conservation programs offer financial incentives (such as rebates, discounts, and loans) to customers who produce energy savings by installing approved energy-saving equipment or weatherization measures or by designing a building to exceed energy code requirements. Program costs include program administration, audits, and inspections, and the costs of designing and installing energy savings measures. The current expenditure level is expected to achieve approximately 54.1 aMW of cumulative annual energy savings (an average of 9.0 aMW annual achievement per year) between 2021 and 2026.

## **High Ross Agreement Payment Amortization**

The City Council directed the Department to amortize a portion of the annual payment to British Columbia under the High Ross Agreement. The Department paid British Columbia \$21.8 million each year from 2000 through 2020; \$9.1 million of the annual payment was deferred and paid with bond proceeds, and \$12.7 million was recognized as an expense. From 2021 through 2035, the remaining balance of deferred costs will be amortized. The deferred portion of the payments to B.C. Hydro was capitalized and therefore treated as a component of capital requirements. See “Power Resources and Cost of Power—Department-Owned Resources—Skagit Project” for a discussion of the High Ross Agreement.

## **Relicensing, Mitigation, and Other Costs**

In addition to including capital expenditures for environmental mitigation in the CIP, the Department pays in the year incurred, but for planning purposes defers and capitalizes, certain operation and maintenance expenditures for environmental mitigation. These deferred operation and maintenance expenditures are for mitigation measures similar to those included in the CIP; however, they differ from those in the CIP in that they are for measures on land or structures belonging to entities other than the Department and involve payments to the owners. Recipients of these payments include a variety of nonprofit organizations and governmental agencies with which the Department has entered into contracts for environmental mitigation pursuant to the terms of relicensing settlement agreements. The Department also defers environmental remediation expenditures, most of which are related to the Duwamish Waterway cleanup activities. See “Environmental Matters—Contaminated Site Liability.” Other deferred costs include City and State taxes on suburban undergrounding to match the timing of the repayment by customers of the Franchise Cities.

## **Adopted CIP and Conservation and Other Capital Requirements**

*The Department does not as a matter of course make public projections as to future sales, earnings, or other results. However, the Department has prepared the prospective financial information set forth in Table 14 to provide readers of this Official Statement information related to projected capital expenditures of the Department. This information was not prepared with a view toward securities disclosure or with a view toward complying with the guidelines established by the American Institute of Certified Public Accountants with respect to prospective financial information, but, in the view of the Department, the information was based on reasonable information available to the Department as of February 4, 2021, reflects the best currently available estimates and judgments as of such date, and presents, to the best of management's knowledge and belief, the expected course of action and the expected future capital expenditures of the Department. However, this information reflects only the information and assumptions made as of the date it was prepared, is not fact, and should not be relied upon as being necessarily indicative of future results. Potential purchasers of the Bonds and the readers of this Official Statement are cautioned not to place undue reliance on the prospective information.*



**TABLE 14**  
**CAPITAL IMPROVEMENT AND CONSERVATION PROGRAMS AND OTHER CAPITAL REQUIREMENTS**  
**(\$million)**

	2021	2022	2023	2024	2025	2026	Total
Central Utility Projects	\$ 47.7	\$ 32.1	\$ 26.6	\$ 25.8	\$ 25.5	\$ 26.6	\$ 184.3
Distribution	167.2	188.3	214.9	226.1	231.7	234.7	1,262.9
External Projects <sup>(1)</sup>	20.0	27.5	22.4	22.0	22.8	22.3	136.9
Power Supply	72.3	70.7	70.7	58.2	54.3	51.0	377.2
Transmission	25.9	28.3	25.4	13.1	6.8	4.8	104.4
<b>Total CIP</b>	<b>\$333.1</b>	<b>\$347.0</b>	<b>\$360.0</b>	<b>\$345.2</b>	<b>\$341.0</b>	<b>\$339.4</b>	<b>\$ 2,065.7</b>
Conservation <sup>(2)</sup>	\$ 19.1	\$ 29.6	\$ 29.9	\$ 30.2	\$ 30.5	\$ 30.8	\$ 170.0
Relicensing, Mitigation, and Other Costs <sup>(2)</sup>							
Environmental Mitigation Deferred O&M Costs	1.8	1.4	1.4	1.4	0.6	0.2	6.8
Toxic Cleanup Deferred O&M Costs	3.1	3.7	3.2	4.7	6.1	8.3	29.0
Total Capitalized Costs	\$ 23.9	\$ 34.7	\$ 34.5	\$ 36.3	\$ 37.1	\$ 39.2	\$ 205.8
<b>Total Funds Required</b>	<b>\$357.0</b>	<b>\$381.6</b>	<b>\$394.5</b>	<b>\$381.5</b>	<b>\$378.2</b>	<b>\$378.6</b>	<b>\$ 2,271.5</b>
<b>Sources of Funds</b>							
Cash from Operating Account <sup>(3)</sup>	\$ 111.3	\$ 131.0	\$ 139.7	\$ 133.5	\$ 165.2	\$ 137.1	\$ 817.9
Cash from Contributions	52.1	43.9	41.1	40.3	41.0	44.7	263.1
Cash from Bond Sale <sup>(4)</sup>	193.6	206.7	213.7	207.7	171.9	196.8	1,190.4
<b>Total Funds Available</b>	<b>\$357.0</b>	<b>\$381.6</b>	<b>\$394.5</b>	<b>\$381.5</b>	<b>\$378.2</b>	<b>\$378.6</b>	<b>\$ 2,271.5</b>

(1) Includes Alaskan Way Viaduct and seawall replacement. See “Other Considerations Relative to the City—Considerations Related to Alaskan Way and Waterfront Seattle Program.”

(2) The City Council passed resolutions authorizing the debt financing and/or deferral of certain costs in accordance with GASB Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements. Programmatic conservation costs are amortized to expense over 20 years. See “Power Resources and Cost of Power—Department-Owned Resources.” Includes relicensing, mitigation, toxic cleanup, and other costs such as City and State taxes on suburban undergrounding. These costs are deferred and amortized to expense over the respective project license period or other relevant period.

(3) Includes funds that will be utilized for debt retirement.

(4) Net of planned optional debt retirements. Net of expected reserve fund contributions and issuance costs.

Source: Seattle City Light Department, Finance Division

## Financing Plans

Capital requirements of \$2,271.5 million from 2021 through 2026 (including \$2,065.7 million of the CIP and \$205.8 million of certain capitalized costs) are expected to be financed through a combination of cash from operations, contributions in aid of construction, capital grants, and the proceeds of the Bonds and Future Parity Bonds. The Department has not secured a significant amount of State or federal funding. The Department has currently secured a \$600,000 transportation grant from Commerce to build a high-powered EV charging station with integrated battery storage; work on the project is anticipated to start in early 2022. The Department will continue to pursue future opportunities for federal and State funding. The Department projects that bond proceeds will fund approximately 60% of the net capital requirements (total funds required less contributions) over the period 2021-2026, with the remaining 40% funded by cash from operations. This is in compliance with the 40% policy target. See “Department Financial Information—Financial Policies.” The City intends to use between \$80 million and \$100 million of operating cash to defease certain outstanding bonds of the Department before the end of 2021. In addition, the City expects to issue additional Parity Bonds in an aggregate principal amount of approximately \$195 million in mid-2022.

## ENVIRONMENTAL MATTERS

### Impact of Environmental Matters

The Department manages its legal obligations for environmental protection through programs that are expected to produce compliance with regulations. Although the Department cannot predict the outcome or effect of the matters described in this section, the Department does not expect that any of these matters will affect adversely the ability of the City to pay the principal of and interest on the Bonds.

Routine operations in connection with the generation and delivery of electric power are regulated by federal, state, and local laws that prescribe standards, work practices, and training requirements, requiring extensive documentation to ensure the protection of the environment and human health. Noncompliance creates the potential for violations that can result in civil and criminal penalties and substantial fines. Some of these laws also impose strict liability for environmentally damaging releases, including costs of investigation and cleanup, damages, restoration, and the costs of agency oversight and enforcement.

### Waste Management and Disposal Issues

Department operations generate a variety of wastes, including dangerous wastes. The Department's efforts have reduced waste generation and disposal costs, and the Department maintains those reduced levels. The Department promotes compliance with federal and State dangerous waste regulations through use of operations manuals, staff training, and periodic internal inspections or audits. Besides the dangerous waste regulations, internal inspections are used to monitor compliance with other laws, including the Toxic Substances Control Act, Clean Water Act, and Underground Storage Tank regulations.

### Contaminated Site Liability

As of December 31, 2020, the Department had recorded environmental liability amounts net of recoveries of \$106.6 million under the GASB reporting requirements. This amount is evaluated semi-annually and is subject to adjustment based on future developments.

No assurances can be given that other contaminated sites do not exist or will not be discovered in the future. The Department's policy has been to undertake voluntary cleanup or ordered actions when contamination is discovered during regular maintenance and construction.

*Lower Duwamish Waterway.* In 2001, the U.S. Environmental Protection Agency ("EPA") listed the Lower Duwamish Waterway as a Superfund site. A remedial investigation ("RI") and feasibility study ("FS") were completed in 2012 pursuant to an Administrative Settlement Agreement Order on Consent entered into among the City, the County, the Port of Seattle, and The Boeing Company. EPA released its Record of Decision in 2014, estimating the cost of its selected approach to be \$342 million, with a seven-year construction period beginning in 2022. The cost was estimated in 2014 dollars as if the entire seven years of work took place in that year. Given that construction is not scheduled to begin until late 2024 or early 2025, the costs will be greater than the EPA estimate. The initial estimate was recalculated to its 2018 current value using a starting point of the undiscounted estimated cost of \$394.0 million plus an inflation factor of 1.038 annually. The recalculation resulted in an increase in estimated environmental liability of \$12.3 million for the Department, bringing the revised estimated total project cost to \$568.4 million. Of this total, the Department's share is 31% of one-quarter of the total project cost, or \$44.051 million. The revised estimated liability is calculated in accordance with GAAP. The City is participating in a confidential, voluntary allocation process among parties that may be liable for some of the cleanup costs. That process is expected to finish in 2022. The Department and SPU have been sharing the City's portion of the costs and will do so for the remediation, though the final allocation of those costs between the Department and SPU will be determined as part of the process for allocating all of the costs among the parties. See Appendix C—2020 Audited Financial Statements of the Department—Note 15.

*Harbor Island—East Waterway.* The East Waterway was designated as a Superfund site in 2001 as an operable unit of the overall Harbor Island Superfund Site, which was listed by EPA in 1983. Current potentially responsible parties include the City, the Port of Seattle, the County, and Seattle Iron & Metals Corporation ("SIMC"). Potential Department liability derives from Department transformers sold to SIMC, from which contaminants are thought to have drained into the waterway. A Supplemental Remedial Investigation ("SRI"), with the Port of Seattle taking the

lead, was completed in 2017. EPA approval of the FS was received in 2019. The City has agreed to an interim sharing of on-going costs of the SRI/FS with the Port of Seattle and the County, expected to be approximately \$100,000 per year in 2021 and 2022. The Department expects that EPA will publish the proposed plan in the second quarter of 2021. See Appendix C—2020 Audited Financial Statements of the Department—Note 15.

*Georgetown Steam Plant.* The Department signed an order with Ecology to investigate and possibly remove contamination in an area that encompasses North Boeing Field, the Department’s property known as the Georgetown Steam Plant, and the King County Airport. The draft RI report was submitted to Ecology in June 2016; Ecology has not approved the RI, and the timing for completion of the FS is unknown but not anticipated before 2021. The Department completed interim actions at the Georgetown Steam Plant property in 2012. See Appendix C—2020 Audited Financial Statements of the Department—Note 15.

*Skagit Project.* The Department signed an Administrative Settlement Agreement Order on Consent “the Agreement”) with the National Park Service (“NPS”) to perform removal actions under the Superfund program at three sites located within the North Cascades National Park Complex, Ross Lake National Recreation Area, in Whatcom County. Specifically, under the Agreement, the Department will conduct Non Time-Critical Removal Actions (“NCTRA”) on the Newhalem Penstock Site and the Diablo Dry Dock facility, and a Time-Critical Removal Action at the Ladder Creek Settling Tank. All three sites house facilities that were formerly or are currently operated by the Department, but on NPS land. The removal actions are therefore being performed under the Superfund program with NPS as the lead agency. The Removal Action at the Ladder Creek site is complete except for long-term monitoring of vegetation restoration. The Engineering Evaluation and Cost Analysis portion of the NTCRA work is underway for the Newhalem Penstock and Diablo Dry Dock facility sites. Total expenditures for the three Skagit sites as of May 20, 2021, were approximately \$1,066,000.

## **Endangered Species Act**

The Endangered Species Act (“ESA”) is administered by the U.S. Fish and Wildlife Service (“USFWS”) and the National Oceanic and Atmospheric Administration (“NOAA”). Recovery plans for ESA-listed fish affect Department operations and power purchases.

*Columbia and Snake River Biological Opinions.* The three federal action agencies responsible for operating the Federal System—the Corps, the Bureau of Reclamation, and BPA—have been engaged in ESA Section 7 consultation for many years. As a result of litigation, NOAA Fisheries has been required to develop a series of Biological Opinions that provide the basis for the species recovery plans that NOAA has developed for the Columbia and Snake River fisheries. These recovery plans seek to protect and recover listed species including salmon, steelhead, Bull Trout, and sturgeon by regulating stream flow and other aspects of hydropower operations in the watersheds. The Biological Opinion for the 14 dams in the Federal System has been the subject of ongoing litigation in U.S. District Court (Oregon). Most recently, the U.S. District Court rejected the federal government’s recovery plan for Columbia River salmon and steelhead in an opinion and order filed in 2016. The court remanded the 2014 Biological Opinion completed by NOAA Fisheries, but left it in place so that ongoing recovery actions could continue, while ordering NOAA to complete a new Biological Opinion by the end of 2018. NOAA Fisheries issued a new Biological Opinion in March 2019 that carries forward a number of reasonable and prudent measures from previous biological opinions and a new spill operation agreement that was developed by Washington and Oregon and the Nez Perce Tribe. The court order also required an updated Environmental Impact Statement (“EIS”) for Columbia River Systems Operations (“CRSO”). The Final CRSO EIS was published on July 31, 2020, by the Corps, the Bureau of Reclamation, and BPA, and a new Biological Opinion was produced by NOAA Fisheries following the final determination of the Preferred Alternative. The Department reviewed and commented in consideration of how operations resulting from it may affect the price and supply of power that the Department purchases from BPA and Grant PUD and ESA-listed species recovery, and revisions were noted in the Final CRSO EIS that addressed some of the Department’s concerns, particularly on the data sources used in the power analysis. See “Power Resources and Costs of Power—Purchased Power Arrangements.”

The Department’s power generation at the Boundary Project is affected by operations at federal dams/storage reservoirs upstream of Boundary Dam. Fish and wildlife protection under the ESA is a factor in the operations of upstream dams. See “Power Resources and Cost of Power—Overview of Resources.” Any new recovery plan or Biological Opinion issued by NOAA can result in changes in flows at federal projects that could have an impact on

the Boundary Project. For a discussion of additional environmental issues and the Boundary project, see “Power Resources and Cost of Power—Department-Owned Resources—Boundary Project.”

Recovery efforts for Bull Trout affect the cost of operations at the Boundary Project, but not power generation. The 2013 FERC license for the Boundary Project requires the Department to enhance the habitat for Bull Trout and suppress non-native trout. See “Power Resources and Cost of Power—Department-Owned Resources.”

*Skagit, Tolt, and Cedar Rivers ESA-Listed Fish.* ESA fish listings that may affect Department operations in western Washington include Bull Trout, Chinook Salmon, and steelhead. Bull Trout was listed as a threatened species by the USFWS in 1999. The Skagit River populations of Bull Trout are among the healthiest in the U.S. due to excellent habitat, cold water, and abundant food supply. A healthy Bull Trout population is also found in Chester Morse Lake, in the Cedar River in the vicinity of the Cedar Falls Project. Incidental observations of Bull Trout have occurred in the mainstream Tolt River downstream of the South Fork Tolt Project.

The Skagit River downstream of the Skagit Project is listed as Critical Habitat for Bull Trout by the USFWS, as are the major tributaries to the three project reservoirs. The Cedar River and its reservoir are excluded from the Critical Habitat designations for this species because of the adoption of the Cedar River Habitat Conservation Plan. The Tolt River is excluded from the Critical Habitat designation for Bull Trout.

Bull Trout populations in the Skagit Project reservoirs are healthy and robust, and studies continue to improve the Department’s understanding of reservoir population abundance. In contrast, while Bull Trout populations have remained relatively large in the river and its tributaries downstream of the reservoirs, there has been a general decline in spawning ground escapements across all indexed tributaries in the Skagit since a peak in 2014. This trend appears to be regional, as similar trends have been observed in the nearby Stillaguamish and Skykomish systems.

A final recovery plan for Bull Trout was released by the USFWS in 2015. Recent Bull Trout trend data across all core populations will be considered in the USFWS five-year Status Review of the species was initiated in 2020. The USFWS presently considers the lower and upper Skagit River as Bull Trout “strongholds” because of the large and diverse Bull Trout populations present in these core areas. This evaluation is unlikely to change in the upcoming status review, as Skagit populations remain the most robust in the recovery domain.

Chinook Salmon in Puget Sound were listed as threatened by NOAA Fisheries in 1999, and are present in the Skagit, Cedar, and Tolt Rivers downstream of the Department’s hydroelectric facilities. These river reaches were designated as Critical Habitat for Chinook Salmon by NOAA Fisheries.

The Skagit River continues to support the largest population of Chinook Salmon in Puget Sound, averaging about 22% of the total adult escapement of all Chinook spawning in Puget Sound rivers from 1985 to 2017. Chinook Salmon populations increased to 30-year-high levels on the Skagit River from 2004 through 2006, declined below long-term average levels from 2007 through 2011, returned to average levels between 2012 and 2014, and then increased above average levels in 2015 and 2016. Skagit Chinook Salmon populations dropped to average levels in 2017 and below average levels in 2018. Data for 2021 are yet to be released, but a recent internal analysis by the Department’s Skagit biologists indicated that about 43% of all wild Chinook salmon returning to the Puget Sound are spawning in the reach of the Skagit River regulated by the Skagit Project, and these numbers, while exhibiting year-to-year variations, continue to show a slight increasing trend, despite region-wide declines affecting all Puget Sound rivers and beyond—including populations in the lower Skagit River and unregulated tributaries in the Skagit system.

Steelhead were listed as threatened by NOAA Fisheries in 2007. As with Chinook Salmon, Critical Habitat is designated downstream of the Department’s dams on the Skagit, Cedar, and Tolt Rivers. A draft recovery plan for Puget Sound steelhead was completed by NOAA Fisheries and released for public review on December 13, 2018. The Department worked directly with NOAA Fisheries and other federal and State agencies and tribal governments on the development of this recovery plan. The final recovery plan for Puget Sound steelhead was published by NOAA Fisheries in December 2019.

Winter steelhead populations use habitats in the Skagit, Cedar, and Tolt Rivers downstream of the Department’s hydroelectric facilities. The South Fork Tolt River also has one of the few summer steelhead populations in the Puget Sound region, and summer steelhead are also present in the Skagit River. Steelhead populations declined to 30-year-

low levels in most Puget Sound rivers during the early 2000s. The Skagit River continues to support the largest steelhead populations in the Puget Sound region. Steelhead returns to the Skagit River basin declined below long-term average levels from 2006 through 2012, increased above average values from 2013 through 2016, then dropped back down to average values in 2017 and 2018. Data for 2019 are yet to be released.

*Department Mitigation Efforts.* The Department has undertaken a wide range of actions to reduce and mitigate potential adverse impacts of its operations on these listed fish species. On the Cedar River, the Department's activities are covered by a Habitat Conservation Plan that governs operations of the Cedar Falls Project with regard to all listed species and by an incidental take permit. Both the Skagit and South Fork Tolt Projects were licensed through a collaborative process involving State and federal regulatory agencies, including NOAA Fisheries, USFWS, the Washington State Department of Fish and Wildlife ("WDFW"), and tribes. These agreements include extensive measures to protect fish, including flow management measures and non-flow measures such as habitat restoration, conservation land acquisition, and research and monitoring. In addition, the Department is continuing an ESA habitat restoration, conservation land acquisition, and research program that supports the recovery of Bull Trout, Chinook Salmon, and steelhead populations in the Skagit and Tolt River watersheds. This program has funded several major habitat restoration projects for the three listed fish species in the Skagit and Tolt River watersheds. The Department has also acquired more than 3,500 acres of high quality habitat for ESA-listed fish species in these watersheds for permanent conservation protection. Monitoring and research studies by the Department are continuing in partnership with WDFW, the National Park Service, USFWS, Skagit River System Co-op, and the Upper Skagit Tribe to determine the population status of and the factors potentially limiting Bull Trout, Chinook Salmon, and steelhead populations downstream of the Skagit Project, and Bull Trout populations in the three Skagit River reservoirs. In addition, monitoring and research studies are continuing in partnership with the Tulalip Tribes, WDFW and the U.S. Geological Survey (the "USGS") on the South Fork Tolt River focused on Chinook Salmon and both summer and winter steelhead. These studies continue to be used to develop recovery plans and actions in cooperation with State and federal agencies, tribes, and regional salmon recovery organizations to improve habitat conditions for ESA-listed fish species.

The Skagit Project Biological Opinion for Chinook Salmon and steelhead was completed by NOAA Fisheries in 2012. It included four additional flow protection measures that the Department had already adopted voluntarily. The Skagit Project Biological Opinion for Bull Trout was completed by the USFWS in 2013 and included the same flow protection measures contained in the NOAA Fisheries Biological Opinion, as well as specific habitat conservation measures and population monitoring requirements. Continuing these required conservation measures will have no significant effect on the Department's operations at the Skagit Project. Ongoing relicensing negotiations for the Skagit Project will result in a new Biological Opinion, and effects on future operations cannot be fully predicted at this time.

### **Clean Water Act**

As a condition for certain federal actions, including the licensing of hydroelectric projects, Section 401 of the federal Clean Water Act ("CWA") requires states to provide a "water quality certification." Section 401 certification demonstrates that discharges comply with state water quality standards, including various physical and chemical parameters. Section 401 has been interpreted to authorize states to condition their certification on standards for minimum stream flows to protect fish.

The South Fork Tolt Hydroelectric Project received a 401 Water Quality Certification in 1983 in conjunction with the FERC License. The Water Quality Certification was revised in 1993 prior to the construction of the project. The revised certification captured changes to the original project proposal and changes to the State's water quality regulations, and incorporated the Settlement Agreement. An agreement with State and federal agencies on minimum flows for the Newhalem Project was incorporated into the FERC license issued in 1997. These minimum flows were required for the Section 401 certification issued in 1996. Ecology implemented new water quality standards in 2007, intended to protect aquatic uses, including federally-listed fish species such as Bull Trout, Chinook Salmon, and steelhead. In 2011, Ecology issued a Section 401 certification as part of the FERC license for the Boundary Project. See "Power Resources and Cost of Power—Department-Owned Resources—Boundary Project." The Department also participates in other water quality regulatory processes.

Ecology issued a short-term modification to the water quality standards in March 2019 to adjust the allowable total dissolved gas ("TDG") criteria upwards for the eight federal dams on the lower Snake and lower Columbia Rivers, to

a maximum TDG level of 120% in the forebays during the spring water spill season. The modification allows for increased spill at the dams to test if survival of outmigrating juvenile salmon and steelhead smolts could be improved, as ultimately measured through smolt-to-adult returns. This modification was to extend for three years under a “flexible spill agreement” (“FSA”) negotiated with the federal action agencies overseeing the dams’ operations (*i.e.*, the Corps, the Bureau of Reclamation, and BPA). However, while the FSA was still in place, and the performance of the modification at improving smolt-to-adult returns is still in question, Ecology adopted a permanent rule change in WAC 173-201A-2001(1)(f) allowing for:

- (i) a maximum of 125% TDG in the tailraces, calculated as an average of the 12 highest hourly measurements in a calendar day, and
- (ii) a maximum of 126% TDG, calculated as an average of any two consecutive hourly TDG measurements.

Notably, the TDG criteria inherent to this permanent rule change are adopted in the Preferred Alternative of the Final Columbia River System Operations EIS that was published in July 2020. The Department submitted letters raising concerns about the permanence of the criteria change in the absence of a full review of the monitoring data from the FSA, as the TDG levels now authorized are well known in the literature to cause gas bubble trauma in fish and other aquatic life. Ecology acknowledged the uncertainty in potential outcomes from the rule-making, but asserted that the lack of a “temporary waiver” tool in the State’s water quality laws prevents it from instituting a “short term modification” rule to allow for the 125% TDG now allowed. In Ecology’s response to the Department’s concerns, it noted, “We cannot support a determination that the 125% TDG average does not significantly interfere or become injurious to aquatic life species in the Snake and Columbia rivers because we have not allowed fish spill to these levels previously and do not have sufficient data for relevant fish species for long durations at this level of TDG.” This circular and procedural response does not assuage the City’s concerns regarding this rule change and its effects of aquatic resources; however, the impact of the new rule on the Department is expected to be minimal.

In addition to the new rule on TDG criteria applicable to the federal dams on the Columbia system, Ecology embarked on revising its water quality standards in WAC 173-201A in 2020 to address salmon spawning habitat. This rulemaking will consider revising WAC 173-201A-200(1) aquatic life uses, to provide additional water quality and habitat protection for early life stages of salmonids—including salmon, steelhead, and trout—and their spawning gravel. Two general revisions in this rulemaking are under consideration:

- (i) revising the freshwater dissolved oxygen criteria to better protect early life stages of salmonids in spawning gravel, and
- (ii) adding fine sediment criteria to provide additional protection for spawning gravel habitat.

The rule-making process will continue at least through the spring of 2021, and the implications on the Department are as yet equivocal.

On December 31, 2020, EPA approved the Pend Oreille River Temperature Total Maximum Daily Load (“TMDL”) under the CWA. Section 303(d) of the CWA requires states to address waters not meeting water quality criteria. Ecology developed the temperature TMDL to address chronically elevated water temperatures exceeding the river’s water quality criteria (20°C). Once Ecology received the approval from EPA, it began the development of a water quality implementation plan (“WQIP”) that is expected be completed within one year. The WQIP will identify specific tasks, responsible parties, and timelines for reducing or eliminating pollution sources. The impact of the new requirement on the Department is expected to be minimal.

On April 21, 2020, the EPA and the Corps published the Navigable Waters Protection Rule in the Federal Register to finalize a revised definition of “waters of the United States” under the Clean Water Act. For the first time, the agencies have streamlined the definition so that it includes four simple categories of jurisdictional waters, provides clear exclusions for many water features that traditionally have not been regulated, and defines terms in the regulatory text that have never been defined before. Congress, in the Clean Water Act, explicitly directed the Agencies to protect “navigable waters.” The Navigable Waters Protection Rule regulates the nation’s navigable waters and the core tributary systems that provide perennial or intermittent flow into them.

The Navigable Waters Protection Rule is the second step in a two-step process to review and revise the definition of “waters of the United States” consistent with the February 2017 Presidential Executive Order entitled “Restoring the Rule of Law, Federalism, and Economic Growth by Reviewing the ‘Waters of the United States.’” This final rule

became effective on June 22, 2020. On June 19, 2020, the District Court for the District of Colorado stayed the effective date of the Rule only in the State of Colorado. The rule is being implemented by EPA and the Corps in all other states and jurisdictions.

This final action was informed by robust public outreach and engagement on the proposed rule, including pre-proposal engagement that generated more than 6,000 recommendations and approximately 620,000 comments received on the proposal. The final definition balances the input the agencies received from a wide range of stakeholders.

Under the final Navigable Waters Protection Rule, four clear categories of waters are federally regulated:

- (i) The territorial seas and traditional navigable waters,
- (ii) Perennial and intermittent tributaries to those waters,
- (iii) Certain lakes, ponds, and impoundments, and
- (iv) Wetlands adjacent to jurisdictional waters.

The final rule also details 12 categories of exclusions (i.e., features that are not “waters of the United States”), such as features that only contain water in direct response to rainfall (e.g., ephemeral features), groundwater, many ditches, prior converted cropland, and waste treatment systems. The final rule clarifies key elements related to the scope of federal Clean Water Act jurisdiction, including:

- (i) Providing clarity and consistency by removing the proposed separate categories for jurisdictional ditches and impoundments.
- (ii) Refining the proposed definition of “typical year,” which provides important regional and temporal flexibility and ensures jurisdiction is being accurately determined in times that are not too wet and not too dry.
- (iii) Defining “adjacent wetlands” as wetlands that are meaningfully connected to other jurisdictional waters, for example, by directly abutting or having regular surface water communication with jurisdictional waters.

The impact on the Department of the rule and the revised definition is expected to be minimal.

### **Renewable Energy and Greenhouse Gas Mitigation**

In 2000, the City Council set a long-term goal for the Department to achieve greenhouse gas neutrality while meeting all of the electricity needs of the City. In 2005, the Department became the first electric utility in the country to achieve zero net greenhouse gas emissions. It has maintained that carbon-neutral status every year since.

The Department has a very low emission factor as reported to and verified through The Climate Registry. The Department’s greenhouse gas emissions are so low because the Department currently uses hydroelectric resources for a majority of the power it provides to customers. The Department’s emissions are further reduced by its aggressive energy efficiency and conservation programs. Renewable energy projects have been added to the Department’s resource mix. See “Power Resources and Cost of Power—Purchased Power Arrangements.” The Department’s Green Up program offers its retail customers the opportunity to further support the acquisition of renewable energy credits. See “Department Financial Information—Retail Rates—Voluntary Green Power Program.” In addition, the Department’s IRP relies only on new renewables and conservation to meet future load growth. The Department purchases greenhouse gas offsets for the emissions it does generate.

Federal and State initiatives have been proposed to address global climate change by controlling or monitoring greenhouse gas emissions, encouraging renewable energy development, and implementing other measures. In 2019, the State passed the CETA. The new State statute requires that utilities attain milestones for providing clean energy to their customers. Specifically, no coal by 2025, 80/20 greenhouse gas-neutral goal (*i.e.*, 80% met with renewable or non-emitting resources and 20% met with alternative compliance mechanisms), and 100% renewable or non-emitting resources by 2045. See “Power Resources and Cost of Power—Washington’s Renewable Portfolio Standard (Initiative 937 and CETA).”

## **Climate Change**

The Department continues to research and monitor potential effects of climate change on the Department's business. In 2016, the Department completed a Climate Change Vulnerability Assessment and Adaptation Plan to identify climate vulnerabilities and potential actions to reduce risks associated with climate change and has since been implementing the plan. Elevating climate equity will be a substantive advancement in the plan update. The Department is currently working on an update to this plan during 2021, and continues to be a member of the U.S. Department of Energy Partnership for Energy Sector Climate Resilience, developing best practices to increase resilience to climate change and extreme weather. The Department also actively participates in the Center for Energy Advancement through Technological Innovation as part of the Climate Change Opportunities, Risk and Adaptation working group evaluating the effects of climate change on hydropower operations and planning within the industry. During 2020, the Stossel Creek Climate-Adapted Reforestation Project planted 51 acres with 14,130 trees, including species adapted to warmer and drier climates, in the Tolt River Watershed. This project seeks to support an enduring forest as climate changes to provide habitat, stabilize soils, and reduce streamflow temperatures for fish.

The Department's energy resource mix is about 86% hydro-based generation. The physical effects of climate change are expected to affect the amount, timing, and availability of water resources for hydroelectric generation in the future. In cooperation with the University of Washington's Civil and Environmental Engineering Department ("UWCEE"), the Department is studying how projected changes in temperature and precipitation will affect rapid snowmelt and mid-winter snowmelt in the Tolt River Watershed, which could affect stream flow and thus future output from the Department's South Fork Tolt Project. Previous collaborations with UWCEE produced future stream flows that are being used in the operations model being developed as part of the Skagit Project relicensing.

The climate change studies described in the 2016 IRP suggest both increases and decreases in annual generation, depending on future climate change scenario effects on hydrology. However, despite the variability in annual results, models portray gradually increasing generation with runoff during the winter peak demand period, accompanied by decreasing generation with declining runoff during the late summer and fall. Climate data provided by the University of Idaho suggest that warmer temperatures may also cause small decreases in winter electricity demand, while summer demand may increase, as described in the 2016 IRP. The projected effects of climate change on hydropower generation and demand are more manageable for the Department as a winter-peaking utility than for summer-peaking utilities.

In cooperation with the University of Washington's Climate Impacts Group, the Department conducted research in 2015 on future changes in lightning potential and windstorms due to climate change in Washington. The study showed little change in these extreme weather events. However, this research is currently being updated using new regional climate modeling that is better able to capture these extreme events. Results from this study are expected in summer of 2021. The Department is currently funding research with UWCEE on the changes in landslide hazards from climate change at its Skagit facilities that will be useful for relicensing and dam safety. Studies on climate change and operational effects on reservoir and downstream water temperatures at the South Fork Tolt Project are underway in collaboration with consultants and the USGS. Although the Department expects to be negligibly affected by sea level rise, it coordinates with other City departments to understand potential risks and new information as it is produced. The Department continues to monitor new information on potential climate change effects through its Climate Change Initiative as part of the 2021-2026 Strategic Plan.

## **Wildfire Risk**

Certain areas within the State, particularly central and eastern Washington, routinely experience seasonal wildfires that can threaten remote Department-owned generation and transmission infrastructure. In August 2015, the Goodell Creek wildfire forced the shutdown of major 230 kV transmission lines connected to the Skagit Project and caused the Department to spill water and purchase supplemental power and reserves. The fire nearly reached generation facilities and damaged distribution and communication facilities. FEMA reimbursements of about \$2.3 million offset approximately 75% of the costs of repairs, firefighting, evacuation, and emergency management. The Department also incurred approximately \$1.0 million in costs to purchase supplemental energy to make up for stranded generation and capacity. Prior to and since this wildfire incident, the Department has been integrating best management practices such as removing vegetation around buildings and infrastructure to create defensible space, planting fire-resistant plants, and improving evacuation awareness and procedures in order to reduce wildfire risk in areas within and adjacent to company towns, generation sites, and transmission rights of way. The Department also participates in the



Washington State Department of Natural Resources' Electricity Utility Wildland Fire Prevention Task Force. These practices are designed to reduce the potential wildfire risk to the Department's remote infrastructure.

## **VARIOUS FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY**

### **Certain Considerations Specific to the Electric Utility Industry**

The electric utility industry in general has been, and in the future may be, affected by a number of factors which could impact the financial condition and competitiveness of many electric utilities, including the Department, and the level of utilization of generating and transmission facilities. Such factors include, among others:

- (i) effects of compliance with changing environmental, safety, licensing, regulatory, and legislative requirements;
- (ii) changes resulting from conservation and demand-side management programs on the timing and use of electric energy;
- (iii) changes resulting from a national energy policy;
- (iv) effects of competition from other electric utilities (including increased competition resulting from mergers, acquisitions, and "strategic alliances" of competing electric and natural gas utilities and from competitors transmitting less expensive electricity from much greater distances over an interconnected system) and new methods of, and new facilities for, producing low-cost electricity;
- (v) the repeal of certain federal statutes that would have the effect of increasing the competitiveness of many investor-owned utilities;
- (vi) increased competition from independent power producers and marketers, brokers, and federal power marketing agencies;
- (vii) "self-generation" or "distributed generation" (such as microturbines and fuel cells) by industrial and commercial customers and others;
- (viii) effects of inflation on the operating and maintenance costs of an electric utility and its facilities;
- (ix) changes from projected future load requirements;
- (x) increases in costs and uncertain availability of capital;
- (xi) shifts in the availability and relative costs of different fuels (including the cost of natural gas);
- (xii) increases or decreases in the price of energy purchased or sold on the open market that may occur in times of high peak demand or supply;
- (xiii) issues with transmission capacity and integrating wind power generation;
- (xiv) inadequate risk management procedures and practices with respect to, among other things, the purchase and sale of energy and transmission capacity;
- (xv) other legislative changes, voter initiatives, referenda, State-wide propositions, sequestration, and other failures of Congress to act;
- (xvi) effects of changes in the economy;
- (xvii) effects of possible manipulation of the electric markets;
- (xviii) natural disasters or other physical calamities, including, but not limited to, earthquakes, tsunamis, floods, mud slides, volcanic eruptions, wildfires, droughts, and wind storms;
- (xix) man-made physical and operational disasters, including but not limited to terrorism, security (including cyber security) breaches, cyber attacks, and collateral damage from untargeted computer viruses;
- (xx) variations in the weather and changes in the climate;
- (xxi) failures of or other issues with infrastructure; and

- (xxii) effects of local, State, and national government response or business response to the outbreak of a pandemic disease.

Any of these factors (as well as other factors) could have an adverse effect on the financial condition of any given electric utility and likely will affect individual utilities, including the Department, in different ways. The Department is unable to predict what impact such factors will have on its business operations and financial condition. The discussion provided in this section does not purport to be comprehensive or definitive, and these matters are subject to change subsequent to the date hereof. Extensive information on the electric utility industry is available from the legislative and regulatory bodies and other sources in the public domain, and potential purchasers of the Bonds should obtain and review such information.

### **Contingent Payment Obligations Unrelated to Debt Obligations**

The City, through the Department, has in the past and may in the future enter into various agreements, such as power purchase agreements or commodity derivative instruments, under which the City may be obligated to make payments or post collateral contingent upon certain future events within or beyond the City's control. These types of arrangements are entered into in the ordinary course of business, independently of any issuance of bonds or other financial obligations payable from the Net Revenue of the Light System, and are not related to any particular debt obligation. Such contingent payment obligations are permitted to be treated as operation and maintenance charges payable from Gross Revenues prior to the payment of principal of and interest on the Parity Bonds. See "Power Resources and Cost of Power—Purchased Power Arrangements" and "—Wholesale Energy Risk Management."

## **THE CITY OF SEATTLE**

The following provides general information about the City.

### **Municipal Government**

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

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

The City is organized under the mayor-council form of government and operates under its City Charter. The Mayor, the city attorney, and the Municipal Court judges are all elected to four-year terms. The nine City Council members are elected to staggered four-year terms.

*Mayor.* The Mayor serves as the chief executive officer of the City. The Mayor presents to the City Council annual statements of the financial and governmental affairs of the City, budgets, and capital improvement plans. The Mayor signs, or causes to be signed on behalf of the City, all deeds, contracts, and other instruments.

*City Council.* As the policy-making legislative body of the City, the City Council sets tax levies and utility rates, makes appropriations, and adopts and approves the annual operating budget and capital improvement plans for the City. The City Council members serve on a full-time basis.

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

## **Budgeting and Forecasting**

The CBO is responsible for developing and monitoring the City's annual budget, carrying out budget-related functions, and overseeing fiscal policy and financial planning activities. The CBO provides strategic analysis in relation to the use of revenues, debt, and long-term issues. The department also provides technical assistance, training, and support to City departments in performing financial functions. The CBO is within the executive branch and the Budget Director is appointed by the Mayor.

*Municipal Budget.* City operations are guided by a budget prepared under the direction of the Mayor by the CBO pursuant to State statute (chapter 35.32A RCW) and based in part on General Fund revenue forecasts prepared by the CBO; this function is transitioning to a new independent forecasting office being created later in 2021. See "—Forecasting." The proposed budget is submitted to the City Council by the Mayor each year not later than 90 days prior to the beginning of the next fiscal year. Currently the fiscal year of the City is January 1 through December 31. The City Council considers the proposed budget, holds public hearings on its contents, and may alter and revise the budget at its discretion, subject to the State requirement that budgeted revenues must at least equal expenditures. The City Council is required to adopt a balanced budget at least 30 days before the beginning of the next fiscal year, which may be amended or supplemented from time to time by ordinance. The Mayor may choose to approve the City Council's budget, veto it, or permit it to become law without the Mayor's signature. The Mayor does not have line-item veto power.

The 2021 budget was adopted on November 23, 2020. The City's adopted General Fund budget was approximately \$1.480 billion in 2020 and \$1.607 billion in 2021.

*Forecasting.* The CBO currently prepares revenue and economic forecasts approximately three times per year. In September of each year, CBO prepares and submits to the City Council a revenue forecast ("August Revenue Update") with the Mayor's budget proposal. This is followed by a fall revenue update typically submitted to the City Council in November ("November Revenue Update") and a spring update ("April Revenue and Budget Update"). The City Council makes budget adjustments as necessary based on information presented in these revenue and budget updates.

The 2021 Adopted Budget appropriated a total of \$480,000 for the initial setup and partial year costs of establishing an independent forecasting office to be created by subsequent ordinance. The appropriation is contingent on passage of the subsequent ordinance, which will be introduced in the summer of 2021. The new independent forecasting office will have the responsibility to develop a regional economic forecast and forecasts for key tax revenues as is currently completed by the City Budget Office. Forecasts from this office will be presented to the Mayor and City Council simultaneously. The office and its manager will be overseen by an oversight board likely consisting of two Councilmembers, the Mayor, and the City's Finance Director.

## **Fiscal Reserves**

*Emergency Fund.* Under the authority of RCW 35.32A.060, the City maintains the Emergency Management Fund ("EMF") of the General Fund. The EMF is the principal reserve for the City to draw upon when certain unanticipated expenses occur during the fiscal year. Eligible expenses include costs related to storms or other natural disasters. State law limits the amount of money the City can set aside in this reserve to \$0.375 per \$1,000 of assessed value of property within the City. Prior to 2017, the City's practice had been to fully fund the emergency reserve to this maximum limit. In 2017, the City modified the existing financial policies for the EMF to establish a minimum balance of \$60 million and to adjust that minimum each year with the rate of inflation. This policy struck a balance between ensuring that resources will be available to address unanticipated expenditures and making resources available to address current needs.

Due to the COVID-19 pandemic and related economic downturn, the City's revenue forecasts have been significantly reduced from prior expectations. Additionally, the City will continue to realize significant expenses to address the pandemic into 2021. Due to the magnitude of the ongoing emergency, it will not be possible for the City to meet the fund balance requirements for the EMF in the near future. City policy was amended in 2020 to require that the City return to making contributions as soon as is practically possible after a severe event requiring deep spending from the reserve.

In response to the ongoing COVID-19 pandemic, the City withdrew a net \$12.8 million from the EMF during 2020. The City anticipates withdrawing a net \$18.4 million from the EMF, reducing the reserve balance to \$33.7 million at the end of 2021.

*Revenue Stabilization Fund.* The City maintains a Revenue Stabilization Fund (“RSF”) to be used for revenue stabilization for future City operations and to fund activities that would otherwise be reduced in scope, suspended, or eliminated due to unanticipated shortfalls in General Fund revenues. The RSF is distinct from the Department’s RSA.

Certain required transfers into and restrictions on expenditures from the RSF are set forth in the Seattle Municipal Code (“SMC”). All expenditures from the RSF require an ordinance, adopted following consideration of projections and recommendations for at least partial replenishment within four years. The RSF is funded by (i) one-time transfers authorized by ordinance, (ii) automatic annual transfers of 0.50% of forecast General Fund tax revenues, and (iii) upon completion of fiscal year accounting, automatic transfer of 50% of the ending General Fund balance, less encumbrances, carryforwards as authorized by ordinance or State law, and planned reserve amounts reflected in the adopted budget, that is in excess of the latest revised estimate of the unreserved ending fund balance for that closed fiscal year (as published in the adopted budget). The phrase “tax revenues” means all tax revenues deposited into the General Fund, including but not limited to tax revenue from the regular property tax levy, business and occupation tax, utility business taxes, the portion of admissions tax not dedicated to the Arts and Culture Fund, leasehold excise tax, gambling taxes, and sales and use taxes.

The SMC also provides that automatic transfers will be suspended to the extent that the balance in the RSF exceeds 5% of the forecast General Fund tax revenues for the year, and when forecasts underlying the adopted budget anticipate a nominal decline in General Fund revenues, as compared to the revenue forecasts underlying the adopted budget for the fiscal year immediately prior. Automatic transfers remain suspended until positive revenue growth is reflected in the revenue forecasts underlying the adopted budget and are reinstated at a level of 0.25% of General Fund tax revenues in the first year showing such recovery, followed by 0.50% thereafter.

## **Financial Management**

City financial management functions are provided by the Department of Finance and Administrative Services.

*Accounting.* The accounting and reporting policies of the City conform to generally accepted accounting principles for municipal governments and are regulated by the State Auditor’s Office, which maintains a resident staff at the City to perform a continual current audit as well as an annual, post-fiscal year audit of City financial operations. The Accounting Services Division of the Department of Finance and Administrative Services maintains general supervision over the accounting functions of the City.

*Auditing.* The State Auditor is required to examine the affairs of all local governments at least once every three years; the City is audited annually. The examination must include, among other things, the financial condition and resources of the City, compliance with the State Constitution and laws of the State, and the methods and accuracy of the accounts and reports of the City. Reports of the State Auditor’s examinations are required to be filed in the office of the State Auditor and in the Department of Finance and Administrative Services. The City’s Comprehensive Annual Financial Report for 2019 may be obtained from the Department of Finance and Administrative Services and is available at <http://www.seattle.gov>. The City Light Fund’s financial statements are also audited by an independent auditor, and the 2020 Financial Statements are attached as Appendix C.

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

## **Investments**

*Authorized Investments.* Chapter 35.39 RCW permits the investment by cities and towns of their inactive funds or other funds in excess of current needs in the following: United States bonds, United States certificates of indebtedness, State bonds or warrants, general obligation or utility revenue bonds of its own or of any other city or town in the State, its own bonds or warrants of a local improvement district that are within the protection of the local improvement guaranty fund law, and any other investment authorized by law for any other taxing district. Under chapter 39.59

RCW, a city or town also may invest in the following: bonds of the State or any local government in the State, general obligation bonds of any other state or local government of any other state that have at the time of the investment one of the three highest credit ratings of a nationally recognized rating agency, registered warrants of a local government in the same county as the government making the investment; certificates, notes, or bonds of the United States, or other obligations of the United States or its agencies, or of any corporation wholly owned by the government of the United States; or United States dollar-denominated bonds, notes, or other obligations that are issued or guaranteed by supranational institutions, provided that, at the time of investment, the institution has the United States government as its largest shareholder; Federal Home Loan bank notes and bonds, Federal Land Bank bonds and Federal National Mortgage Association notes, debentures, and guaranteed certificates of participation, or the obligations of any other government-sponsored corporation whose obligations are or may become eligible as collateral for advances to member banks as determined by the Board of Governors of the Federal Reserve system; bankers' acceptances purchased on the secondary market; commercial paper purchased in the secondary market, provided that any local government of the State that invests in such commercial paper must adhere to the investment policies and procedures adopted by the Washington State Investment Board; and corporate notes purchased on the secondary market, provided that any local government of the State that invests in such notes must adhere to the investment policies and procedures adopted in Washington State Investment Board Policy Number 2.05.000.

Money available for investment may be invested on an individual fund basis or may, unless otherwise restricted by law, be commingled within one common investment portfolio. All income derived from such investment may be either apportioned to and used by the various participating funds or used for the benefit of the general government in accordance with City ordinances or resolutions.

*Authorized Investments for Bond Proceeds.* Funds derived from the sale of bonds or other instruments of indebtedness will be invested or used in such manner as the initiating ordinances, resolutions, or bond covenants may lawfully prescribe.

*City Investments.* The information in this section does not pertain to pension funds that are administered by the City (see “—Pension Plans”) and certain refunding bond proceeds that are administered by trustee service providers.

All cash-related transactions for the City, including its utilities, are administered by the Department of Finance and Administrative Services. Investments of temporarily idle cash may be made, according to existing City Council-approved policies, by the Treasury Services Division of the Department of Finance and Administrative Services in securities described above under “Authorized Investments.”

State statutes, City ordinances, and Department of Finance and Administrative Services policies require the City to minimize market risks by safekeeping all purchased securities according to governmental standards for public institutions and by maintaining safety and liquidity above consideration for returns. Current City investment policies require periodic reporting on the City's investment portfolio to the Mayor and the City Council. The City's investment operations are reviewed by the City Auditor and by the State Auditor.

As of December 31, 2020, the combined investment portfolios of the City, not including pensions, totaled \$2,545 million at market value. The City's investment portfolio consists solely of City funds. As of December 31, 2020, the earnings yield on the City's investment portfolios was 1.49%, and the weighted average maturity of the City's investment portfolios was 989 days. Approximately 30%, or \$739 million, was invested in securities with maturities of three months or less. The City held no securities with maturities longer than 10 years.

Investments were allocated as follows:

U.S. Government Agencies	30%
State Local Government Investment Pool	21%
U.S. Government <sup>(1)</sup>	18%
Municipal Bonds	12%
U.S. Government Agency Mortgage-Backed	10%
Corporate Bonds	4%
Repurchase Agreements	3%
Supranational	2%
Commercial Paper	0%

(1) Includes FDIC-backed and U.S. Department of Housing and Urban Development securities.

Note: may not add to 100% due to rounding.

*Interfund Loans.* The City is authorized to make interfund loans from the City’s common investment portfolio to individual funds, bearing interest payable by the borrowing fund. The Director of Finance may approve interfund loans for a duration of up to 90 days. Loans of a longer duration require City Council approval.

As of December 31, 2020, the City had outstanding six interfund loans totaling approximately \$56.6 million, in amounts ranging from \$4.1 million to \$29.6 million, including interfund loans for the Waterfront Local Improvement District (“LID”) improvements to be reimbursed with various revenue sources, including proceeds of the Waterfront LID Bonds. See “Other Considerations Relative to the City—Considerations Related to Alaskan Way Viaduct and Waterfront Seattle Program—Waterfront Local Improvement District.”

## **Risk Management**

The City purchases excess liability insurance to address general, automobile, professional, public official, and other exposures. Currently the City’s excess liability policy provides \$35 million limits above a \$6.5 million self-insured retention per occurrence, but coverage excludes partial or complete failure of any of the City’s hydroelectric dams. The City also purchases all risk property insurance, including earthquake and flood perils, that provides up to \$500 million in limits subject to a schedule of deductibles and sublimits. Earthquakes and floods are subject to annual aggregate limits of \$100 million. City hydroelectric generation and transmission equipment and certain other utility systems and equipment are not covered by the property insurance policy. The City purchased cyber insurance in 2019, which coverage includes business interruption, system failure, data asset protection, event management, and privacy and network security liability.

The City insures a primary level of fiduciary, crime liability, inland marine, and various commercial general liability, medical, accidental death and dismemberment, and miscellaneous exposures. Surety bonds are purchased for certain public officials and notaries.

## **Pension Plans**

The information below describes pension plans available to City employees generally. City employees are eligible for coverage by one of the following defined benefit pension plans: Seattle City Employees’ Retirement System (“SCERS”), Firefighters’ Pension Fund, Police Relief and Pension Fund, and Law Enforcement Officers’ and Fire Fighters’ Retirement System (“LEOFF”). The first three are administered by the City and are reported as pension trust funds as part of the City’s reporting entity. The State administers LEOFF through the State Department of Retirement Systems (“DRS”).

Pursuant to an agreement with various City labor unions, the City Council passed legislation in August 2016 that created a new defined benefit retirement plan, SCERS Plan 2 (“SCERS 2”), covering non-uniformed employees. The new plan is open to employees first hired on or after January 1, 2017. SCERS 2 includes, among other adjustments to SCERS Plan 1 (“SCERS 1”), a slight decrease in benefit levels, raising the minimum retirement age, and deferring retirement eligibility by increasing the age-plus-years-of-service required for retirement with full benefits. The City

expects SCERS 2 to provide a more cost-effective method for the City to provide retirement benefits to its employees. It does not affect uniformed employees. The historical information provided in this section relates only to SCERS 1.

Additional detail on the existing plans is available from SCERS and DRS on their respective websites (SCERS: <http://www.seattle.gov/retirement/>; DRS: <http://www.drs.wa.gov/>).

Permanent non-uniformed City employees and certain grandfathered employees of the County (and a predecessor agency of the County) are eligible for membership in SCERS. Newly-hired uniformed police and fire personnel are generally eligible for membership in LEOFF. The Seattle Firefighters' Pension Fund and Police Relief and Pension Fund have been closed to new members since 1977.

*GASB 67/68 Reporting.* GASB Statements No. 67 ("GASB 67") and No. 68 ("GASB 68") modified the accounting and financial reporting of pensions by pension plans (GASB 67) and by state and local government employers (GASB 68), but did not alter the funding requirements under State law and City ordinance for members, employers, or the State. The SCERS annual financial statements for the fiscal year ended December 31, 2019, and DRS's Comprehensive Annual Financial Report for LEOFF for the fiscal year ended June 30, 2020, were prepared in accordance with GASB 67. The City's financial statements beginning with the fiscal year ended December 31, 2017, were prepared in accordance with GASB 68. The City's Comprehensive Annual Financial Report for 2018 is available on the City's website.

The 2020 Financial Statements, attached as Appendix C, have been prepared in accordance with GASB 68. The Seattle City Light Fund reported a liability of \$265.2 million and \$321.6 million, representing its proportionate share of Net Pension Liability ("NPL") for SCERS as of December 31, 2020, and December 31, 2019, respectively. The effect of this recognition is reflected in its Balance Sheets and its Statement of Revenues, Expenses and Changes in Net Position in the 2020 Financial Statements. The NPL was measured as of December 31, 2019, and December 31, 2018, and the Total Pension Liability ("TPL") used to calculate the NPL was based on the actuarial valuations as of January 1, 2019, and January 1, 2018. The Seattle City Light Fund's proportion of the NPL was based on contributions to SCERS during the fiscal years ended December 31, 2019, and December 31, 2018. The Seattle City Light Fund's proportionate share was 21.10% and 21.17% for the years ended December 31, 2020, and December 31, 2019, respectively. Schedules of the Seattle City Light Fund's proportionate share of NPL and contributions are provided as required supplementary information to the Department's 2020 Financial Statements.

*Seattle City Employees' Retirement System.* SCERS is a cost-sharing multiple-employer defined benefit public employee retirement plan, administered in accordance with Chapter 4.36 of the SMC, by the Retirement System Board of Administration (the "Board"). The Board consists of seven members, including the Chair of the Finance Committee of the City Council, the City's Director of Finance, the City's Human Resources Director, two active members and one retired member of the system, and one outside board member who is appointed by the other six board members. Elected and appointed Board members serve for three-year terms.

SCERS is a pension trust fund of the City and provides retirement, death, and disability benefits under SCERS 1 and SCERS 2. Employees first entering the system on or after January 1, 2017, are enrolled in SCERS 2, with limited exceptions for certain exempt employees and those with service credit prior to January 1, 2017. Members already enrolled in SCERS 1 do not currently have an option to switch to SCERS 2.

Under SCERS 1, retirement benefits vest after five years of credited service, while death and disability benefits vest after ten years of service. Retirement benefits are calculated as 2% multiplied by years of creditable service, multiplied by average salary, based on the highest 24 consecutive months. The benefit is actuarially reduced for early retirement. Under SCERS 2, retirement benefits vest after five years of credited service, while death and disability benefits vest after ten years of service. Retirement benefits are calculated as 1.75% multiplied by years of creditable service, multiplied by average salary, based on the highest 60 consecutive months. The benefit is actuarially reduced for early retirement.

According to the most recent actuarial valuation (with a valuation date as of January 1, 2020), which was approved by the Board on July 9, 2020 (the "2019 Actuarial Valuation"), there were 7,029 retirees and beneficiaries receiving benefits, and 9,440 active members of SCERS. There are an additional 1,420 terminated employees in SCERS who are vested and entitled to future benefits and another 1,392 who are not vested and not entitled to benefits beyond

contributions and accumulated interest. From January 1, 2019, to January 1, 2020, the net number of active members in SCERS increased by 0.6%, the net number of retirees receiving benefits increased by 3.5%, and the net number of vested terminated members increased by 6.6%.

Certain demographic data from the 2019 Actuarial Valuation are shown below:

**TABLE 15**  
**PLAN MEMBER DEMOGRAPHIC INFORMATION, SCERS**

<b>Age Range</b>	<b>Retirees and Beneficiaries Receiving Benefits</b>		<b>Active Employees</b>	
	<b>Number</b>	<b>Percent</b>	<b>Number</b>	<b>Percent</b>
<25	-		116	1.2%
25-39	-		2,570	27.2%
40-49	7 <sup>(1)</sup>	0.1% <sup>(1)</sup>	2,488	26.4%
50-59	287	4.1%	2,633	27.9%
60-69	2,505	36.1%	1,496	15.8%
70+	4,141	59.7%	137	1.5%

(1) Includes everyone under the age of 50.

*Source: 2019 Actuarial Valuation*

FINANCIAL CONDITION AND ACTUARIAL VALUATIONS. As a department of the City, SCERS is subject to the City's internal control structure and is required by SMC 4.36.140.D to transmit a report to the City Council annually regarding the financial condition of SCERS (the "SCERS Annual Report"). The most recent SCERS Annual Report, for the years ended December 31, 2019, and December 31, 2018, was transmitted on July 7, 2020, by CliftonLarsonAllen LLP.

Milliman Consultants and Actuaries, as consulting actuary, has evaluated the funding status of SCERS annually since 2010. The most recent actuarial report, the 2019 Actuarial Valuation (with a valuation date as of January 1, 2020), is available on the City's website at <http://www.seattle.gov/retirement/about-us/board-of-administration#actuarialreports>. Since 2010, the City has had actuarial valuations prepared annually.

At its July 2018 meeting, the Board adopted new assumptions to be used for the 2018 Actuarial Valuation. The assumptions were based on the 2018 Investigation of Experience Report. The adopted assumptions included a decrease in the investment return assumption, a decrease in the consumer price inflation assumption, and an overall increase in life expectancies. The following summarizes some key assumptions utilized in the 2019 Actuarial Valuation and compares those to the assumptions used in the last two actuarial valuations.

**TABLE 16**  
**ACTUARIAL ASSUMPTIONS**

	<b>2019</b>	<b>2018</b>	<b>2017</b>
Investment return	7.25%	7.25%	7.50%
Price inflation	2.75%	2.75%	3.25%
Wage growth (price inflation plus wage inflation)	3.50%	3.50%	4.00%
Expected annual average membership growth	0.50%	0.50%	0.50%
Interest on member contributions made on or after January 1, 2012 <sup>(1)</sup>	4.00%	4.00%	4.75%

(1) Contributions made prior to January 1, 2012, are assumed to accrue interest at 5.75%.

*Source: 2019, 2018, and 2017 Actuarial Valuations*



As of January 1, 2020 (as set forth in the 2019 Actuarial Valuation), the actuarial value of net assets available for benefits was \$3,041 million and the actuarial accrued liability was \$4,411 million. An Unfunded Actuarial Accrued Liability (“UAAL”) exists to the extent that actuarial accrued liability exceeds plan assets. Per the 2019 Actuarial Valuation, the UAAL increased from \$1,339.3 million as of January 1, 2019, to \$1,370.4 million as of January 1, 2020. The funding ratio increased from 68.2% as of January 1, 2019, to 68.9% as of January 1, 2020, which increase was primarily due to contributions made in 2019 in excess on the normal cost rate. For the year ending December 31, 2019, SCERS assets experienced an investment gain of about 17.2% on a market basis (net of investment expenses), a rate of return greater than the assumed rate of 7.25% for 2019. The result is an actuarial gain on assets for 2019, but only one-fifth of this gain was recognized in the current year actuarial value of assets (“AVA”). Unlike most public pension systems, prior to January 1, 2011, all valuations were reported on a mark-to-market basis. Consequently, the full impact of annual asset gains or losses occurring in recent years was reflected in each actuarial valuation. To improve its ability to manage short-term market volatility, the City adopted a five-year asset smoothing methodology in 2011 that recognizes the asset gain or loss occurring in each year evenly over a five-year period. Under this methodology, combined with prior years’ asset gains and losses, the 2019 return was a positive 6.9% on an actuarial value basis.

The following table provides historical plan funding information for SCERS:

**TABLE 17**  
**HISTORICAL SCERS SCHEDULE OF FUNDING PROGRESS <sup>(1)</sup>**  
**(\$000,000)**

<b>Actuarial Valuation Date (January 1)</b>	<b>Actuarial Value of Assets (AVA) <sup>(2)</sup></b>	<b>Actuarial Accrued Liability (AAL) <sup>(3)</sup></b>	<b>Unfunded AAL (UAAL)</b>	<b>Funding Ratio</b>	<b>Covered Payroll <sup>(4)</sup></b>	<b>UAAL as % of Covered Payroll</b>
2011	2,013.7	2,709.0	(695.4)	74.3%	563.2	123.5 %
2012	1,954.3	2,859.3	(905.0)	68.3%	557.0	162.5 %
2013	1,920.1	3,025.3	(1,105.2)	63.5%	567.8	194.6 %
2014	2,094.3	3,260.1	(1,165.8)	64.2%	597.9	195.0 %
2015	2,266.7	3,432.6	(1,165.9)	66.0%	630.9	184.8 %
2016	2,397.1	3,605.1	(1,208.0)	66.5%	641.7	188.3 %
2017	2,564.1	3,766.4	(1,202.3)	68.1%	708.6	169.7 %
2018	2,755.2	3,941.8	(1,186.6)	69.9%	733.3	161.8 %
2019	2,877.4	4,216.7	(1,339.3)	68.2%	779.1	171.9 %
2020	3,040.7	4,411.1	(1,370.4)	68.9%	819.7	167.2 %

(1) For accounting purposes under GASB 67/68, UAAL is replaced with net pension liabilities. However, because the City continues to set its contribution rates based on an actuarially required contribution based on the UAAL and funding ratios calculated under the pre-GASB 67/68 methodology, both methods are currently reported in the SCERS actuarial valuations and annual reports.

(2) Based on five-year asset smoothing.

(3) Actuarial present value of benefits less actuarial present value of future normal cost. Based on Entry Age Actuarial Cost Method, defined below under “SCERS Contribution Rates.”

(4) Covered Payroll shown for the prior calendar year; includes compensation paid to all active employees on which contributions are calculated.

Source: Annual Actuarial Valuation Reports

In accordance with GASB 67, the 2019 SCERS audited financial statements included a calculation of TPL and NPL based on the actuarial valuation dated as of January 1, 2019, rolled forward using generally accepted actuarial procedures (assuming a 7.25% investment rate of return and 3.50% salary increases) to December 31, 2019, as follows: TPL was calculated to be \$4,406.7 million, plan fiduciary net position (“Plan Net Position”) was calculated to be \$3,149.9 million, and NPL was calculated to be \$1,256.8 million, for a funding ratio (Plan Net Position as a percentage of TPL) of 71.5%. A Schedule of the City Light Fund’s Proportionate Share of

the Net Pension Liability and Schedule of the City Light Fund's Contributions are set forth in the required supplementary information in Appendix C—2020 Audited Financial Statements of the Department.

**SCERS CONTRIBUTION RATES.** Member and employer contribution rates for SCERS 1 and SCERS 2 are established separately by Chapter 4.36 of the SMC. The SMC provides that the City contribution for SCERS 1 must match the normal contributions of SCERS 1 members and does not permit the employer rate to drop below the employee rate. There is no similar restriction in the SMC with respect to SCERS 2. The SMC also requires that the City contribute, in excess of the matching contributions, the amount determined by the most recent actuarial valuation that is required to fully fund the plan. Contribution rates are recommended annually by the Board, based on the system's actuarial valuation. Benefit and contribution rates are set by the City Council.

The Actuarially Required Contribution ("ARC") rate is based on amortizing the required contribution over 30 years, meaning that the total contribution rate must be sufficient to pay for the costs of benefits earned during the current year, as well as the annual cost of amortizing the plan's UAAL over 30 years. The City Council may from time to time set the amortization period by resolution, and in 2013, it passed a resolution to close the 30-year amortization period for calculating UAAL as of the January 1, 2013, actuarial valuation. As a result, for purposes of the 2019 Actuarial Valuation calculation, a 23-year amortization period was used. This policy may be revised by the City Council in future years. The 2019 Actuarial Valuation was prepared using the Entry Age Normal Cost ("EANC") method. Under the EANC method, the actuarial present value of the projected benefits of each individual included in the valuation is allocated as a level percent of the individual's projected compensation between entry age into the system and assumed exit age (*e.g.*, termination or retirement).

Current and historical contribution rates for SCERS, based on a percentage of employee compensation (exclusive of overtime), are shown in the table below.

**TABLE 18**  
**EMPLOYER AND EMPLOYEE SCERS CONTRIBUTION RATES**

Calendar Years (beginning Jan. 1)	Employer Rate	Employee Rate	Total Contribution Rate	Total ARC <sup>(1)</sup>	% of Total ARC Contributed	Total ARC per GASB 27 <sup>(2)</sup>	% of Total ARC Contributed per GASB 27
2012	11.01%	10.03%	21.04%	21.04%	100%	21.87%	96%
2013	12.89%	10.03%	22.92%	22.92%	100%	24.05%	95%
2014	14.31%	10.03%	24.34%	24.34%	100%	25.63%	95%
2015	15.73%	10.03%	25.76%	25.76%	100%	26.38%	98%
2016	15.23%	10.03%	25.26%	25.26%	100%	N/A	N/A
2017	15.29%	10.03%	25.32%	25.32%	100%	N/A	N/A
2018	15.23% <sup>(3)</sup>	10.03%	25.26%	25.00%	101% <sup>(3)</sup>	N/A	N/A
2019	15.26% <sup>(3)</sup>	9.85% <sup>(4)</sup>	25.11%	24.40% <sup>(5)</sup>	103% <sup>(3)</sup>	N/A	N/A
2020	16.14%	9.65% <sup>(4)</sup>	25.79%	25.79% <sup>(5)</sup>	100%	N/A	N/A
2021	16.10%	9.46% <sup>(4)</sup>	25.56%	25.56%	100%	N/A	N/A

(1) Reflects total actuarial required contribution (*i.e.*, employer plus employee contribution rates). Since November 21, 2011, this rate has been used for City budgeting purposes.

(2) The primary difference between the Total ARC calculation and that calculated under GASB Statement No. 27 is that the Total ARC calculation uses a 0.50% membership growth assumption, while GASB specifies an assumption of no membership growth. The GASB rate calculations take into account the lag between the determination of the ARC and the expected contribution date associated with that determination (for example, contribution rates for calendar year 2012 were based on the ARC determined as part of the January 1, 2011, actuarial valuation). Beginning in 2016, GASB Statement No. 27 was superseded by GASB 68, so this calculation is no longer performed.

(3) The City contribution rate is intentionally more than the total ARC in an effort to reduce the projected increase in future contribution rates. See Table 19.

(4) Reflects a blended employee contribution rate based on rates for SCERS 1 and SCERS 2 members.

(5) Since 2019, the ARC reflects a blended normal cost for SCERS 1 and SCERS 2.

Source: Seattle Municipal Code; 2020 and 2021 Budgets; Annual Actuarial Valuation Reports

In 2011, the City Council adopted Resolution 31334, affirming the City’s intent to fully fund the annual ARC each year with its budget. See Table 18—Employer and Employee SCERS Contribution Rates and Table 19—Projected Actuarially Required Total Contribution Rates for SCERS by Employer and Employee.”

The City’s contracts with all labor unions that represent SCERS members limit the ability of the City to pass on increases to pension contribution rates to the employee portion. Prior contracts permitted 1% increases in 2011 and 2012 to be reflected in the employee contribution rates, but have eliminated any additional cost-sharing. Future increases to pension contribution rates will be reflected in the City’s employer contribution.

As indicated in Table 18, the Total ARC is decreasing to 25.56% as a percent of payroll beginning in January 1, 2021. This compares to the 25.79% Total ARC in the prior year. The employees’ share will average 9.46% between SCERS 1 and SCERS 2. The employer’s share needed to meet the Total ARC is decreasing from 16.14% to 16.10%. As a result, the City is adjusting its employer contribution rate for 2021 to 16.10%, in order to meet the projected Total ARC in 2021.

Projected total actuarially required contribution rates for SCERS reported in the 2019 Actuarial Valuation are shown in the table below:

**TABLE 19**  
**PROJECTED ACTUARIALLY REQUIRED TOTAL CONTRIBUTION RATES FOR SCERS**  
**BY EMPLOYER AND EMPLOYEE**

<b>Contribution Year<sup>(1)</sup></b>	<b>Assuming 7.25% Returns</b>	<b>Confidence Range<sup>(2)</sup></b>
2021	16.10%	16.10-16.10
2022	15.83%	14.88-16.77
2023	15.57%	13.53-17.65
2024	15.66%	12.28-19.19
2025	15.13%	10.14-20.41
2026	15.13%	8.20-22.48

(1) Contribution year lags valuation year by one. For example, contribution year 2021 is based on the 2019 Actuarial Valuation (as of January 1, 2020) results, amortized over 23 years beginning in 2020 if the contribution rate change takes place in 2021.

(2) Confidence range for asset returns between the 5th and 95th percentile.

*Source: 2019 Actuarial Valuation*

Employer contributions were \$118.4 million in 2019 and \$141.0 million in 2020, of which approximately \$24.8 million and \$28.7 million, respectively, were from the City Light Fund. The employer share for employees of each of the utility funds is allocated to and paid out of the funds of each respective utility. The significant increase from 2019 to 2020 was primarily due a large amount of retroactive payroll associated with the settlement of previously expired labor contracts.

**INVESTMENT OF SCERS PLAN FUNDS.** In accordance with chapter 35.39 RCW, the Board has established an investment policy for the systematic administration of SCERS funds. The investment of SCERS funds is governed primarily by the prudent investor rule, as set forth in RCW 35.39.060. SCERS invests retirement funds for the long term, anticipating both good and poor performing financial markets. Contributions into SCERS 1 and SCERS 2 are invested together.

The market value of SCERS’ net assets increased by \$432.4 million (15.9%) during 2019, including member and employer contributions of \$194.4 million and net gain from investment activity totaling \$465.8 million. Deductions increased by \$4.8 million in 2019, primarily attributed to a \$12.9 million increase in retiree benefit payments, offset by reductions in the amount of contributions refunded and administrative expenses.

Table 20 shows the historical market value of SCERS' assets (as of each December 31). Table 21 shows the historical investment returns on SCERS for the last ten years.

**TABLE 20**  
**SCERS MARKET VALUE OF ASSETS**

<b>Year</b> <b>(As of December 31)</b>	<b>Market Value of</b> <b>Assets (MVA)<sup>(1)</sup></b>
2011	\$ 1,753.5
2012	1,951.4
2013	2,216.9
2014	2,322.7
2015	2,313.0
2016	2,488.5
2017	2,852.9
2018	2,717.4
2019	3,149.9
2020	3,641.5

(1) In millions.

Source: SCERS Actuarial Valuations

**TABLE 21**  
**SCERS INVESTMENT RETURNS**

<b>Year</b> <b>(As of December 31)</b>	<b>One-Year</b> <b>Annualized Return<sup>(1)</sup></b>
2011	-0.4%
2012	12.8%
2013	15.0%
2014	5.3%
2015	0.1%
2016	8.4%
2017	15.7%
2018	-3.7%
2019	17.2%
2020	12.6%

(1) Calculated net of fees.

Source: SCERS Annual Reports

Table 22 below shows the historical distribution of SCERS investments for the years 2014-2018. Table 23 shows similar information for the years 2018-2020 under a revised investment class categorization.

**TABLE 22**  
**HISTORICAL SCERS DISTRIBUTION OF INVESTMENTS BY CLASS**

<b>Investment Categories (January 1)</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Fixed Income	24.0%	22.9%	28.4%	24.2%	23.7%
Domestic and International Stocks	57.0%	57.4%	53.3%	60.0%	60.8%
Real Estate	10.8%	12.2%	12.8%	11.0%	10.6%
Alternative Investments	8.2%	7.4%	5.4%	4.8%	4.9%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

*Source: SCERS Actuarial Valuations*

**TABLE 23**  
**HISTORICAL SCERS DISTRIBUTION: REVISED INVESTMENT CLASS CATEGORIZATION**

<b>Investment Categories (January 1)</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>
Diversifying Strategies	0.0%	2.0%	1.9%
Fixed Income	26.7%	28.9%	24.6%
Infrastructure	1.2%	0.9%	0.4%
Private Equity	8.6%	8.1%	5.2%
Public Equity	53.1%	48.8%	57.1%
Real Estate	10.5%	11.3%	10.8%
Total	100.0%	100.0%	100.0%

*Source: SCERS Actuarial Valuations*

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

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

*Firefighters' Pension Fund; Police Relief and Pension Fund.* The Firefighters' Pension Fund and the Police Relief and Pension Fund are single-employer pension plans that were established by the City in compliance with chapters 41.18 and 41.20 RCW.

All City law enforcement officers and firefighters serving before March 1, 1970, are participants in these plans and may be eligible for a supplemental retirement benefit plus disability benefits under these plans. Some disability benefits may be available to such persons hired between March 1, 1970, and September 30, 1977. Since the effective date of LEOFF in 1970, no payroll for employees was covered under these City plans, and the primary liability for pension benefits for these City plans shifted from the City to the State LEOFF plan described below. The City remains liable for all benefits of employees in service at that time plus certain future benefits in excess of LEOFF benefits. Generally, benefits under the LEOFF system are greater than or equal to the benefits under the old City plan. However,

because LEOFF benefits increase with the consumer price index (CPI-Seattle) while some City benefits increase with wages of current active members, the City's projected liabilities vary according to differences between wage and CPI increase assumptions.

These pension plans provide retirement benefits, death benefits, and certain medical benefits for eligible active and retired employees. Retirement benefits are determined under chapters 41.18 and 41.26 RCW for the Firefighters' Pension Fund and under chapters 41.20 and 41.26 RCW for the Police Relief and Pension Fund. As of January 1, 2019, membership in these plans consisted of 590 fire employees and survivors and 658 police employees and survivors. See "Other Post-Employment Benefits" below for a discussion of medical benefits paid to retirees.

In 2015, GASB released Statement No. 73 ("GASB 73"), replacing accounting requirements previously mandated under GASB Statements Nos. 25 and 27 for public pension plans that are not within the scope of GASB 68. The City has determined that both the Firefighters' Pension Fund and the Police Relief and Pension Fund are outside the scope of GASB 67 and GASB 68, and therefore the accounting and financial reporting for these pension plans has been prepared in accordance with GASB 73.

These pension plans do not issue separate financial reports. The most recent actuarial valuations, dated January 1, 2020, use the EANC method and value plan assets at fair value. The actuarial valuation for the firefighters' pension fund uses the following long-term actuarial assumptions: inflation rate (CPI), 2.25%; investment rate of return, 5.50%; and projected salary increases, 3.00%. The actuarial valuation for the Police Relief and Pension Fund uses the following long-term actuarial assumptions: inflation rate (CPI), 2.25%; investment rate of return, 2.75%; and projected salary increases, 3.00%. Postretirement benefit increases are projected based on salary increase assumptions for benefits that increase based on salary and based on CPI assumptions for benefits based on CPI.

Since both pension plans were closed to new members effective October 1, 1977, the City is not required to adopt a plan to fund the actuarial accrued liability of these plans. In 1994, the City established an actuarial fund for the Firefighters' Pension Fund and adopted a policy of fully funding the actuarial accrued liability ("AAL") by the year 2018 (which was subsequently extended to 2028). In accordance with GASB 73, the plan had a TPL of \$90.7 million as of December 31, 2019, an increase of \$4.8 million from the TPL of \$85.9 million as of December 31, 2018. As of January 1, 2020, the actuarial value of net assets available for benefits in the Firefighters' Pension Fund was \$26.8 million, and the AAL was \$89.2 million. As a result, the UAAL was \$62.4 million and the funded ratio was 30.0%. In the January 1, 2019, actuarial valuation, the UAAL was \$52.1 million and the funded ratio was 28.5%. The City's employer contribution to the fund in 2019 was \$8.3 million; there were no current member contributions. Under State law, partial funding of the Firefighters' Pension Fund may be provided by an annual property tax levy of up to \$0.225 per \$1,000 of assessed value within the City. The City does not currently levy this additional property tax, but makes contributions out of the General Fund levy. The fund also receives a share of the State tax on fire insurance premiums.

The City funds the Police Relief and Pension Fund as benefits become due. In accordance with GASB 73, the plan had a TPL of \$92.9 million as of December 31, 2019, an increase of \$12.4 million from the TPL of \$80.5 million as of December 31, 2018. As of January 1, 2020, the actuarial value of net assets available for benefits in the Police Relief and Pension Fund was \$8.7 million, and the AAL was \$99.8 million. As a result, the UAAL was \$91.1 million and the funded ratio was 8.7%. In the January 1, 2019, actuarial valuation, the UAAL was \$83.4 million and the funded ratio was 6.5%. The City's employer contribution to the fund in 2019 was \$11.5 million; there were no current member contributions. The fund also receives police auction proceeds of unclaimed property.

*Law Enforcement Officers' and Fire Fighters' Retirement System.* Substantially all of the City's current uniformed firefighters and police officers are enrolled in LEOFF. LEOFF is a State-wide, multiple-employer defined benefit plan administered by the DRS. Contributions by employees, employers, and the State are based on gross wages. LEOFF participants who joined the system by September 30, 1977, are Plan 1 members. LEOFF participants who joined on or after October 1, 1977, are Plan 2 members. For all of the City's employees who are covered under LEOFF, the City contributed \$16.2 million in 2018 and \$15.3 million in 2017. The following table outlines the contribution rates of employees and employers under LEOFF.

**TABLE 24**  
**LEOFF CONTRIBUTION RATES EXPRESSED AS A PERCENTAGE OF COVERED PAYROLL**  
**(AS OF DECEMBER 31, 2020)**

	<b>Plan 1</b>	<b>Plan 2</b>
Employer	0.18% <sup>(1)</sup>	5.33% <sup>(1)</sup>
Employee	0.00	8.59%
State	N/A	3.44%

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

*Source: Washington State Department of Retirement Systems*

While the City's current contributions represent its full current liability under the retirement systems, any unfunded pension benefit obligations could be reflected in future years as higher contribution rates. The State Actuary's website includes information regarding the values and funding levels for LEOFF.

According to the Office of the State Actuary's June 30, 2019, valuation, LEOFF had no UAAL. LEOFF Plan 1 had a funded ratio of 141% and LEOFF Plan 2 had a funded ratio of 111%. The assumptions used by the State Actuary in calculating the accrued actuarial assets and liabilities are a 7.5% annual rate of investment return for LEOFF Plan 1 and a 7.4% annual rate of investment return for LEOFF Plan 2, 3.50% general salary increases, 2.75% consumer price index increase, and annual growth in membership of 0.95%. Liabilities were valued using the EANC method and assets were valued using the AVA, which defers a portion of the annual investment gains or losses over a period of up to eight years. As of December 31, 2019, the City reported an asset of \$278.1 million for its proportionate share of the net pension asset as follows: \$70.7 million for LEOFF Plan 1 and \$207.4 million for LEOFF Plan 2. Schedules of the Seattle City Light Fund's proportionate share of NPL and of the Seattle City Light Fund's contributions are provided as required supplementary information to the Department's 2019 Financial Statements.

For additional information, see Note 11 to the City's 2019 Comprehensive Annual Financial Report, which is available on the City's website.

### **Other Post-Employment Benefits**

The City has liability for two types of OPEB: (i) an implicit rate subsidy for health insurance covering employees retiring under SCERS 1, SCERS 2, or LEOFF Plan 2 and dependents of employees retiring under LEOFF Plan 1, and (ii) medical benefits for eligible beneficiaries of the City's Firefighters' Pension Fund and Police Relief and Pension Fund. The implicit rate subsidy is the difference between (i) what retirees pay for their health insurance as a result of being included with active employees for rate-setting purposes, and (ii) the estimated required premiums if their rates were set based on claims experience of the retirees as a group separate from active employees.

Beginning with the fiscal year ending December 31, 2018, the City has assessed its OPEB liability in accordance with GASB Statement No. 75 ("GASB 75"). While GASB 75 requires reporting and disclosure of the unfunded OPEB liability, it does not require that it be funded.

The City funds its OPEB liabilities on a pay-as-you-go basis.

The City commissions a biennial valuation report on its OPEB liabilities associated with the implicit rate subsidy for health insurance covering employees retiring under the SCERS 1, SCERS 2, or LEOFF plans. The last valuation was based on a measurement date as of January 1, 2020, and was prepared in accordance with GASB 75. It showed the total OPEB liability for the implicit rate subsidy increased to \$63.6 million from \$61.1 million in the prior valuation. The City's GASB 75 annual expense in 2020 was calculated at \$4.5 million, which compares to \$4.7 million in 2019. The valuation of the OPEB liability associated with the City's Firefighters' Pension Fund and Police Relief and Pension Fund is updated annually. The most recent valuations were prepared in accordance with GASB 75. As of December 31, 2019, the total OPEB liability in the City's Firefighters' Pension Fund increased to \$269.9 million from \$268.8 million. The annual OPEB expense for 2019 was \$12.6 million and the estimated benefit payments were \$11.5 million. As of December 31, 2019, the total OPEB liability in the Police Relief and Pension Fund decreased to

\$287.1 million from \$297.4 million. The annual OPEB expense for 2019 was \$4.7 million and the estimated benefit payments were \$15.0 million.

For additional information regarding the City's OPEB liability, see Note 11 to the City's 2019 Comprehensive Annual Financial Report.

### **State Paid Family and Medical Leave Insurance**

On January 1, 2020, the State became the fifth state in the nation to offer paid family and medical leave benefits to State workers, including State and local government employees. The Paid Family and Medical Leave program is a State-wide insurance program that ensures paid leave for State workers when they need time off to give or receive care. Eligible workers are those who have worked at least 820 hours (equivalent to 20.5 full-time weeks) in the qualifying period before the leave begins. The program typically covers 12 weeks of leave (up to 18 weeks in certain circumstances). Workers receive between \$100 and \$1,000 per week, depending on their income. The program is funded by employer and employee premiums, and will be administered by the Employment Security Department. Assessments for premiums began on January 1, 2019, and benefits became available to be taken starting January 1, 2020.

As of January 1, 2019, the City began paying assessments for premiums based on a percentage of wages. The initial rate of this assessment is 0.4% of wages that are subject to the federal social security tax. The City will continue to pay only the employer share of the 2021 assessment (0.147% of Social Security wages) for most employees, estimated to be \$1,695,000, of which approximately \$748,000 will be paid from the General Fund and \$947,000 will be paid by other enterprise, levy, and internal service funds.

### **State Long-Term Care Services and Supports Benefit Program**

In 2019, the State created a Long-Term Services and Supports ("LTSS") Trust Program to provide certain long-term care benefits to eligible beneficiaries. All individuals employed in the State (including employees of local governments such as the City) may become eligible to receive the benefit when they have paid the LTSS trust premiums while working at least 500 hours per year for either ten years with at least five years uninterrupted, or three of the last six years. A program participant who may receive benefits must have been assessed by the State Department of Social and Health Services with needing assistance with at least three daily living tasks, must be at least 18 years old (and must not have been disabled before the age of 18), and must reside in the State. There is a lifetime cap on the benefit for any individual equal to 365 benefit units, which are assigned a dollar value adjusted annually at a rate not exceeding the CPI. Benefits may be accessed beginning January 1, 2025, and will be paid directly to LTSS providers on behalf of eligible beneficiaries. Administration of the LTSS Trust Program is divided among multiple existing State health and human services agencies and two newly created State bodies, the LTSS Trust Council and the LTSS Trust Commission.

The LTSS Trust Program will be funded through premiums assessed beginning January 1, 2022, at a rate of 0.58% of each employee's wages within the State. Rates will be adjusted every two years by the State Pension Funding Council (based on actuarial studies and valuations to be performed by the State Actuary) to maintain financial solvency of the LTSS Trust, but not to exceed 0.58%. Employers will be required to remit premiums on behalf of all employees other than employees who demonstrate that they have long-term care insurance. There is no employer contribution required under State law.

### **Labor Relations**

This information has been updated as of February 18, 2021, to reflect the engagement of the Labor Relations Unit within the Seattle Department of Human Resources ("Labor Relations") with union representatives in response to the impacts of the COVID 19 emergency upon the City and the employees in the respective bargaining units. Since the Mayor's emergency declaration on March 3, 2020, Labor Relations has been actively addressing the impacts of the emergency on the workplace and working conditions of employees. Negotiation of the first Memorandum of Understanding ("MOU") providing the City with additional flexibility was concluded on May 28, 2020. Most City unions signed except for the sworn Public Safety employees (Police and Fire), Police Dispatchers, and Parking Enforcement Officers. Labor Relations continued to work closely with all of the labor representatives to address the continuing and growing impacts of the pandemic, as well as other social and environmental crises that affected the



City and surrounding communities as well as the City's employees, negotiating additional agreements related to the impacts of the pandemic, including addressing the extension of the COVID 19 MOU, the transition following expiration of the MOU and the end of the federal Families First Coronavirus Response Act. Safety protocols, flexibility for employees directly impacted by school closures and remote learning for their children, and other ongoing and evolving impacts of the pandemic are a topic of regular weekly meetings between Labor Relations staff and all of the bargaining representatives.

As of January 2021, the City had 38 separate departments and offices with approximately 14,673 employees (including 11,550 regular and 3,123 temporary employees). Twenty-five different unions and 52 bargaining units represent the approximately 75% of regular City employees whose employment is governed by 30 different collective bargaining agreements (contracts). In 2021, the new PROTEC Local 17 bargaining unit, representing most Strategic Advisors in the Legislative Department has completed negotiations with the City for its initial collective bargaining agreement, pending adoption by the City Council and Mayor. At least three other new bargaining units are currently in the certification process, all represented by PROTEC Local 17, including a unit of civilian non-managers and a unit of civilian managers, both at the Seattle Police Department ("SPD"), and Strategic Advisors in two smaller departments.

To date, of the 24 contracts that expired on December 31, 2018, all contracts except the Fire Chiefs Local 2898 contract have been extended or concluded through new agreements. The Seattle Parking Enforcement Officers Guild ("SPEOG") and IAMAW Local 79 (Machinists) agreements were successfully concluded in April and September 2020, respectively, with a new expiration date of December 31, 2021. Also in 2020, the City was in active negotiations with the Seattle Police Management Association ("SPMA") for a new agreement to replace the contract that expired December 31, 2019. In March 2020, both SPMA and Fire Chiefs Local 2898 negotiations were put on hiatus for a number of months due to the pandemic. The City and SPMA are currently negotiating a successor agreement. Negotiations have also resumed with Fire Chiefs Local 2898.

Labor Relations is preparing to open negotiations with SPOG for a new contract to replace the current contract, which expired on December 31, 2020, as well as opening negotiations with IBEW Local 77 on three separate contracts: Power Marketers (expired December 31, 2020), Seattle City Light (expired January 22, 2021), and Seattle Department of Transportation (expired January 22, 2021). These unions will continue to operate under their expired contracts as negotiations begin soon.

Looking ahead, 21 labor agreements that are either part of the Coalition of City Unions or "Coalition-like" unions have contracts expiring on December 31, 2021. These contracts include approximately 61% of the City's represented employees.

### **Emergency Management and Preparedness**

The City's Office of Emergency Management ("OEM") is responsible for coordinating the City's resources and responsibilities in dealing with emergencies. The OEM is taking a lead role in coordinating various aspects of the City's response to the COVID-19 pandemic. See "Other Considerations Relative to the City—Global Health Emergency Risk and City's Response to the COVID-19 Pandemic."

The OEM prepares for emergencies, coordinates with regional, State, and federal response agencies, provides education to the community about emergency preparedness, plans for emergency recovery, and works to mitigate known hazards. It has identified and assessed many types of hazards that may impact the City, including geophysical hazards (*e.g.*, earthquakes, landslides, tsunamis, seismic seiches, volcanic eruptions, and lahars), infectious disease outbreaks, intentional hazards (*e.g.*, terrorism, active shooter incidents, breaches in cyber security, and civil disorder), transportation incidents, fires, hazardous materials, infrastructure failure, and unusual weather conditions (*e.g.*, floods, snow, water shortages, and wind storms). However, the City cannot anticipate all potential hazards and their effects, including any potential impact on the economy of the City or the region.

If a disaster were to damage or destroy a substantial portion of the taxable property within the City, the assessed value of such property could be reduced, which could result in a reduction of property tax revenues. Other revenue sources, such as sales tax and lodging tax, could also be reduced. In addition, substantial financial and operational resources

of the City could be required during any emergency event or disaster and could be diverted to the subsequent repair of damage to City infrastructure.

The City's emergency management program was assessed by a third-party team of emergency management professionals according to the Emergency Management Accreditation Program standards and was accredited in 2016. The City will seek reaccreditation in 2021.

*Climate Change.* There are potential risks to the City associated with changes to the climate over time and from increases in the frequency, timing, and severity of extreme weather events. The City is preparing for a changing climate and the resulting economic, infrastructure, health, and other community impacts by integrating consideration of climate change into decision making and identifying mitigation and adaptation actions to enhance the resilience of services and infrastructure. The City adopted Resolution 31447 in June 2013 adopting a Climate Action Plan to provide long-term planning direction and guide climate protection and adaptation efforts through 2030. In April 2018, the Mayor's Office released an updated "Climate Action Plan" that focuses on a set of short- and long-term actions that provide a roadmap for the City to act on the leading contributors of greenhouse gases: transportation and buildings. It builds on prior studies and plans implemented by the Office of Sustainability and the Environment ("OSE") that detail strategies and actions that can be taken to improve the climate preparedness of City infrastructure and services and to facilitate coordination across City government. The OSE plans include sector-specific strategies for transportation; buildings, and energy (including specific energy consumption and greenhouse gas emissions reduction targets for City buildings); trees and green space; food access; a healthy environment; and environmental justice. In 2019, the City adopted Resolution 31895, committing to creating a "Green New Deal" for the City to address and mitigate the effects of climate change. The City has also developed more specific plans addressing utility operations (including drainage, water supply, solid waste, and the electric system) and community preparedness. The City is monitoring and will be documenting climate impacts and likely climate risks as they arise and has not yet quantified the impact on the City, its population, or its operations. Over time, the costs could be significant and could have a material adverse effect on the City's finances by requiring greater expenditures to counteract the effects of climate change.

*Cyber Security.* Cyber security threats continue to become more sophisticated and are increasingly capable of impacting the confidentiality, integrity, and availability of City systems and applications, including those of critical controls systems. Seattle IT, working in conjunction with various City departments, has and continues to institute processes, training, and controls to maintain the reliability of its systems and protect against cyber security threats as well as mitigate intrusions and plan for business continuity via data recovery. Cyber security incident response plans are reviewed regularly, and tabletop and other exercises are conducted annually to assess the effectiveness of those plans. Seattle IT and third-party professional services also conduct cyber security assessments with the intent to identify areas for continual improvement, and develop work plans to address issues and support the cyber security program. This includes technical vulnerability assessments, penetration testing, and risk assessments based on the National Institute of Standards and Technology ("NIST") 800-53a. Seattle IT continuously reviews and updates processes and technologies to mature security practices leveraging the NIST Cybersecurity Framework. Cyber security risks create potential liability for exposure of nonpublic information and could create various other operational risks. The City cannot anticipate the precise nature of any particular breach or the resulting consequences, and acquired cyber security liability insurance in October 2019. See "—Risk Management.

## **OTHER CONSIDERATIONS RELATIVE TO THE CITY**

The section below provides a discussion of other considerations relative to the City. See also "Various Factors Affecting the Electric Utility Industry" for considerations relative to City Light.

### **Global Health Emergency Risk and COVID-19 Pandemic**

The spread of COVID-19, the illness caused by the novel coronavirus known as SARS-CoV-2, and its variants is continuing to affect local, State, national, and global economic activity and has contributed to the onset of a recession in the United States. In the City, the COVID-19 pandemic is ongoing and has resulted in significant public health emergency response costs. Ongoing impacts to the City associated with the COVID-19 outbreak include, but are not limited to, increasing costs and challenges to the public health system in and around the City, cancellations of public

events, and disruption of the regional and local economy, with corresponding decreases in the City's revenues, including transient occupancy tax revenue, sales tax revenue, and other revenues.

*“Healthy Washington—Roadmap to Recovery” and Phased Reopening Status.* The Governor of the State initially declared a state of emergency on February 29, 2020, and on March 23, 2020, issued Proclamation 20-25, Stay Home—Stay Healthy (the “Proclamation”), ordering residents to self-isolate and practice social distancing and limiting non-essential activities. The Proclamation was extended several times and was amended to include a four-phase approach to reopening access to non-essential activities on a county-by-county basis, as local public health conditions permitted, through 2020. On January 11, 2021, in recognition of progress being made to vaccinate vulnerable populations, the Governor launched a new regional approach for its phased recovery plan called “Healthy Washington—Roadmap to Recovery.” There are eight regions defined in the recovery plan with King County, including the City, in the “Puget Sound” region and four metrics in total – two metrics that measure community disease levels (*i.e.*, trends in case rates, test positivity) and two that measure health system capacity (*i.e.*, trends in COVID-19 hospital admission rates, ICU occupancy). As of March 22, 2021, the State is in Phase 3 of the Roadmap to Recovery. Physical distancing and mandatory mask-wearing orders remain in place; however, Phase 3 allows up to 50% occupancy or 400 people maximum, whichever is lower, for all indoor spaces including restaurants, gyms and fitness centers, and movie theaters. Sports guidance in Phase 3 also changed, with the move to Phase 3 allowing in-person spectators at events for the first time in a year. Spectators are allowed to attend outdoor venues with permanent seating with capacity capped at 25%.

*City Response and Impacts to City Services.* The City has experienced an increase in public health emergency response and other costs associated with mitigating the impacts of the COVID-19 pandemic on the residents of the City. The costs include emergency response, support to homeless and vulnerable populations and small businesses, food assistance, and expanded childcare services, among others. The Mayor initially issued a Proclamation of Civil Emergency on March 3, 2020, and by Executive Order has extended various relief programs and implemented a series of programs that support artists, nonprofits, small businesses, workers, and vulnerable populations adversely impacted. In 2020, working with the Seattle Fire Department, the City launched free public COVID-19 testing sites across the City through a partnership with the University of Washington Laboratory. The Seattle Fire Department currently operates five free testing sites where more than 650,000 tests have been administered as of February 21, 2021. The City continues to address homelessness and housing insecurity caused or exacerbated by the pandemic by implementing moratoriums on residential, small business, and nonprofit evictions and implementing various homelessness prevention measures, including providing rental assistance, UDP expansions, and grocery vouchers. As part of its commitment to provide direct assistance to small businesses, in March 2020, the City created and launched the “Small Business Stabilization Fund” to provide grants to micro-businesses and small businesses impacted by the pandemic. Since this initial action, the City's Office of Economic Development has provided 707 small businesses impacted by COVID-19 with \$10,000 grants as of March 2021. In November 2020, Mayor Durkan announced an additional \$4 million for restaurants and bars—resulting in another 704 businesses receiving \$3,000 grants. In addition, the City continues to obtain and distribute personal protective equipment, support essential workers by opening emergency childcare, expand zoning and permitting flexibility for small businesses to operate curbside pickups and outdoor service, and provide direct rent relief and other assistance to various nonprofit organizations.

With the response to the pandemic expanding to focus on vaccinations, the City is also actively engaging in the State and national efforts to speed vaccination rates and help ensure that vaccinations are available to eligible residents and reaching minority and under-served populations. The City is partnering with the University of Washington and Swedish Medical Center to open and operate mobile, fixed and mass vaccination centers. In March 2021, the City opened two permanent fixed COVID-19 Community Testing and Vaccination Clinics in Rainier Beach and West Seattle, and opened a new fixed vaccination site at North Seattle College. In the same month, in partnership with Swedish Medical Center and First & Goal Inc., the City opened a mass vaccination site at the Lumen Field Event Center. Together, these four City-affiliated fixed vaccination sites are on track to administer nearly 20,000 doses of COVID-19 vaccine each week as of April 2021, with this number expected to grow as vaccine supplies increase.

In an effort to limit large gatherings of employees, many City personnel are continuing to telecommute or work from alternate locations, and the City has staggered shifts at critical facilities. In addition, on-site personnel are wearing masks and gloves and practicing social distancing while working. To date, the City has not observed material impacts from such measures on core operations and does not expect a material effect in the future. However, there can be no

assurance that the absence of employees due to COVID-19 will not adversely impact City leadership or City operations.

*CARES Act and Other Federal Assistance.* The additional costs incurred to implement these and other measures have been offset in part by the federal and State funds awarded to the City in 2020 and are anticipated to be provided in 2021. On March 27, 2020, the President signed the \$2.2 trillion Coronavirus Aid, Relief, and Economic Stabilization Act (the “CARES Act”), which provided, among other measures, \$150 billion in financial assistance to states and tribal and local governments to provide emergency assistance to those most significantly impacted by COVID-19. Funds received by the City under the CARES Act have been used to address COVID-19 related expenses incurred by the City but are not available for payment of debt service on the Bonds or to backfill City revenue losses related to COVID-19.

On December 27, 2020, the President signed the \$900 billion Coronavirus Response and Relief Supplemental Appropriations Act. Although the act did not provide additional financial assistance to state and local governments, it did extend the deadline (to December 31, 2021) for them to use unspent funds that were previously approved under the CARES Act.

On March 11, 2021, the President signed into law the American Rescue Plan Act of 2021, which will provide \$1.9 trillion in pandemic relief overall and provide the City with approximately \$236 million for direct local relief. Based on the provisions in the bill, the City will receive 50% of the funding in 2021 (approximately 60 days after the bill was signed) and the other 50% of the funding will be received 12 months later, in 2022. This pandemic relief funding is available for a broad range of uses, including responding directly to the health emergency, addressing its negative economic impacts with assistance to households and small businesses, restoring government services reduced in response to pandemic-related revenue losses, and making certain necessary infrastructure improvements. The City has not yet published a specific outline for how the funds will be spent, but planning efforts are underway.

The COVID-19 outbreak is ongoing, and the duration and severity of the outbreak and economic and other actions that may be taken by governmental authorities to contain the outbreak or to treat its impact are uncertain. The ultimate impact of COVID-19 on the operations and finances of the City is unknown at this time. Notwithstanding the foregoing, the COVID-19 outbreak has not adversely affected the City’s ability to pay debt service on the Bonds, and the City does not currently believe that the outbreak will affect its ability to pay debt service on the Bonds going forward.

### **Public Safety Funding Considerations and Social Justice Demonstrations**

The City experienced a high level of social justice demonstrations in 2020, initially inspired by protests across the country responding to the death of George Floyd in Minneapolis and other incidents of violence against and deaths of African Americans, Native Americans, and persons of other racial and ethnic minorities at the hands of police officers.

Peaceful demonstrations in Seattle were marred by incidents of looting, vandalism, and arson that resulted in damage and loss to public and private property. Police, fire, and other City departments deployed additional resources to protect public health and safety. The most high-profile demonstration resulted in the creation of the six-block “Capitol Hill Organized Protest” area (“CHOP”), which began on or about June 8, 2020, when SPD withdrew its personnel from the East Precinct Building in response to rising tensions surrounding the building. The CHOP area and barriers were dismantled on July 1, 2020. During this period, several violent incidents occurred, prompting efforts to remove the protesters. At least two claims have been filed with the City in connection with two deaths that occurred within the CHOP area and one death on Interstate 5 related to the protests, alleging that the City failed to provide appropriate protection for those in the areas. The lawsuits are ongoing as of the date of this Official Statement. Tensions in the area eased in the latter part of 2020; however, protests and demonstrations continued throughout the City off and on through the end of 2020. In addition to property owners, protestors have filed civil rights lawsuits challenging the City’s response to the protests. These lawsuits are also ongoing. See, e.g., *Black Lives Matter King County, et al. v. City of Seattle, No. 2:20-civ-00887-RAJ (W.D. Wa)*.

These demonstrations had the effect of placing renewed emphasis on calls to reform the City’s approach to public safety. SPD has been engaged in various reform efforts for many years and is currently operating under a 2012 consent decree (“2012 Consent Decree”) that was imposed in response to findings by the U.S. Department of Justice (“DOJ”)

in 2011 outlining a “pattern or practice” of unconstitutional use of force within SPD. In May 2020, the City and DOJ filed a motion and corresponding memorandum to terminate that plan and most provisions of the Consent Decree after a finding by the U.S. District Court for the Western District of Washington that the City had met the comprehensive reform and improvements in SPD operations set forth in the 2012 Consent Decree and the completion of a two-year, Court-approved Sustainment Plan. As a result of the public concerns over SPD’s response to the demonstrations, however, the City announced that it would withdraw that petition and continue to operate under the 2012 Consent Decree.

The SPD’s 2020 and 2021 budgets were the focus of ongoing discussion and deliberation by the Executive and the City Council in 2020. In mid-2020, SPD leadership and CBO comprehensively analyzed SPD’s current services. Based on that analysis, the Mayor proposed a 10% reduction to SPD’s remaining budget for that year.

On August 10, 2020, as part of rebalancing the 2020 budget, the City Council passed an ordinance reducing the police force by up to 100 officers, reducing police commander wages, and appropriating funding to community organizations for public safety initiatives. On August 12, 2020, in response to these reductions, the Police Chief submitted her resignation. The Deputy Chief of the department was selected by the Mayor to serve as Interim Chief of the department, and he continues to serve in this interim capacity as of the date of this Official Statement.

The SPD 2021 Adopted Budget signed by the Mayor in November 2020 reflects an 11% reduction to SPD’s budget as compared to the 2020 Adopted Budget, and a 4.6% reduction in the size of the sworn officer positions, from 1,422 in the 2020 Adopted budget to 1,357 in the 2021 Adopted Budget, which will be realized largely through eliminating vacant positions caused by historic attrition. The 2021 Adopted budget transfers 911, parking enforcement, emergency management, and victim advocacy functions from SPD. During the budget process, the City Council created a new department called the “Community Safety and Communications Center” to house both parking enforcement and the 911 communications center.

### **Federal Policy Risk and Other Federal Funding Considerations**

*Federal Sequestration.* The sequestration provisions of the Budget Control Act of 2011 (“Sequestration”) have been in effect since 2013 and are currently scheduled to remain in effect through FFY 2030. The only direct impact of sequestration on the Department for FFY 2021 is expected to be a reduction of 5.7% in the amount the Department originally expected to receive from the federal government in connection with its Municipal Light and Power Revenue Bonds, 2010A (Taxable Build America Bonds—Direct Payment); Municipal Light and Power Revenue Bonds; 2010C (Taxable Recovery Zone Economic Development Bonds—Direct Payment); Municipal Light and Power Improvement Revenue Bonds, 2011B (Taxable New Clean Renewable Energy Bonds—Direct Payment); Municipal Light and Power Improvement Revenue Bonds, 2012C (Taxable New Clean Renewable Energy Bonds—Direct Payment); and Municipal Light and Power Revenue Bonds, 2016A (Taxable New Clean Renewable Energy Bonds—Direct Payment). Because of this reduction, the Department received approximately \$371,000 less in interest subsidies than originally anticipated for 2020, and expects a similar impact in 2021. The Department has sufficient revenues to pay the interest without these subsidies. Sequestration was originally in effect through FFY 2021 and has subsequently been extended through FFY 2029.

*Federal Grant Funding Conditions.* The City receives federal financial assistance for specific purposes that are generally subject to review or audit by the grantor agencies. Entitlement to this assistance is generally conditioned upon compliance with the terms of grant agreements and applicable federal regulations, including the expenditure of assistance for allowable purposes. Any disallowance resulting from a review or audit may become a liability of the City.

*Federal Shutdown Risk.* Federal government shutdowns have occurred in the past and could occur in the future. A lengthy federal government shutdown poses potential direct risks to the City’s receipt of revenues from federal sources and could have indirect impacts due to the shutdown’s effect on general economic conditions. The City has not experienced material adverse impacts from the federal government shutdowns that have occurred in the past but can make no assurances that it would not be materially adversely affected by any future federal shutdown.

## **Considerations Related to Alaskan Way and Waterfront Seattle Program**

The Alaskan Way Viaduct and Seawall Replacement Program (“AWVSR Program”) consists of multiple projects. The most significant piece of this effort was the State’s replacement of the State Route 99 (“SR 99”) Alaskan Way Viaduct with the SR 99 Tunnel (the “State’s Viaduct Replacement Project”), which was completed in 2019. See “—State’s Viaduct Replacement Project (Substantially Complete).”

The current activity is centered on the Waterfront Seattle Program, which consists of multiple projects to redevelop the City’s central waterfront, including seawall replacement (substantially complete), the creation of approximately 20 acres of new and improved parks and public space, and improved connectivity in and around the City’s central waterfront area. See “—Waterfront Seattle Program” below.

*City Contracts with the State.* The various projects comprising the AWVSR Program are separate public projects by separate lead public agencies being implemented in a coordinated and phased manner pursuant to a series of written agreements. The City has a series of written agreements, the most significant of which are with WSDOT. With the completion of the SR 99 Tunnel and demolition of the viaduct structure, the remaining project consists of the completion of the New Alaskan Way Roadway for surface traffic along the waterfront. The City is responsible for construction of the project, though the State is responsible for the cost.

Other contracts with WSDOT cover issues such as the protection, repair, and relocation of the City’s utility infrastructure impacted by or constructed as part of the State’s Viaduct Replacement Project. In general, these agreements provide that the City is responsible for relocating certain utility infrastructure that conflicts with the State’s projects and the State is responsible for avoiding damage and repairing or replacing damaged utility infrastructure as defined in the agreements. The City’s utilities have budgeted according to the agreements for the State’s Viaduct Replacement Project, plus necessary contingencies.

*State’s Viaduct Replacement Project (Substantially Complete).* The State’s construction of a bored tunnel to replace the Alaskan Way Viaduct has been completed and the SR 99 Tunnel was opened to vehicles in February 2019. The SR 99 Tunnel construction was undertaken pursuant to a contract between WSDOT and a joint venture named Seattle Tunnel Partners. The City is not a party to that contract and has no direct contractual liability. Following completion of the SR 99 Tunnel, the State completed demolition of the Alaskan Way Viaduct and the decommissioning of the Battery Street Tunnel. Remaining improvements consist of street improvements near the tunnel’s entrances, which are expected to be completed by the end of 2022.

*Waterfront Seattle Program.* The Waterfront Seattle Program includes or will include various City capital improvements that span the City’s central waterfront area from Pioneer Square to Belltown. The overall budget is approximately \$737 million, excluding seawall replacement and utility relocations and upgrades. The major elements of the seawall replacement project were completed in 2017 and were financed primarily with voter-approved bonds; the final portion of that project has been recently completed as part of the Waterfront Seattle Program. The State’s contribution for various improvements is expected to be approximately \$207 million, with certain costs still under negotiation, including costs relating to a pedestrian overpass connecting to the State ferry terminal.

The City’s funding plan for the remaining approximately \$530 million of the Waterfront Seattle Program (excluding the seawall replacement) includes a mix of funding sources from various City revenues (*e.g.*, commercial parking tax, real estate excise tax), grant funding, approximately \$110 million in private philanthropy (currently being raised by the nonprofit Friends of the Waterfront), and approximately \$160 million in local improvement district assessments from the Waterfront Local Improvement District, described below. The remaining program costs (including expected costs and any unexpected cost overruns) could require the City to issue additional limited tax general obligation bonds or use other available City funds. The various projects (other than the seawall replacement) will be phased, with many elements nearing completion by 2024.

*Waterfront Local Improvement District.* The Waterfront LID will impose and collect special assessments to pay for a portion (approximately \$160 million) of the estimated costs of specific improvements identified in the LID Ordinance, which include the Promenade, Overlook Walk, Pioneer Square Street Improvements, Union Street Pedestrian Connection, Pike/Pine Streetscape Improvements, and Waterfront Park. The process to confirm final assessment amounts is underway. The assessment roll hearing began in February 2020 and the hearing examiner’s

final decisions were provided to the City Council in February 2021. Following the completion of the assessment roll hearings in April 2021, the City Council will consider an ordinance to confirm the final LID assessments, anticipated to occur in May 2021.

The LID improvements are to be undertaken as part of the Waterfront Seattle Program and are expected to be partially funded by the issuance of Waterfront LID Bonds, which will be payable from the special assessments and will not be a general obligation of the City. However, they are expected to be secured by the City's Guaranty Fund. See "General Fund Tax Revenue Sources—General Property Taxes—Guaranty Fund Levies." Special assessments will be imposed sufficient to pay or reimburse the City for up to \$160 million of the costs of these improvements, plus the costs of issuing the Waterfront LID Bonds and making a Guaranty Fund deposit. The City plans to issue the Waterfront LID Bonds before the end of 2021, depending on the timing of the finalization of the Waterfront LID assessment roll. Interim financing for the LID improvements is being provided by means of an interfund loan authorized by the City Council.

*Considerations Specific to the Department.* The AWVR Program, including State's Bored Tunnel Project, the Seawall Project, and the Waterfront Seattle Program, involves the relocation and construction of various components of the City's utility infrastructure, including infrastructure that is or will be owned by the Department. The budgeted CIP for each City utility, including that of the Department, incorporates the estimated cost and timing of expenditures associated with its respective utility infrastructure projects. See "Capital Requirements—Distribution." Any revision in the scope or timing may lead to an increase in the ultimate cost of these various utility infrastructure projects.

## **INITIATIVE AND REFERENDUM**

### **State-Wide Measures**

Under the State Constitution, Washington voters may initiate legislation (either directly to the voters, or to the State Legislature and then, if not enacted, to the voters) and require that legislation passed by the State Legislature be referred to the voters. Any law approved in this manner by a majority of the voters may not be amended or repealed by the State Legislature within a period of two years following enactment, except by a vote of two-thirds of all the members elected to each house of the State Legislature. After two years, the law is subject to amendment or repeal by the State Legislature in the same manner as other laws. The State Constitution may not be amended by initiative.

Initiatives and referenda are submitted to the voters upon receipt of a petition signed by at least 8% (initiative) and 4% (referendum) of the number of voters registered and voting for the office of Governor at the preceding regular gubernatorial election.

In recent years, several State-wide initiative petitions to repeal or reduce the growth of taxes and fees, including City taxes, have garnered sufficient signatures to reach the ballot. Some of those tax and fee initiative measures have been approved by the voters and, of those, some remain in effect while others have been invalidated by the courts.

Additional tax and fee initiative measures continue to be filed on a regular basis, but it cannot be predicted whether any more such initiatives might gain sufficient signatures to qualify for submission to the State Legislature and/or the voters or, if submitted, whether they ultimately would become law.

### **Local Measures**

Under the City Charter, Seattle voters may initiate City Charter amendments and local legislation, including modifications to existing legislation, and through referendum may prevent legislation passed by the City Council from becoming law.

## **LEGAL AND TAX INFORMATION**

### **No Litigation Relating to the Bonds**

There is no litigation pending with process properly served on the City questioning the validity of the Bonds or the power and authority of the City to issue the Bonds or collect Gross Revenues. There is no litigation pending or threatened which would materially affect the City's ability to meet debt service requirements on the Bonds.

## **Other Litigation**

Because of the nature of its activities, the Department is subject to legal actions that arise in the ordinary course of business of running a municipal electric power utility, including various lawsuits and claims involving claims for money damages. (See Appendix C—2020 Audited Financial Statements of the Department—Notes 10, 11, 15, and 20.) Based on its past experience and the information currently known, the Department has concluded that its ability to pay principal of and interest on the Bonds on a timely basis will not be impaired by the aggregate amount of uninsured liabilities of the Department and the timing of any anticipated payments of judgments that might result from suits and claims.

## **Approval of Counsel**

Legal matters incident to the authorization, issuance, and sale of the Bonds by the City are subject to the approving legal opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Seattle, Washington, Bond Counsel. The form of the opinion of Bond Counsel with respect to the Bonds is attached hereto as Appendix B. The opinion of Bond Counsel is given based on factual representations made to Bond Counsel and under existing law as of the date of initial delivery of the Bonds. Bond Counsel assumes no obligation to revise or supplement its opinion to reflect any facts or circumstances that may thereafter come to its attention or any changes in law that may thereafter occur. The opinion of Bond Counsel is an expression of its professional judgment on the matters expressly addressed in its opinion and does not constitute a guarantee of result. Bond Counsel will be compensated only upon the issuance and sale of the Bonds.

## **Limitations on Remedies and Municipal Bankruptcies**

Any remedies available to the owners of the Bonds are in many respects dependent upon judicial actions which are in turn often subject to discretion and delay and could be both expensive and time-consuming to obtain. If the City fails to comply with its covenants under the Bond Ordinance or to pay principal of or interest on the Bonds, there can be no assurance that available remedies will be adequate to fully protect the interests of the owners of the Bonds.

The rights and obligations under the Bonds and the Bond Ordinance may be limited by and are subject to bankruptcy, insolvency, reorganization, fraudulent conveyance, moratorium, and other laws relating to or affecting creditors' rights, to the application of equitable principles, and the exercise of judicial discretion in appropriate cases.

A municipality such as the City must be specifically authorized under state law in order to seek relief under Chapter 9 of the U.S. Bankruptcy Code (the "Bankruptcy Code"). Washington State law permits any "taxing district" (defined to include cities) to voluntarily petition for relief under the Bankruptcy Code. A creditor cannot bring an involuntary bankruptcy proceeding under the Bankruptcy Code against a municipality, including the City. The federal bankruptcy courts have broad discretionary powers under the Bankruptcy Code.

While an involuntary bankruptcy petition cannot be filed against the City, the City is authorized to file for bankruptcy under certain circumstances. Should the City file for bankruptcy, there could be adverse effects on the holders of the Bonds.

The Bonds are payable from and secured by a pledge of Gross Revenues as described in the Bond Ordinance. Under Chapter 9, creditors secured by a pledge of "special revenues" are granted certain protections in cases brought by municipalities. The definition of "special revenues" includes "receipts derived from the ownership, operation, or disposition of projects or systems of the debtor that are primarily used or intended to be used primarily to provide transportation, utility, or other services, including the proceeds of borrowings to finance the projects or systems." Under Chapter 9, the pledge of Gross Revenues is enforceable if a bankruptcy court determines that Gross Revenues is considered "special revenues" under Chapter 9 and that the pledge (in the form of a lien and charge) of Gross Revenues pursuant to the Bond Ordinance is valid and binding under Chapter 9.

Chapter 9 further provides that special revenues acquired by a debtor after the commencement of the bankruptcy case remain subject to any lien resulting from any security agreement entered into by the debtor before the commencement of the case, and that any such lien on special revenues (other than municipal betterment assessments) derived from a project or system is subject to the necessary operating expenses of such project or system.



Unless a debtor under Chapter 9 consents or the plan approved by the bankruptcy court so provides, the court may not interfere with (i) any of the political or governmental powers of the debtor, (ii) any of the property or revenues of the debtor, or (iii) the debtor's use or enjoyment of any income-producing property.

Although State statute provides for a lien and charge against Gross Revenues to secure payment of the Bonds, no provision of State law provides for perfection of the lien under the Uniform Commercial Code of the State. Legal proceedings to resolve issues could be time-consuming and expensive, and substantial delays and reductions in payments could result.

The opinion to be delivered by Stradling Yocca Carlson & Rauth, a Professional Corporation, as Bond Counsel, concurrently with the issuance of the Bonds, will be subject to limitations regarding bankruptcy, reorganization, insolvency, fraudulent conveyance, moratorium, and other similar laws relating to or affecting creditors' rights. A copy of the proposed form of opinion of Bond Counsel is set forth in Appendix B.

### **Tax Matters**

In the opinion of Bond Counsel, under existing statutes, regulations, rulings, and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements described herein, interest (and original issue discount) on the Bonds is excluded from gross income for federal income tax purposes, and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals.

The difference between the issue price of a Bond (the first price at which a substantial amount of the Bonds of a maturity is to be sold to the public) and the stated redemption price at maturity with respect to the Bond (to the extent the redemption price at maturity is greater than the issue price) constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to a Beneficial Owner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by a Beneficial Owner will increase the Beneficial Owner's basis in the applicable Bond. In the opinion of Bond Counsel, the amount of original issue discount that accrues to the Beneficial Owner of the Bond is excluded from gross income of such Beneficial Owner for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals.

Bond Counsel's opinion as to the exclusion from gross income for federal income tax purposes of interest (and original issue discount) on the Bonds is based upon certain representations of fact and certifications made by the City and others and is subject to the condition that the City complies with all requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the issuance of the Bonds to assure that interest (and original issue discount) on the Bonds will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause the interest (and original issue discount) on the Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. The City will covenant to comply with all such requirements.

The amount by which a Beneficial Owner's original basis for determining loss on sale or exchange in the applicable Bond (generally, the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable bond premium, which must be amortized under Section 171 of the Code; such amortizable bond premium reduces the Beneficial Owner's basis in the applicable Bond (and the amount of tax-exempt interest received), and is not deductible for federal income tax purposes. The basis reduction as a result of the amortization of bond premium may result in a Beneficial Owner realizing a taxable gain when a Bond is sold by the Beneficial Owner for an amount equal to or less (under certain circumstances) than the original cost of the Bond to the Beneficial Owner. Purchasers of the Bonds should consult their own tax advisors as to the treatment, computation and collateral consequences of amortizable bond premium.

The Internal Revenue Service (the "IRS") has initiated an expanded program for the auditing of tax-exempt bond issues, including both random and targeted audits. It is possible that the Bonds will be selected for audit by the IRS. It is also possible that the market value of the Bonds might be affected as a result of such an audit of the Bonds (or by an audit of similar bonds). No assurance can be given that in the course of an audit, as a result of an audit, or otherwise, Congress or the IRS might not change the Code (or interpretation thereof) subsequent to the issuance of the Bonds to

the extent that it adversely affects the exclusion from gross income of interest (and original issue discount) on the Bonds or their market value.

SUBSEQUENT TO THE ISSUANCE OF THE BONDS THERE MIGHT BE FEDERAL, STATE, OR LOCAL STATUTORY CHANGES (OR JUDICIAL OR REGULATORY CHANGES TO OR INTERPRETATIONS OF FEDERAL, STATE, OR LOCAL LAW) THAT AFFECT THE FEDERAL, STATE, OR LOCAL TAX TREATMENT OF THE BONDS, INCLUDING THE IMPOSITION OF ADDITIONAL FEDERAL INCOME OR STATE TAXES ON OWNERS OF TAX-EXEMPT STATE OR LOCAL OBLIGATIONS, SUCH AS THE BONDS. THESE CHANGES COULD ADVERSELY AFFECT THE MARKET VALUE OR LIQUIDITY OF THE BONDS. NO ASSURANCE CAN BE GIVEN THAT SUBSEQUENT TO THE ISSUANCE OF THE BONDS STATUTORY CHANGES WILL NOT BE INTRODUCED OR ENACTED OR JUDICIAL OR REGULATORY INTERPRETATIONS WILL NOT OCCUR HAVING THE EFFECTS DESCRIBED ABOVE. BEFORE PURCHASING ANY OF THE BONDS, ALL POTENTIAL PURCHASERS SHOULD CONSULT THEIR TAX ADVISORS REGARDING POSSIBLE STATUTORY CHANGES OR JUDICIAL OR REGULATORY CHANGES OR INTERPRETATIONS, AND THEIR COLLATERAL TAX CONSEQUENCES RELATING TO THE BONDS.

Bond Counsel's opinion may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. Bond Counsel has not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur. The Bond Ordinance and the Tax Certificate relating to the Bonds permit certain actions to be taken or to be omitted if a favorable opinion of a bond counsel is provided with respect thereto. Bond Counsel expresses no opinion as to the effect on the exclusion from gross income for federal income tax purposes of interest (or original issue discount) on any Bond if any such action is taken or omitted based upon the advice of counsel other than Bond Counsel.

Although Bond Counsel will render an opinion that interest (and original issue discount) on the Bonds is excluded from gross income for federal income tax purposes provided that the City continues to comply with certain requirements of the Code, the ownership of the Bonds and the accrual or receipt of interest (and original issue discount) with respect to the Bonds may otherwise affect the tax liability of certain persons. Bond Counsel expresses no opinion regarding any such tax consequences. Accordingly, before purchasing any of the Bonds, all potential purchasers should consult their tax advisors with respect to collateral tax consequences relating to the Bonds.

#### **CONTINUING DISCLOSURE AGREEMENT**

*Basic Undertaking to Provide Annual Financial Information and Notice of Listed Events.* To meet the requirements of SEC Rule 15c2-12(b)(5) ("Rule 15c2-12"), as applicable to a participating underwriter for the Bonds, the City will execute a Continuing Disclosure Agreement (the "CDA") for the benefit of holders of the Bonds, summarized as follows.

*Annual Financial Information.* The City will provide or cause to be provided, either directly or through a designated agent, to the Municipal Securities Rulemaking Board (the "MSRB"), in an electronic format as prescribed by the MSRB:

- (i) annual financial information and operating data of the type included in this Official Statement as generally described below ("annual financial information"). The timely filing of unaudited financial statements will satisfy the requirements and filing deadlines described below under "Type of Annual Financial Information Undertaken to be Provided," so long as audited financial statements are filed if and when they are otherwise prepared and available to the City; and
- (ii) timely notice (not in excess of ten business days after the occurrence of the event) of the occurrence of any of the following events with respect to the Bonds:
  - (1) principal and interest payment delinquencies;
  - (2) non-payment related defaults, if material;
  - (3) unscheduled draws on debt service reserves reflecting financial difficulties;
  - (4) unscheduled draws on credit enhancements reflecting financial difficulties;

- (5) substitution of credit or liquidity providers, or their failure to perform;
- (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notice of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds;
- (7) modifications to rights of holders of the Bonds, if material;
- (8) Bond calls (other than scheduled mandatory redemptions of Term Bonds), if material, and tender offers;
- (9) defeasances;
- (10) release, substitution, or sale of property securing repayment of the Bonds, if material;
- (11) rating changes;
- (12) bankruptcy, insolvency, receivership, or similar event of the City, as such “Bankruptcy Events” are defined in Rule 15c2-12;
- (13) the consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of the assets of the City other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material;
- (14) appointment of a successor or additional trustee or the change of name of a trustee, if material;
- (15) incurrence of a financial obligation of the City, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the City, any of which affect security holders, if material; and
- (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the City, any of which reflect financial difficulties.

For purposes of this undertaking, the term “financial obligation” means a (i) debt obligation; (ii) a derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (iii) a guarantee of (i) or (ii). The term “financial obligation” does not include municipal securities as to which a final official statement has been provided to the MSRB consistent with the Rule.

The City also will provide or cause to be provided to the MSRB timely notice of a failure by the City to provide required annual financial information on or before the date specified below.

*Type of Annual Financial Information Undertaken to be Provided.* The annual financial information that the City undertakes to provide will consist of:

- (i) annual financial statements of the Light System prepared in accordance with generally accepted accounting principles applicable to governmental units (except as otherwise noted therein), as such principles may be changed from time to time and as permitted by State law;
- (ii) a statement of Outstanding Parity Bonds, Junior Lien Bonds (if any), and any other bonded indebtedness secured by Net Revenue of the Light System;
- (iii) debt service coverage ratios for the then-Outstanding Parity Bonds, Junior Lien Bonds (if any), and any other bonded indebtedness secured by Net Revenue of the Light System;
- (iv) sources of Light System power and the MWh produced by those sources; and
- (v) the average number of customers, revenues, and energy sales by customer class.

Annual financial information, as described above, will be provided to the MSRB not later than the last day of the ninth month after the end of each fiscal year of the City (currently, a fiscal year ending December 31), as such fiscal year may be changed as required or permitted by State law, commencing in 2022 with the City’s fiscal year ended December 31, 2021. The annual financial information may be provided in a single document or in multiple documents,

and may be incorporated by specific reference to documents available to the public on the Internet website of the MSRB or filed with the SEC.

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

- (i) The amendment may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identify, nature, or status of the City, or type of business conducted;
- (ii) The undertaking, as amended, would have complied with the requirements of the rule at the time of the primary offering, after taking into account any amendments or interpretations of the rule, as well as any change in circumstances; and
- (iii) The amendment does not materially impair the interests of holders, as determined either by parties unaffiliated with the City (*e.g.*, bond counsel or other counsel familiar with federal securities laws), or by approving vote of bondholders pursuant to the terms of the Bond Ordinance at the time of the amendment.

The City will give notice to the MSRB of the substance (or provide a copy) of any amendment to the CDA and a brief statement of the reasons for the amendment. If the amendment changes the type of annual financial information to be provided, the annual financial information containing the amended information will include a narrative explanation of the effect of that change on the type of information to be provided.

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

*Remedy for Failure to Comply with CDA.* The City has agreed to proceed with due diligence to cause any failure to comply with the CDA to be corrected as soon as practicable after the City learns of that failure. No failure by the City (or any other obligated person) to comply with the CDA will constitute a default in respect of the Bonds. The sole remedy of any holder of a Bond will be to take such actions as that holder deems necessary, including seeking an order of specific performance from an appropriate court, to compel the City or other obligated person to comply with the CDA.

*Compliance with Continuing Disclosure Undertakings of the City.* The City has entered into undertakings to provide annual information and the notice of the occurrence of certain events with respect to all bonds issued by the City subject to Rule 15c2-12. The City's review of its compliance during the past five years did not reveal any failure to comply, in a material respect, with any undertakings in effect during this time. Nonetheless, the City recently discovered that one table of Solid Waste utility operating statistics required by the continuing disclosure undertakings for certain outstanding Solid Waste utility revenue bonds had been omitted from its annual disclosure filings for the years ended December 31, 2017 and 2018, and has since remedied those filings.

## **OTHER BOND INFORMATION**

### **Ratings on the Bonds**

The Bonds have been rated "Aa2" and "AA" by Moody's Investors Service, Inc. and S&P Global Ratings, respectively. In general, rating agencies base their ratings on rating materials furnished to them (which may include information provided by the City that is not included in this Official Statement) and on the rating agency's own investigations, studies and assumptions. The ratings will reflect only the views of the rating agencies, and an explanation of the significance of the ratings may be obtained from the respective rating agencies. No application was made to any other rating agency for the purpose of obtaining an additional rating on the Bonds. There is no assurance that the ratings will be retained for any given period of time or that the ratings will not be revised downward,

suspended, or withdrawn entirely by the rating agencies if, in their judgment, circumstances so warrant. Any such downward revision, suspension, or withdrawal of the ratings will be likely to have an adverse effect on the market price of the Bonds.

### **Municipal Advisor**

The City has retained Piper Sandler & Co., Seattle, Washington, as municipal advisor (the “Municipal Advisor”) in connection with the preparation of the City’s financing plans and with respect to the authorization and issuance of the Bonds. The Municipal Advisor is not obligated to undertake and has not undertaken to make any independent verification or to assume responsibility for the accuracy, completeness, or fairness of the information contained in this Official Statement. The Municipal Advisor is a full service investment banking firm that provides financial advisory and underwriting services to state and local governmental entities. While under contract to the City, the Municipal Advisor may not participate in the underwriting of any City debt.

### **Purchaser of the Bonds**

The Bonds are being purchased by \_\_\_\_\_ (the “Purchaser”) at a price of \$ \_\_\_\_\_ and will be reoffered at a price of \$ \_\_\_\_\_. The Purchaser may offer and sell the Bonds to certain dealers (including dealers depositing Bonds into investment trusts) and others at prices lower than the initial offering prices set forth on page i hereof, and such initial offering prices may be changed from time to time by the Purchaser. After the initial public offering, the public offering prices may be varied from time to time.

### **Conflicts of Interest**

Some of the fees of the Municipal Advisor and Bond Counsel are contingent upon the sale of the Bonds. From time to time Bond Counsel serves as counsel to the Municipal Advisor in matters unrelated to the Bonds. None of the members of the City Council or other officers of the City have any conflict of interest in the issuance of the Bonds that is prohibited by applicable law.

### **Official Statement**

This Official Statement is not to be construed as a contract with the owners of any of the Bonds.

The City of Seattle

By: \_\_\_\_\_  
Glen M. Lee  
Director of Finance

## **APPENDIX A**

### **NEW MONEY ORDINANCE**

Ordinance 126221, passed by the City Council on November 23, 2020, which is set forth in this appendix, authorized the issuance of the new money portion of the Bonds. Ordinance 125460, passed November 20, 2017, as amended by Ordinance 125987, passed on November 25, 2019, authorized the issuance of the refunding portion of the Bonds and is substantially similar to Ordinance 126221.

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**CITY OF SEATTLE**

**ORDINANCE** 126221

**COUNCIL BILL** 119921

AN ORDINANCE relating to the electric system of The City of Seattle; adopting a system or plan of additions and betterments to and extensions of the existing municipal light and electric power generation, transmission, and distribution system of the City; authorizing the issuance and sale of municipal light and power revenue bonds for the purposes of providing funds to pay part of the cost of carrying out that system or plan, providing for the reserve fund requirement (if any), and paying the costs of issuance of the bonds; providing parameters for the bond sale terms including conditions, covenants, and other sale terms; describing the lien of the bonds and authorizing their issuance as either senior lien parity bonds or junior lien bonds; and ratifying and confirming certain prior acts.

WHEREAS, The City of Seattle (the “City”) owns, operates, and maintains a municipal light and electric power generation, transmission, and distribution system (the “Light System”) which Light System has from time to time required various additions, improvements, betterments, and extensions; and

WHEREAS, the City needs to acquire and construct certain additions, improvements, and betterments to and extensions of the Light System (the “Plan of Additions”) as described in this ordinance, and needs to borrow funds to pay a portion of the costs of carrying out such Plan of Additions; and

WHEREAS, the City currently has outstanding certain municipal light and power revenue bonds (as identified in Exhibit A, the “Outstanding Parity Bonds”) having a charge and lien upon Gross Revenues of the Light System available after payment of Operating and Maintenance Expense (“Net Revenue”) prior and superior to all other charges whatsoever; and

WHEREAS, pursuant to the Outstanding Parity Bond ordinances, the City reserved the right to issue additional municipal light and power revenue bonds (“Future Parity Bonds”) having



1 a lien and charge on Net Revenue of the Light System on parity with the lien and charge  
2 of the Outstanding Parity Bonds, upon satisfaction of certain conditions (the “Parity  
3 Conditions”); and

4 WHEREAS, pursuant to the Outstanding Parity Bond Ordinances, the City also reserved the  
5 right to issue additional municipal light and power revenue bonds or other obligations  
6 having a lien and charge on Net Revenue of the Light System that is junior and  
7 subordinate to the lien and charge of the Outstanding Parity Bonds (the “Junior Lien  
8 Bonds”); and

9 WHEREAS, after due consideration, the City has determined that it is in the best interest of the  
10 City and its ratepayers to authorize, subject to the provisions of this ordinance, the  
11 issuance and sale of municipal light and power revenue bonds as either Parity Bonds or  
12 Junior Lien Bonds to pay part of the cost of the Plan of Additions, to provide for the  
13 reserve fund requirement (if any), and to pay the costs of issuance of those bonds; NOW,  
14 THEREFORE,

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

16 Section 1. **Definitions.** As used in this ordinance, the following capitalized terms  
17 shall have the meanings set forth below.

18 “**Accreted Value**” means with respect to any Capital Appreciation Bond (a) as of any  
19 Valuation Date, the amount determined for such Valuation Date in accordance with the  
20 applicable Bond Documents, and (b) as of any date other than a Valuation Date, the sum of  
21 (i) the Accreted Value on the preceding Valuation Date and (ii) the product of (A) a fraction, the  
22 numerator of which is the number of days having elapsed from the preceding Valuation Date and  
23 the denominator of which is the number of days from such preceding Valuation Date to the next

succeeding Valuation Date, calculated based on the assumption that Accreted Value accrues during any semiannual period in equal daily amounts on the basis of a year of twelve 30-day months, and (B) the difference between the Accreted Values for such Valuation Dates.

**“Adjusted Net Revenue”** means Net Revenue, less any deposits into the Rate Stabilization Account and plus any withdrawals from the Rate Stabilization Account. In calculating Net Revenue, the City may include the Tax Credit Subsidy Payments the City expects to receive from the federal government in respect to the interest on any Tax Credit Subsidy Bonds (or with respect to which the federal government will provide direct payments). In a Parity Certificate, Adjusted Net Revenue is subject to further adjustment as set forth in Section 18(a)(ii). In a Junior Lien Coverage Certificate, Adjusted Net Revenue is subject to further adjustment as set forth in Section 18(b)(ii).

**“Alternate Reserve Security”** means Qualified Insurance or a Qualified Letter of Credit that is used by the City to satisfy part or all of the Reserve Fund Requirement, and that is not cancelable on less than five years’ notice.

**“Annual Debt Service”** means, with respect to either Parity Bonds (or a series of Parity Bonds) (**“Annual Parity Bond Debt Service”**) or Junior Lien Bonds (or a series of Junior Lien Bonds) (**“Annual Junior Lien Debt Service”**), as applicable, the sum of the amounts required in a calendar year to pay the interest due in such calendar year (excluding interest to be paid from the proceeds of the sale of bonds), the principal of Serial Bonds maturing in such calendar year, and the Sinking Fund Requirements for any Term Bonds due in such calendar year. Additionally, for purposes of this definition:

(a) **Calculation of Interest Due – Generally.** Except as otherwise provided below, interest shall be calculated based on the actual amount of accrued, accreted, or otherwise

1 accumulated interest that is payable in respect of the relevant series of Parity Bonds or Junior  
2 Lien Bonds, as applicable, taken as a whole, at the rate or rates set forth in the applicable Bond  
3 Documents.

4 (b) **Capital Appreciation Bonds.** The principal and interest portions of the Accreted  
5 Value of Capital Appreciation Bonds becoming due at maturity or by virtue of a Sinking Fund  
6 Requirement shall be included in the calculations of accrued and unpaid and accruing interest or  
7 principal in such manner and during such period of time as is specified in the Bond Documents  
8 applicable to such Capital Appreciation Bonds.

9 (c) **Variable Interest Rate Bonds.**

10 (i) **Assumed Interest on Variable Interest Rate Parity Bonds.** The amount  
11 of interest deemed to be payable on any series of Parity Bonds that are Variable Interest Rate  
12 Bonds shall be calculated on the assumption that the interest rate on those bonds is equal to the  
13 rate that is 90% of the average RBI during the four calendar quarters ending at least 15 days  
14 preceding the quarter in which the calculation is made. *Upon the Parity Covenant Date, the*  
15 *following sentence shall replace the immediately preceding sentence: The amount of interest*  
16 *deemed to be payable on any series of Parity Bonds that are Variable Interest Rate Bonds shall*  
17 *be calculated on the assumption that the interest rate on those bonds is equal to the highest*  
18 *12-month rolling average of the SIFMA Municipal Swap Index over the preceding ten years.*  
19 *And, upon the Second Parity Covenant Date, a five-year look-back period shall be substituted*  
20 *for the ten-year period referenced in the immediately preceding sentence.*

21 (ii) **Assumed Interest on Variable Interest Rate Junior Lien Bonds.** The  
22 amount of interest deemed to be payable on any series of Junior Lien Bonds that are Variable  
23 Interest Rate Bonds shall be calculated on the assumption that the interest rate on those bonds is

equal to the highest 12-month rolling average (ending with the month preceding the date of the calculation) of the SIFMA Municipal Swap Index over the preceding five years.

**(d) Interest on Bonds with Respect to Which a Payment Agreement is in Force.**

In general, debt service on any bonds (Parity Bonds or Junior Lien Bonds, as applicable) with respect to which a Payment Agreement is in force shall be based on the net economic effect on the City expected to be produced by the terms of the applicable Bond Documents and the terms of the Payment Agreement. For example, if the net effect of the Payment Agreement on a series of bonds otherwise bearing interest at a variable interest rate is to produce an obligation bearing interest at a fixed rate, the relevant series of bonds shall be treated as fixed rate bonds. And if the net effect of the Payment Agreement on a series of bonds otherwise bearing interest at a fixed interest rate is to produce an obligation bearing interest at a variable interest rate, the relevant series of bonds shall be treated as Variable Interest Rate Bonds.

Accordingly, the amount of interest deemed to be payable on any series of Parity Bonds (or Junior Lien Bonds, as applicable) with respect to which a Payment Agreement is in force shall be an amount equal to the amount of interest that would be payable at the rate or rates stated in or determined pursuant to the applicable Bond Documents, plus Payment Agreement Payments, minus Payment Agreement Receipts. For the purposes of calculating as nearly as practicable Payment Agreement Receipts and Payment Agreement Payments under a Payment Agreement that includes a variable rate component determined by reference to a pricing mechanism or index that is not the same as the pricing mechanism or index used to determine the variable rate interest component on the series of bonds to which the Payment Agreement is related, it shall be assumed that: (i) the fixed rate used in calculating Payment Agreement Payments will be equal to 105% of the fixed rate specified by the Payment Agreement, and

1 (ii) the pricing mechanism or index specified by the Payment Agreement is the same as the  
2 pricing mechanism or index specified by the applicable Bond Documents. Notwithstanding the  
3 other provisions of this definition, the City shall not be required to (but may in its discretion)  
4 take into account in determining Annual Debt Service the effects of any Payment Agreement that  
5 has a term of ten years or less.

6 (e) **Parity Payment Agreements; Junior Lien Payment Agreements.** For any  
7 period during which Payment Agreement Payments under a Parity Payment Agreement (or  
8 Junior Lien Payment Agreement, as applicable) are taken into account in determining Annual  
9 Debt Service on the related Parity Bonds (or Junior Lien Bonds, as applicable) under  
10 subsection (d), no additional debt service shall be taken into account with respect to that Parity  
11 Payment Agreement (or a Junior Lien Payment Agreement, as applicable). However, for any  
12 period during which Payment Agreement Payments are not taken into account under  
13 subsection (d) because the Parity Payment Agreement (or Junior Lien Payment Agreement, as  
14 applicable) is not then related to any outstanding Parity Bonds (or Junior Lien Bonds, as  
15 applicable), payments on that Payment Agreement shall be taken into account by assuming:

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

(ii) **If City is Obligated to Make Payments Based on Variable Rate Index.**

If the City is obligated to make Payment Agreement Payments based on a variable rate index and the Qualified Counterparty is obligated to make payments based on a fixed rate, it shall be assumed that payments by the City will be based on a rate equal to the average rate determined by the variable rate index specified by the Payment Agreement during the four calendar quarters preceding the quarter in which the calculation is made, and that the Qualified Counterparty will make payments based on the fixed rate specified by the Payment Agreement.

(f) **Balloon Bonds.** *Upon the Parity Covenant Date, the following sentence shall become effective: In calculating Annual Debt Service for any series of Parity Bonds, the City may in its discretion treat the debt service requirements with respect to Parity Bonds that are Balloon Bonds (including principal of and interest on such bonds at the applicable rate or rates) as being amortized in approximately equal annual installments over a period equal to the longer of 30 years or the remaining term of such series of Parity Bonds.*

In calculating Annual Debt Service for any series of Junior Lien Bonds, the City may in its discretion treat the debt service requirements with respect to Junior Lien Bonds that are Balloon Bonds (including principal of and interest on such bonds at the applicable rate or rates) as being amortized in approximately equal annual installments over a period equal to the longer of 30 years or the remaining term of such series of Junior Lien Bonds.

(g) **Adjustments for Defeased Bonds.** For purposes of determining compliance with the rate covenants set forth in Sections 17(a)(ii) and 17(b)(ii), calculating the Reserve Fund Requirement, and making coverage ratio calculations in connection with the delivery of a Parity Certificate or Junior Lien Coverage Certificate, Annual Debt Service shall be adjusted as set forth in Section 20(d).

1           (h)     **Reimbursement Obligations.** If any payment under a Parity Reimbursement  
2     Obligation is then due and payable, or is then reasonably expected to become due and payable,  
3     the reasonably estimated amount and timing of such payment, calculated in accordance with  
4     applicable generally accepted accounting principles and as reflected in the annual financial  
5     statements of the Light System, shall be included in calculating Annual Debt Service for  
6     purposes of delivering a Parity Certificate. If any payment under a Parity Reimbursement  
7     Obligation, an Intermediate Lien Reimbursement Obligation, or a Junior Lien Reimbursement  
8     Obligation is then due and payable, or is then reasonably expected to become due and payable,  
9     the reasonably estimated amount and timing of such payment, calculated in accordance with  
10    applicable generally accepted accounting principles and as reflected in the annual financial  
11    statements of the Light System, shall be included in calculating Annual Junior Lien Debt Service  
12    for purposes of delivering a Junior Lien Coverage Certificate.

13           **“Authorized Denomination”** means \$5,000 or any integral multiple thereof within a  
14    maturity of a Series, or such other minimum authorized denominations as may be specified in the  
15    applicable Bond Documents.

16           **“Average Annual Debt Service”** means, for purposes of calculating the Reserve Fund  
17    Requirement with respect to all Parity Bonds outstanding at the time of calculation, the sum of  
18    the Annual Parity Bond Debt Service remaining to be paid to the last scheduled maturity of the  
19    applicable Parity Bonds, divided by the number of years such Parity Bonds are scheduled to  
20    remain outstanding.

21           **“Balloon Bonds”** means any series of either Parity Bonds or Junior Lien Bonds, as  
22    applicable, the aggregate principal amount (including Sinking Fund Requirements) of which

1 becomes due and payable in any calendar year in an amount that constitutes 25% or more of the  
2 initial aggregate principal amount of such series.

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

5 **“Bond”** means a municipal light and power revenue bond issued pursuant to this  
6 ordinance.

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

10 **“Bond Documents”** means (a) (i) with respect to any Series of the Bonds, this ordinance  
11 (including any amendatory or supplemental ordinances), (ii) with respect to a series of Parity  
12 Bonds other than a Series of the Bonds, the applicable Parity Bond Ordinance(s), and (iii) with  
13 respect to any Junior Lien Bonds other than a Series of the Bonds, the applicable Junior Lien  
14 Bond Ordinance(s); (b) the authenticated bond form; and (c) the written agreement(s) setting  
15 forth the Bond Sale Terms and additional terms, conditions, or covenants pursuant to which such  
16 bond was issued and sold, as set forth in any one or more of the following (if any): (i) a sale  
17 resolution, (ii) a bond purchase contract (as defined in the applicable authorizing ordinance),  
18 (iii) a bond indenture or a fiscal agent or paying agent agreement (other than the State fiscal  
19 agency contract), and (iv) a direct purchase or continuing covenant agreement.

20 **“Bond Owners’ Trustee”** means a bank or trust company organized under the laws of  
21 the State, or a national banking association, appointed in accordance with Section 24(e) of this  
22 ordinance to act as trustee on behalf of the owners, from time to time, of either the outstanding  
23 Parity Bonds or the outstanding Junior Lien Bonds, as the case may be.



1           **“Bond Purchase Contract”** means a written offer to purchase a Series of the Bonds  
2 pursuant to certain Bond Sale Terms, which offer has been accepted by the City in accordance  
3 with this ordinance. In the case of a competitive sale, the Purchaser’s bid for a Series, together  
4 with the official notice of sale and a Pricing Certificate confirming the Bond Sale Terms, shall  
5 comprise the Bond Purchase Contract.

6           **“Bond Register”** means the books or records maintained by the Bond Registrar for the  
7 purpose of registering ownership of each Bond.

8           **“Bond Registrar”** means the Fiscal Agent (unless the Director of Finance appoints a  
9 different person to act as bond registrar with respect to a particular Series), or any successor  
10 bond registrar selected in accordance with the Registration Ordinance.

11           **“Bond Sale Terms”** means the terms and conditions for the sale of a Series of the Bonds  
12 approved by the Director of Finance consistent with the parameters set forth in Section 5,  
13 including the maximum principal amount, date or dates, denominations, interest rate or rates (or  
14 mechanism for determining the interest rate or rates), payment dates, final maturity, redemption  
15 rights, price, and other terms, conditions or covenants. In connection with a negotiated sale or  
16 private placement, the Bond Sale Terms shall be set forth in a Bond Purchase Contract; in  
17 connection with a competitive sale, the Bond Sale Terms shall be set forth in a Pricing  
18 Certificate.

19           **“Book-Entry Form”** means a fully registered form in which physical bond certificates  
20 are registered only in the name of the Securities Depository (or its nominee), as Registered  
21 Owner, with the physical bond certificates held by and “immobilized” in the custody of the  
22 Securities Depository or its designee, where the system for recording and identifying the transfer

1 of the ownership interests of the Beneficial Owners in those Bonds is neither maintained by nor  
2 the responsibility of the City or the Bond Registrar.

3       **“Capital Appreciation Bond”** means any Parity Bond or Junior Lien Bond, all or a  
4 portion of the interest on which is compounded and accumulated at the rates or in the manner,  
5 and on the dates, set forth in the applicable Bond Documents, and is payable only upon  
6 redemption or on the maturity date of such Capital Appreciation Bond. A Parity Bond or a Junior  
7 Lien Bond that is issued as a Capital Appreciation Bond, but which later converts to an  
8 obligation on which interest is paid periodically, shall be a Capital Appreciation Bond until the  
9 conversion date and thereafter shall no longer be a Capital Appreciation Bond, but shall be  
10 treated as having a principal amount equal to its Accreted Value on the conversion date. For  
11 purposes of (a) receiving payment of the redemption premium, if any, on a Capital Appreciation  
12 Bond that is redeemed prior to maturity, or (b) computing the principal amount of Parity Bonds  
13 (or Junior Lien Bonds, a applicable) held by the Owner of a Capital Appreciation Bond in  
14 connection with any notice, consent, request, or demand pursuant to this ordinance or for any  
15 purpose whatsoever, the principal amount of a Capital Appreciation Bond shall be deemed to be  
16 its Accreted Value at the time that such notice, consent, request, or demand is given or made.

17       **“CIP”** means the portion or portions of the “2020-2025 Capital Improvement Program”  
18 adopted by the City in Ordinance 126000 relating to the Light System, together with those  
19 portions of any previously adopted capital improvement program of the City relating to the Light  
20 System, as the CIP may be amended, updated, supplemented, or replaced from time to time by  
21 ordinance.

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

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

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

5           **“Conservation Plan”** means the Conservation Potential Assessment 2016 of the City  
6 with respect to the Light System endorsed by the City Council in Resolution 31631, adopted  
7 January 11, 2016, as that plan may be amended, updated, supplemented or replaced from time to  
8 time, to the extent that funds are appropriated by the City therefor.

9           **“Construction Account”** means such fund, subfund or account within the Light Fund as  
10 may be designated from time to time by the Director of Finance for the payment of costs of the  
11 Plan of Additions.

12           **“Continuing Disclosure Agreement”** means, for each Series that is sold in an offering  
13 subject to federal securities regulations requiring a written undertaking to provide continuing  
14 disclosure, a continuing disclosure agreement entered into pursuant to Section 22 in substantially  
15 the form attached as Exhibit B.

16           **“Deferred Hydroelectric Project Relicensing Costs”** means certain costs required by  
17 the Federal Energy Regulatory Commission to be incurred as a condition of the renewal of  
18 licenses for the Light System’s hydroelectric projects, which costs are treated in the same  
19 manner as capital expenditures.

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

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

1           **“Event of Default”** has the meaning given in Section 24. A “Parity Bond Event of  
2 Default” shall refer to those Events of Default relating to nonpayment of Parity Bonds, or  
3 defaults in respect of the Parity Bond covenants set forth herein and in the applicable Parity  
4 Bond Documents giving rise to remedies available to the owners of Parity Bonds. A “Junior Lien  
5 Bond Event of Default” shall refer to those Events of Default relating to nonpayment of Junior  
6 Lien Bonds, or in respect of the Junior Lien Bond covenants set forth herein and in the applicable  
7 Junior Lien Bond Documents giving rise to remedies available to the owners of Junior Lien  
8 Bonds.

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

11           **“Future Junior Lien Bonds”** means, with reference to any Series designated as Junior  
12 Lien Bonds, any revenue obligations of the Light System issued or entered into after the Issue  
13 Date of such Series, the payment of which constitutes a charge and lien upon Net Revenue equal  
14 in priority with the charge and lien upon such revenue for the payment of the amounts required  
15 to be paid into the Junior Lien Debt Service Fund to pay and secure payment of the Junior Lien  
16 Bonds (including Junior Lien Payment Agreements and Junior Lien Reimbursement  
17 Obligations), in accordance with the priority of payment set forth in Section 14. Future Junior  
18 Lien Bonds may include Junior Lien Payment Agreements issued in compliance with the Junior  
19 Lien Additional Bonds Test.

20           **“Future Parity Bond Ordinance”** means any ordinance passed by the City Council  
21 providing for the issuance and sale of a series of Future Parity Bonds, and any other ordinance  
22 amending or supplementing the provisions of any such ordinance.

1           **“Future Parity Bonds”** means, with reference to any Series designated as Parity Bonds,  
2 any revenue obligations of the Light System issued or entered into after the Issue Date of such  
3 Series, the payment of which constitutes a charge and lien upon Net Revenue equal in priority  
4 with the charge and lien upon such revenue for the payment of the amounts required to be paid  
5 into the Parity Bond Fund and the Reserve Fund to pay and secure payment of the Parity Bonds  
6 (including Parity Payment Agreements), in accordance with Section 14. Future Parity Bonds may  
7 include Parity Payment Agreements and any other obligations issued in compliance with the  
8 Parity Conditions.

9           **“Government Obligations”** means, unless otherwise limited in the Bond Documents for  
10 a particular Series of the Bonds, any government obligation as that term is defined in RCW  
11 39.53.010, as now in effect or as may hereafter be amended.

12           **“Gross Revenues”** means (a) all income, revenues, receipts and profits derived by the  
13 City through the ownership and operation of the Light System; (b) the proceeds received by the  
14 City directly or indirectly from the sale, lease or other disposition of any of the properties, rights  
15 or facilities of the Light System; (c) Payment Agreement Receipts, to the extent that such  
16 receipts are not offset by Payment Agreement Payments; and (d) the investment income earned  
17 on money held in any fund or account of the City, including any bond redemption funds and the  
18 accounts therein, in connection with the ownership and operation of the Light System. Gross  
19 Revenues do not include: (i) insurance proceeds compensating the City for the loss of a capital  
20 asset; (ii) income derived from investments irrevocably pledged to the payment of any defeased  
21 bonds payable from Gross Revenues; (iii) investment income earned on money in any fund or  
22 account created or maintained solely for the purpose of complying with the arbitrage rebate  
23 provisions of the Code; (iv) any gifts, grants, donations or other funds received by the City from

1 any State or federal agency or other person if such gifts, grants, donations or other funds are the  
2 subject of any limitation or reservation imposed by the donor or grantor or imposed by law or  
3 administrative regulation to which the donor or grantor is subject, limiting the application of  
4 such funds in a manner inconsistent with the application of Gross Revenues hereunder; (v) the  
5 proceeds of any borrowing for capital improvements (or the refinancing thereof); and (vi) the  
6 proceeds of any liability or other insurance (excluding business interruption insurance or other  
7 insurance of like nature insuring against the loss of revenues).

8 **“High Ross Agreement”** means the agreement dated as of March 30, 1984, between the  
9 City and Her Majesty the Queen in Right of the Province of British Columbia relating to the  
10 City’s High Ross Dam.

11 **“High Ross Capital Payments”** means the deferred portion of the annual capital  
12 payments required to be made by the City under Section 5 of the High Ross Agreement,  
13 representing the annual cost that would have been incurred by the City for the construction of the  
14 High Ross Dam.

15 **“Intermediate Lien Reimbursement Obligation”** means any payment or  
16 reimbursement obligation incurred under a written agreement entered into in connection with a  
17 series of Parity Bonds or to obtain Qualified Insurance or a Qualified Letter of Credit, under  
18 which the City’s payment obligations are expressly stated to constitute a lien and charge on Net  
19 Revenue junior in rank to the lien and charge upon such Net Revenue required to be paid into the  
20 Parity Bond Fund to pay and secure the payment of the Parity Bonds, but senior to the lien and  
21 charge upon such Net Revenue required to be paid into the Junior Lien Debt Service Fund to pay  
22 and secure the payment of the Junior Lien Bonds. For purposes of determining percentages of  
23 ownership of Bonds under this ordinance or under any Bond Documents, Intermediate Lien

1 Reimbursement Obligations shall be deemed to have no principal amount, and any consent or  
2 similar rights (if any) shall be determined only as set forth in the applicable Intermediate Lien  
3 Reimbursement Obligations.

4 **“Issue Date”** means, with respect to a Bond, the initial date on which that Bond is issued  
5 and delivered to the initial Purchaser in exchange for its purchase price.

6 **“Junior Lien Additional Bonds Test”** means the conditions set forth in Section 18(b)  
7 for issuing additional Junior Lien Bonds (including Junior Lien Payment Agreements and Junior  
8 Lien Reimbursement Obligations).

9 **“Junior Lien Bond”** means, generally, any bond or obligation secured by a lien and  
10 charge on Net Revenue that is junior and subordinate to the lien and charge of the Parity Bonds  
11 and Intermediate Lien Reimbursement Obligations, but prior and superior to other liens and  
12 charges, in accordance with the priority of payment set forth in Section 14. The term Junior Lien  
13 Bond may refer to (a) any Bond of a Series issued pursuant to this ordinance that is so designated  
14 by the Director of Finance upon satisfaction of the Junior Lien Additional Bonds Test; (b) any  
15 Future Junior Lien Bond; (c) any Junior Lien Payment Agreement; and (d) any Junior Lien  
16 Reimbursement Obligation.

17 **“Junior Lien Bond Documents”** means those Bond Documents applicable to a series of  
18 Junior Lien Bonds.

19 **“Junior Lien Bond Ordinance”** means this ordinance, and any other ordinance passed  
20 by the City Council in the future authorizing the issuance and sale of any Future Junior Lien  
21 Bonds, including any ordinance amending or supplementing the provisions of any Junior Lien  
22 Bond Ordinance.

1           **“Junior Lien Coverage Certificate”** means a certificate delivered pursuant to Section  
2 18(b)(ii), for purposes of satisfying the Junior Lien Additional Bonds Test in connection with the  
3 issuance of Future Junior Lien Bonds.

4           **“Junior Lien Debt Service Fund”** means the special fund of the City known as the  
5 Seattle Municipal Light Revenue Junior Lien Debt Service Fund established within the Light  
6 Fund pursuant to Ordinance 125459 for the purpose of paying and securing the principal of and  
7 interest on Junior Lien Bonds and securing obligations under Junior Lien Payment Agreements  
8 and Junior Lien Reimbursement Obligations.

9           **“Junior Lien Payment Agreement”** means any Payment Agreement, which is entered  
10 into in compliance with the Junior Lien Additional Bonds Test, and under which the City’s  
11 payment obligations are expressly stated to constitute a lien and charge on Net Revenue equal in  
12 rank with the lien and charge upon such Net Revenue required to be paid into the Junior Lien  
13 Debt Service Fund to pay and secure the payment of the Junior Lien Bonds in accordance with  
14 Section 14. For purposes of determining percentages of ownership of Junior Lien Bonds under  
15 this ordinance or under any Bond Documents, Junior Lien Payment Agreements shall be deemed  
16 to have no principal amount, and any consent or similar rights (if any) shall be determined only  
17 as set forth in the applicable Junior Lien Payment Agreement.

18           **“Junior Lien Reimbursement Obligation”** means any reimbursement obligation  
19 incurred under a written reimbursement agreement (or similar agreement) entered into in  
20 connection with a series of Junior Lien Bonds to obtain Qualified Insurance or a Qualified Letter  
21 of Credit, under which the City’s payment obligations are expressly stated to constitute a lien and  
22 charge on Net Revenue equal in rank with the lien and charge upon such Net Revenue required  
23 to be paid into the Junior Lien Debt Service Fund to pay and secure the payment of the Junior



Lien Bonds. For purposes of determining percentages of ownership of Junior Lien Bonds under this ordinance or under any Bond Documents, Junior Lien Reimbursement Obligations shall be deemed to have no principal amount, and any consent or similar rights (if any) shall be determined only as set forth in the applicable Junior Lien Reimbursement Obligations.

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

**“Light Fund”** means the special fund of the City of that name heretofore created and established by the City Council.

**“Light System”** means the municipal light and power generation, transmission, and distribution system now belonging to or which may hereafter belong to the City.

**“Maximum Annual Debt Service”** means, with respect to Parity Bonds (or Junior Lien Bonds, as applicable) the maximum amount of Annual Debt Service that shall become due in the current calendar year or in any future calendar year with respect to those Parity Bonds (or Junior Lien Bonds, as applicable) that are outstanding as of the calculation date.

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

**“Net Revenue”** for any period means Gross Revenues less Operating and Maintenance Expense.

**“Omnibus Refunding Ordinance”** means Ordinance 125460, passed by the City Council on November 20, 2017, as amended by Ordinance 125987, passed by the City Council on November 25, 2019, authorizing the issuance of refunding bonds (as such ordinance may be further amended from time to time) or any other ordinance of the City passed in the future, pursuant to which the Bonds (or any Series of the Bonds) are designated as Refundable Bonds.

1           **“Operating and Maintenance Expense”** means all reasonable charges incurred by the  
2 City in causing the Light System to be operated and maintained in good repair, working order  
3 and condition, including but not limited to all operating expenses under applicable generally  
4 accepted accounting principles included in the annual audited financial statements of the Light  
5 System, except those excluded in this definition. Operating and Maintenance Expense does not  
6 include: (a) extraordinary, nonrecurring expenses of the Light System or any judgments or  
7 amounts to be paid in settlement of claims against the Light System, (b) non-cash expenses  
8 relating to a mark-to-market treatment of energy-related contracts, (c) any costs or expenses  
9 (including interest expense) for new construction, replacements, or renewals of Light System  
10 property, (d) Deferred Hydroelectric Project Relicensing Costs, the High Ross Capital Payments,  
11 or other similar payments under any agreement for the development or licensing of a capital  
12 improvement or asset, under which agreement the City agrees to make periodic payments in  
13 respect of its share of the capital expense, (e) any allowance for depreciation, amortization, or  
14 similar recognitions of non-cash expense items made for accounting purposes only (including  
15 non-cash pension expense), (f) any taxes levied by or paid to the City (or payments in lieu of  
16 taxes) upon the properties or earnings of the Light System, or (g) any obligation authorized  
17 pursuant to ordinance or resolution specifically excluding the payment of such obligation from  
18 Operating and Maintenance Expense.

19           **“Outstanding Junior Lien Bonds”** means, with reference to a particular Series of Junior  
20 Lien Bonds issued pursuant to this ordinance, those Junior Lien Bonds that are outstanding as of  
21 the Issue Date of such Series.

22           **“Outstanding Parity Bonds”** means those outstanding Parity Bonds identified in  
23 Exhibit A. When used in reference to a particular date or series of Parity Bonds, Outstanding

1 Parity Bonds shall mean those Parity Bonds (including any Parity Bonds issued subsequent to the  
2 date of this ordinance) that are outstanding as of that date or as of the issue date of such series.

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

5 **“Parity Bond”** means, generally, any bond or obligation secured by a lien and charge on  
6 Net Revenue that is prior and superior to any other liens or charges whatsoever, in accordance  
7 with the priority of payment set forth in Section 14. The term Parity Bond may refer to: (a) the  
8 Outstanding Parity Bonds identified in Exhibit A; (b) each Series of the Bonds designated by the  
9 Director of Finance as a Series of Parity Bonds upon satisfaction of the Parity Conditions;  
10 (c) any Future Parity Bonds; and (d) any Parity Payment Agreement entered into upon  
11 satisfaction of the Parity Conditions.

12 **“Parity Bond Documents”** means those Bond Documents applicable to a series of Parity  
13 Bonds.

14 **“Parity Bond Fund”** means the special fund of the City known as the Seattle Municipal  
15 Light Revenue Parity Bond Fund established within the Light Fund pursuant to Ordinance 92938  
16 for the purpose of paying and securing the payment of principal of and interest on Parity Bonds  
17 (including Parity Payment Agreement Payments) and, *from and after the Parity Covenant Date,*  
18 *payments under Parity Reimbursement Obligations.*

19 **“Parity Bond Ordinance”** means any ordinance passed by the City Council providing  
20 for the issuance and sale of any Series of Parity Bonds, and any other ordinance amending or  
21 supplementing the provisions of any Parity Bond Ordinance.

1           **“Parity Certificate”** means a certificate delivered pursuant to Section 18(a)(ii) for  
2 purposes of satisfying the Parity Conditions in connection with the issuance of Future Parity  
3 Bonds.

4           **“Parity Conditions”** means, (a) for purposes of establishing that a Series of the Bonds  
5 may be issued on parity with the Parity Bonds outstanding as of the Issue Date of such Series,  
6 the conditions for issuing Future Parity Bonds set forth in the Parity Bond Ordinances relating to  
7 those Parity Bonds that are then outstanding; and (b) for purposes of issuing Future Parity Bonds  
8 on parity with a Series of the Bonds, the conditions described in the preceding clause (a) together  
9 with the conditions set forth in Section 18(a).

10           **“Parity Covenant Date”** means the earlier of (a) the date on which the City has obtained  
11 consents of the requisite percentage (as set forth in Section 23(b)) of Registered Owners of the  
12 Parity Bonds then outstanding, in accordance with the provisions of the applicable Outstanding  
13 Parity Bond Documents; or (b) the date on which all of the following Outstanding Parity Bonds  
14 have been redeemed or defeased: Municipal Light and Power Revenue Bonds, 2010A (Taxable  
15 Build America Bonds – Direct Payment); Municipal Light and Power Improvement and  
16 Refunding Revenue Bonds, 2010B; Municipal Light and Power Revenue Bonds, 2010C  
17 (Taxable Recovery Zone Economic Development Bonds – Direct Payment); Municipal Light  
18 and Power Improvement and Refunding Revenue Bonds, 2011A; Municipal Light and Power  
19 Improvement Revenue Bonds, 2011B (Taxable New Clean Renewable Energy Bonds – Direct  
20 Payment); Municipal Light and Power Improvement and Refunding Revenue Bonds, 2012A;  
21 Municipal Light and Power Improvement Revenue Bonds, 2012C (Taxable New Clean  
22 Renewable Energy Bonds – Direct Payment); Municipal Light and Power Improvement and

1 Refunding Revenue Bonds, 2013; Municipal Light and Power Improvement and Refunding  
2 Revenue Bonds, 2014; and Municipal Light and Power Revenue Bonds, 2015A.

3 **“Parity Payment Agreement”** means a Payment Agreement that is entered into in  
4 compliance with the Parity Conditions and under which the City’s payment obligations are  
5 expressly stated to constitute a lien and charge on Net Revenue equal in rank with the lien and  
6 charge upon such Net Revenue required to be paid into the Parity Bond Fund and the Reserve  
7 Fund to pay and secure the payment of principal of and interest on Parity Bonds in accordance  
8 with Section 14. For purposes of determining percentages of ownership of Parity Bonds under  
9 this ordinance or under any Bond Documents, Parity Payment Agreements shall be deemed to  
10 have no principal amount, and any consent or similar rights (if any) shall be determined only as  
11 set forth in the applicable Parity Payment Agreement.

12 **“Parity Reimbursement Obligation”** means any payment or reimbursement obligation  
13 incurred under a written agreement entered into in connection with a series of Parity Bonds or to  
14 obtain Qualified Insurance or a Qualified Letter of Credit (other than Qualified Insurance or a  
15 Qualified Letter of Credit obtained to satisfy all or part of the Reserve Fund Requirement), under  
16 which the City’s payment obligations are expressly stated to constitute a lien and charge on Net  
17 Revenue equal in rank to the lien and charge upon such Net Revenue required to be paid into the  
18 Parity Bond Fund to pay and secure the payment of the principal of and interest on the Parity  
19 Bonds. Parity Reimbursement Obligations accruing as a result of a mandatory tender for  
20 purchase of Parity Bonds shall be excluded from the calculation of Annual Debt Service for all  
21 purposes. For purposes of determining percentages of ownership of Parity Bonds, Parity  
22 Reimbursement Obligations shall be deemed to have no principal amount, and any consent or

1 similar rights (if any) shall be determined only as set forth in the applicable Parity  
2 Reimbursement Obligations.

3 **“Payment Agreement”** means a written agreement entered into by the City and a  
4 Qualified Counterparty, as authorized by any applicable laws of the State, for the purpose of  
5 managing or reducing the City’s exposure to fluctuations or levels of interest rates, or for other  
6 interest rate, investment, or asset or liability management purposes, and which provides for (i) an  
7 exchange of payments based on interest rates, ceilings, or floors on such payments; (ii) options  
8 on such payments; (iii) any combination of the foregoing; or (iv) any similar device. A Payment  
9 Agreement may be entered into on either a current or forward basis. A Payment Agreement must  
10 be entered into in connection with (or incidental to) the issuance, incurring, or carrying of  
11 particular bonds, notes, bond anticipation notes, commercial paper, or other obligations for  
12 borrowed money (which may include leases, installment purchase contracts, or other similar  
13 financing agreements or certificates of participation in any of the foregoing).

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

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

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

20 **“Plan of Additions”** means the system or plan of additions to and betterments and  
21 extensions of the Light System adopted by ordinance, including but not limited to the CIP, the  
22 Conservation Plan, the High Ross Capital Payments and the Deferred Hydroelectric Project  
23 Relicensing Costs. The Plan of Additions includes all amendments, updates, supplements or

1 replacements to the CIP, the Conservation Plan, the High Ross Capital Payments and the  
2 Deferred Hydroelectric Project Relicensing Costs, all of which shall automatically constitute  
3 amendments to the Plan of Additions upon approval by ordinance. The Plan of Additions  
4 includes the purchase and installation of all materials, supplies, appliances, equipment (including  
5 but not limited to data processing hardware and software and conservation equipment) and  
6 facilities, the acquisition of all permits, licenses, franchises, property and property rights, other  
7 capital assets and all engineering, consulting and other professional services and studies (whether  
8 performed by the City or by other public or private entities) necessary or convenient to carry out  
9 the Plan of Additions. The Plan of Additions also may be modified to include other  
10 improvements without amending the CIP, the Conservation Plan, the High Ross Capital  
11 Payments and the Deferred Hydroelectric Project Relicensing Costs, if the City determines by  
12 ordinance that those amendments or other improvements constitute a system or plan of additions  
13 to or betterments or extensions of the Light System.

14 **“Pricing Certificate”** means a certificate executed by the Director of Finance as of the  
15 pricing date confirming the Bond Sale Terms for the sale of a Series of the Bonds to the  
16 Purchaser in a competitive sale, in accordance with the parameters set forth in Section 5.

17 **“Professional Utility Consultant”** means the independent person(s) or firm(s) selected  
18 by the City having a favorable reputation for skill and experience with electric systems of  
19 comparable size and character to the Light System in such areas as are relevant to the purposes  
20 for which they were retained.

21 **“Purchaser”** means the entity or entities who have been selected by the Director of  
22 Finance in accordance with this ordinance to serve as underwriter, purchaser or successful bidder  
23 in a sale of any Series of the Bonds.

1           **“Qualified Counterparty”** means a party (other than the City or a person related to the  
2 City) who is the other party to a Payment Agreement and who is qualified to act as the other  
3 party to a Payment Agreement under any applicable laws of the State.

4           **“Qualified Insurance”** means any municipal bond insurance policy, surety bond, or  
5 similar credit enhancement device, issued by any insurance company licensed to conduct an  
6 insurance business in any state of the United States, by a service corporation acting on behalf of  
7 one or more such insurance companies, or by any other financial institution, the provider of  
8 which, as of the time of issuance of such credit enhancement device, is rated in one of the two  
9 highest rating categories (without regard to gradations within such categories) by at least two  
10 nationally recognized rating agencies.

11           **“Qualified Letter of Credit”** means any letter of credit, standby bond purchase  
12 agreement, or other liquidity facility issued by a financial institution for the account of the City  
13 in connection with the issuance of any Parity Bond or Junior Lien Bond, which institution  
14 maintains an office, agency or branch in the United States and, as of the time of issuance of such  
15 instrument, is rated in one of the two highest rating categories (without regard to gradations  
16 within such categories) by at least two nationally recognized rating agencies.

17           **“Rate Stabilization Account”** means the account of that name previously established in  
18 the Light Fund pursuant to Ordinance 121637.

19           **“Rating Agency”** means any nationally recognized rating agency then maintaining a  
20 rating on a Series of the Bonds at the request of the City.

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



1           **“Record Date”** means, unless otherwise defined in the Bond Documents, in the case of  
2 each interest or principal payment date, the Bond Registrar’s close of business on the 15<sup>th</sup> day of  
3 the month preceding such interest or principal payment date. With regard to redemption of a  
4 Bond prior to its maturity, the Record Date shall mean the Bond Registrar’s close of business on  
5 the day prior to the date on which the Bond Registrar sends the notice of redemption to the  
6 Registered Owner(s) of the affected Bonds.

7           **“Refundable Bonds”** means the Refundable Parity Bonds and the Refundable Junior  
8 Lien Bonds.

9           **“Refundable Junior Lien Bonds”** means any outstanding Junior Lien Bonds that are  
10 eligible to be refunded pursuant to the Omnibus Refunding Ordinance.

11           **“Refundable Parity Bonds”** means any outstanding Parity Bonds that are eligible to be  
12 refunded pursuant to the Omnibus Refunding Ordinance.

13           **“Refunding Junior Lien Bonds”** means Future Junior Lien Bonds that satisfy the  
14 applicable Junior Lien Additional Bonds Test and are issued pursuant to the Omnibus Refunding  
15 Ordinance (or a Future Junior Lien Bond ordinance) for the purpose of refunding any Refundable  
16 Junior Lien Bonds.

17           **“Refunding Parity Bonds”** means Future Parity Bonds that satisfy the applicable Parity  
18 Conditions and are issued pursuant to the Omnibus Refunding Ordinance (or another Future  
19 Parity Bond Ordinance) for the purpose of refunding any Refundable Parity Bonds.

20           **“Registered Owner”** means, with respect to a Bond, the person in whose name that  
21 Bond is registered on the Bond Register. For so long as a Series of the Bonds is in Book-Entry  
22 Form under a Letter of Representations, the Registered Owner of such Series shall mean the  
23 Securities Depository.

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

4           **“Reserve Fund”** means the special fund of the City known as the Municipal Light and  
5 Power Bond Reserve Fund established as a separate account within the Light Fund pursuant to  
6 Ordinance 71917, as amended, to secure the payment of Parity Bonds.

7           **“Reserve Fund Requirement”** means, for any Series of Bonds designated as Parity  
8 Bonds, the Reserve Fund Requirement established in the Bond Sale Terms for that Series and  
9 any other Series issued as part of a single “issue” of Parity Bonds, consistent with Section 15.  
10 For any Series of Future Parity Bonds, the Reserve Fund Requirement means the requirement  
11 specified for that Series in the Bond Sale Terms associated with that issue. The aggregate  
12 Reserve Fund Requirement for all Parity Bonds shall be the sum of the Reserve Fund  
13 Requirements for each Series of Parity Bonds. For purposes of this definition, “issue” means all  
14 Series of Parity Bonds issued and sold pursuant to a common set of Bond Sale Terms. For the  
15 purposes of calculating the Reserve Fund Requirement only, the City shall deduct from Annual  
16 Debt Service the Tax Credit Subsidy Payments the City is scheduled to claim from the federal  
17 government in respect of the interest on a Series of Parity Bonds that are Tax Credit Subsidy  
18 Bonds (or with respect to which the federal government is otherwise scheduled to provide direct  
19 payments).

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

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

1           **“Second Parity Covenant Date”** means the earlier of (a) the date on which the City has  
2 obtained consents of the requisite percentage (as set forth in Section 23(b)) of Registered Owners  
3 of the Parity Bonds then outstanding, in accordance with the provisions of the applicable  
4 Outstanding Parity Bond Documents; or (b) the date on which all of the following Outstanding  
5 Parity Bonds have been redeemed or defeased: Municipal Light and Power Revenue Bonds,  
6 2010A (Taxable Build America Bonds – Direct Payment); Municipal Light and Power  
7 Improvement and Refunding Revenue Bonds, 2010B; Municipal Light and Power Revenue  
8 Bonds, 2010C (Taxable Recovery Zone Economic Development Bonds – Direct Payment);  
9 Municipal Light and Power Improvement and Refunding Revenue Bonds, 2011A; Municipal  
10 Light and Power Improvement Revenue Bonds, 2011B (Taxable New Clean Renewable Energy  
11 Bonds – Direct Payment); Municipal Light and Power Improvement and Refunding Revenue  
12 Bonds, 2012A; Municipal Light and Power Improvement Revenue Bonds, 2012C (Taxable New  
13 Clean Renewable Energy Bonds – Direct Payment); Municipal Light and Power Improvement  
14 and Refunding Revenue Bonds, 2013; Municipal Light and Power Improvement and Refunding  
15 Revenue Bonds, 2014; Municipal Light and Power Revenue Bonds, 2015A; Municipal Light and  
16 Power Revenue Bonds, 2016A (Taxable New Clean Renewable Energy Bonds – Direct  
17 Payment); Municipal Light and Power Refunding Revenue Bonds, 2016B; Municipal Light and  
18 Power Improvement and Refunding Revenue Bonds, 2016C; and Municipal Light and Power  
19 Improvement and Refunding Revenue Bonds, 2017C.

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

1           **“Serial Bond”** means any Parity Bond or Junior Lien Bond maturing in a specified year,  
2 for which no Sinking Fund Requirements are mandated.

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

4           **“SIFMA Municipal Swap Index”** means the Securities Industry and Financial Markets  
5 Association (“SIFMA”) Municipal Swap Index, calculated and published by Bloomberg and  
6 overseen by SIFMA’s Municipal Swap Index Committee, or a substantially similar recognized  
7 market successor index representing a seven-day market index comprised of certain high-grade  
8 tax-exempt variable rate demand obligations.

9           **“Sinking Fund Account”** means (a) with respect to Parity Bonds, any account created in  
10 the Parity Bond Fund to amortize the principal or make mandatory redemptions of Parity Bonds  
11 that are Term Bonds; and (b) with respect to Junior Lien Bonds, any account created in the  
12 Junior Lien Debt Service Fund to amortize the principal or make mandatory redemptions of  
13 Junior Lien Bonds that are Term Bonds.

14           **“Sinking Fund Requirement”** means, for any calendar year, the principal portion (and  
15 required redemption premium, if any) of any Term Bond that is required to be purchased,  
16 redeemed, paid at maturity, or paid into any Sinking Fund Account for such calendar year, as  
17 established in the applicable Bond Documents.

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

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

21           **“Tax Credit Subsidy Bond”** means any Taxable Bond that is designated by the City as a  
22 tax credit bond pursuant to the Code and as a “qualified bond” under Section 6431 or similar

1 provision of the Code, and with respect to which the City is eligible to claim a Tax Credit  
2 Subsidy Payment.

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

5 **“Tax-Exempt Bond”** means any Parity Bond or Junior Lien Bond, the interest on which  
6 is intended, as of the Issue Date, to be excludable from gross income for federal income tax  
7 purposes.

8 **“Taxable Bond”** means any Parity Bond or Junior Lien Bond, the interest on which is  
9 not intended, as of the Issue Date, to be excludable from gross income for federal income tax  
10 purposes.

11 **“Term Bond”** means any Parity Bond or Junior Lien Bond that is issued subject to  
12 mandatory redemption in periodic Sinking Fund Requirements prior to its maturity date.

13 **“Valuation Date”** means, with respect to any Capital Appreciation Bond, the date or  
14 dates, determined as set forth in the applicable Bond Documents, on which specific Accreted  
15 Values are assigned to that Capital Appreciation Bond.

16 **“Variable Interest Rate”** means any interest rate that fluctuates during the stated term of  
17 a bond (or during a stated period during which the bond is designated as a Variable Interest Rate  
18 Bond), whether due to a remarketing, a market index reset, or other mechanism set forth in the  
19 applicable Bond Documents. The Bond Documents for any Series of the Bonds bearing interest  
20 at a Variable Interest Rate shall set forth: (a) the available method(s) of computing interest (the  
21 “interest rate modes”); (b) the particular period or periods of time (or manner of determining  
22 such period or periods of time) for which each value of such Variable Interest Rate (or each  
23 interest rate mode) shall remain in effect; (c) provisions for conversion from one interest rate

mode to another and for setting or resetting the interest rates; and (d) the time or times upon which any change in such Variable Interest Rate (or any conversion of interest rate modes) shall become effective.

**“Variable Interest Rate Bond”** means, for any period of time, any Parity Bond or Junior Lien Bond that bears interest at a Variable Interest Rate during that period. A bond shall not be treated as a Variable Interest Rate Bond if the net economic effect of (a) interest rates on a particular series of Parity Bonds (or Junior Lien Bonds, as applicable), as set forth in the applicable Bond Documents, and (b) either (i) interest rates on another series of Parity Bonds (or Junior Lien Bonds, as applicable) issued at substantially the same time, or (ii) a Payment Agreement related to that particular series, in either case, is to produce obligations that bear interest at a fixed interest rate. Any Parity Bond or Junior Lien Bond with respect to which a Payment Agreement is in force shall be treated as a Variable Interest Rate Bond if the net economic effect of the Payment Agreement is to produce an obligation that bears interest at a Variable Interest Rate.

Section 2. **Adoption of Plan of Additions.** The City specifies, adopts and orders the Plan of Additions to be carried out as generally provided for in the documents comprising the Plan of Additions. The estimated cost of the Plan of Additions, as nearly as may be determined, is declared to be approximately \$2.2 billion, of which approximately \$350 million is expected to be financed from proceeds of the Bonds and investment earnings thereon.

Section 3. **Authorization of Bonds; Due Regard Finding.**

(a) **The Bonds.** The City is authorized to issue municipal light and power revenue bonds payable from the sources described in Section 13 and secured as either Parity Bonds or Junior Lien Bonds, as determined by the Director of Finance in accordance with Section 5. The

Bonds may be issued in one or more Series in a maximum aggregate principal amount not to exceed the amount stated in Section 5, for the purposes of: (a) paying a part of the cost of carrying out the Plan of Additions; (b) providing for the Reserve Fund Requirement (if necessary); (c) capitalizing interest on (if necessary) and paying costs of issuance; and (d) carrying out other Light System purposes approved by ordinance. The Bonds may be issued in one or more Series and may be combined with other municipal light and power revenue bonds authorized separately. The Bonds shall be designated municipal light and power revenue bonds, shall be numbered separately and shall have any name, year, and Series or other label as deemed necessary or appropriate by the Director of Finance. Any Series of the Bonds designated as Junior Lien Bonds shall bear a designation clearly indicating that such Bonds are Junior Lien Bonds.

(b) **City Council Finding.** The City Council hereby finds that, in creating the Parity Bond Fund, the Reserve Fund, and the Junior Lien Debt Service Fund (collectively, the “Bond Funds”), and in fixing the amounts to be paid into those funds in accordance with this ordinance and the parameters for the Bond Sale Terms set forth in Section 5, the City Council has exercised due regard for the cost of operation and maintenance of the Light System, and is not setting aside into such Bond Funds a greater amount than in the judgment of the City Council, based on the rates established from time to time consistent with Section 17(a)(ii), will be sufficient, in the judgment of the City Council, to meet all expenses of operation and maintenance of the Light System and to provide the amounts previously pledged for the payment of all outstanding obligations payable out of Gross Revenues and pledged for the payment of the Bonds. Therefore, the City Council hereby finds that the issuance and sale of the Bonds is in the best interest of the City and is in the public interest.

1           Section 4.     **Manner of Sale of the Bonds.** The Director of Finance may provide for  
2 the sale of each Series by competitive sale, negotiated sale, limited offering, or private  
3 placement, and may select and enter into agreements with remarketing agents or providers of  
4 liquidity with respect to Variable Interest Rate Bonds. The Purchaser of each Series shall be  
5 chosen through a selection process acceptable to the Director of Finance. The Director of  
6 Finance is authorized to specify a date and time of sale and a date and time for the delivery of  
7 each Series; in the case of a competitive sale, to provide an official notice of sale including bid  
8 parameters and other bid requirements, and to provide for the use of an electronic bidding  
9 mechanism; to provide for and determine matters relating to the forward or delayed delivery of  
10 the Bonds, if deemed desirable; and to specify such other matters and take such other action as in  
11 his or her determination may be necessary, appropriate, or desirable in order to carry out the sale  
12 of each Series. Each Series must be sold on Bond Sale Terms consistent with the parameters set  
13 forth in Section 5.

14           Section 5.     **Appointment of Designated Representative; Bond Sale Terms.**

15           (a)     **Designated Representative.** The Director of Finance is appointed to serve as the  
16 City's designated representative in connection with the issuance and sale of the Bonds in  
17 accordance with RCW 39.46.040(2) and this ordinance.

18           (b)     **Parameters for Bond Sale Terms.** The Director of Finance is authorized to  
19 approve, on behalf of the City, Bond Sale Terms for the sale of the Bonds in one or more Series,  
20 and in connection with each such sale, to execute a Bond Purchase Contract (or, in the case of a  
21 competitive sale, a Pricing Certificate) confirming the Bond Sale Terms and such related  
22 agreements as may be necessary or desirable, consistent with the following parameters:



1                   (i)     **Maximum Principal Amount.** This ordinance authorizes the issuance of  
2 Bonds in a maximum aggregate principal amount of not to exceed \$350 million.

3                   (ii)    **Date or Dates.** Each Bond shall be dated its Issue Date, as determined by  
4 the Director of Finance. The initial Issue Date (without restricting any reissuance date with  
5 respect to a Series of Variable Interest Rate Bonds) may not be later than December 31, 2023.

6                   (iii)   **Denominations.** The Bonds shall be issued in Authorized Denominations.

7                   (iv)    **Interest Rate(s).** Each Bond shall bear interest from its Issue Date or  
8 from the most recent date to which interest has been paid or duly provided, whichever is later,  
9 unless otherwise provided in the applicable Bond Documents. Each Series of the Bonds shall  
10 bear interest at one or more fixed interest rates or Variable Interest Rates. The net interest cost  
11 for any fixed rate Series may not exceed a rate of 10% per annum. The Bond Documents for any  
12 Series may provide for multiple interest rates and interest rate modes, and may provide  
13 conditions and mechanisms for the Director of Finance to effect a conversion from one mode to  
14 another. Nothing in this ordinance shall be interpreted to prevent the Bond Documents for any  
15 Series from including a provision for adjustments to interest rates during the term of the Series  
16 upon the occurrence of certain events specified in the applicable Bond Documents.

17                   (v)     **Payment Dates.** Interest shall be payable on dates acceptable to the  
18 Director of Finance. Principal shall be payable on dates acceptable to the Director of Finance,  
19 which shall include payment at the maturity of each Bond; in accordance with any Sinking Fund  
20 Requirements applicable to Term Bonds; and otherwise in accordance with any redemption or  
21 tender provisions.

22                   (vi)    **Final Maturity.** Each Bond shall mature no later than 40 years after its  
23 Issue Date.

1                   (vii)    **Redemption Prior to Maturity.** The Bond Sale Terms may include  
2 redemption and tender provisions, as determined by the Director of Finance in the Director's  
3 discretion, consistent with Section 8 and subject to the following:

4                   (A)    **Optional Redemption.** The Director of Finance may designate  
5 any Bond as subject to optional redemption prior to its maturity. Any Bond that is subject to  
6 optional redemption prior to maturity must be callable on at least one or more date(s) occurring  
7 not more than 10½ years after the Issue Date, consistent with Section 8(a).

8                   (B)    **Mandatory Redemption.** The Director of Finance may designate  
9 any Bond as a Term Bond, subject to mandatory redemption prior to its maturity on the dates and  
10 in principal payment amounts set forth in Sinking Fund Requirements, consistent with Section  
11 8(b).

12                  (C)    **Extraordinary Redemption.** The Director of Finance may  
13 designate any Bond as subject to extraordinary optional redemption or extraordinary mandatory  
14 redemption upon the occurrence of an extraordinary event, as such event or events may be set  
15 forth in the applicable Bond Documents, consistent with Section 8(c).

16                  (D)    **Tender Options.** The Director of Finance may designate any  
17 Variable Interest Rate Bond as subject to tender options, as set forth in the applicable Bond  
18 Documents.

19                  (viii) **Price.** The Director of Finance may approve in the Bond Sale Terms an  
20 aggregate purchase price for each Series of the Bonds that is, in his or her judgment, the price  
21 that produces the most advantageous borrowing cost for the City for that Series, consistent with  
22 the parameters set forth herein and in any applicable bid documents.

(ix) **Other Terms and Conditions.**

(A) **Expected Life of Capital Facilities.** As of the Issue Date of each Series, the Director of Finance must find to his or her satisfaction that the average expected life of the capital facilities to be financed with the proceeds (or allocable share of proceeds) of that Series exceeds the weighted average maturity of such Series (or share thereof allocated to financing those capital facilities).

(B) **Satisfaction of Parity Conditions or Junior Lien Additional Bonds Test.** For each Series of the Bonds, the Director of Finance must designate each Series of the Bonds as a series of either Parity Bonds or Junior Lien Bonds. For a Series to be designated as Parity Bonds, the Director of Finance must find to his or her satisfaction that, as of the Issue Date, the Parity Conditions have been met or satisfied so that such Series is permitted to be issued as Parity Bonds. For a Series to be designated as Junior Lien Bonds, the Director of Finance must find to his or her satisfaction that, as of the Issue Date, the Junior Lien Additional Bonds Test has been met or satisfied so that such Series is permitted to be issued as Junior Lien Bonds.

(C) **Additional Terms, Conditions, and Agreements.** The Bond Sale Terms for any Series may provide for Qualified Insurance, a Qualified Letter of Credit or other liquidity facility, Intermediate Lien Reimbursement Obligation, Junior Lien Reimbursement Obligation, or any other Payment Agreement as the Director of Finance may find necessary or desirable, and may include such additional terms, conditions, and covenants as may be necessary or desirable, including but not limited to: restrictions on investment of Bond proceeds and pledged funds (including any escrow established for the defeasance of any of the Bonds), provisions for the conversion of interest rate modes, provisions for the reimbursement of a credit

enhancement provider or Qualified Counterparty, and requirements to give notice to or obtain the consent of a credit enhancement provider or a Qualified Counterparty. The Director of Finance is authorized to execute, on behalf of the City, such additional certificates and agreements as may be necessary or desirable to reflect such terms, conditions, and covenants.

(D) **Parity Bond Reserve Fund Requirement.** The Bond Sale Terms for any Series of Parity Bonds must establish the Reserve Fund Requirement for such Series and must set forth the method for satisfying any such requirement, consistent with Section 15 and the Parity Conditions. The Reserve Fund Requirement for any such Series may not be set at a level that would cause the aggregate Reserve Fund Requirement to exceed the least of (1) 125% of Average Annual Debt Service on all Parity Bonds outstanding, (2) Maximum Annual Debt Service on all Parity Bonds outstanding, or (3) 10% of the proceeds of the outstanding Parity Bonds.

(E) **Tax Status of the Bonds.** The Director of Finance may designate any Series of the Bonds as Tax-Exempt Bonds, Taxable Bonds, or Tax Credit Subsidy Bonds, consistent with Section 21.

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

(a) **Registration and Bond Registrar.** The Bonds shall be issued only in registered form as to both principal and interest and shall be recorded on the Bond Register. The Fiscal Agent is appointed to act as Bond Registrar for each Series of the Bonds, unless otherwise determined by the Director of Finance.

(b) **Transfer and Exchange of Bonds.** The Bond Registrar shall keep, or cause to be kept, sufficient books for the registration and transfer of the Bonds, which shall be open to inspection by the City at all times. The Bond Register shall contain the name and mailing address

1 of the Registered Owner of each Bond and the principal amount and number of each of the  
2 Bonds held by each Registered Owner.

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

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

13 Bonds surrendered to the Bond Registrar may be exchanged for Bonds in any Authorized  
14 Denomination of an equal aggregate principal amount and of the same Series, seniority, interest  
15 rate, and maturity. Bonds may be transferred only if endorsed in the manner provided thereon  
16 and surrendered to the Bond Registrar. Any exchange or transfer shall be without cost to an  
17 Owner or transferee. The Bond Registrar shall not be obligated to exchange or transfer any Bond  
18 during the period between the Record Date and the corresponding interest payment or principal  
19 redemption date.

20 (c) **Securities Depository; Book-Entry Form.** Unless otherwise determined by the  
21 Director of Finance, the Bonds initially shall be issued in Book-Entry Form and registered in the  
22 name of the Securities Depository. The Bonds so registered shall be held fully immobilized in  
23 Book-Entry Form by the Securities Depository in accordance with the provisions of the Letter of

1 Representations. Neither the City nor the Bond Registrar shall have any responsibility or  
2 obligation to participants of the Securities Depository or the persons for whom they act as  
3 nominees with respect to the Bonds regarding the accuracy of any records maintained by the  
4 Securities Depository or its participants of any amount in respect of principal of or interest on the  
5 Bonds, or any notice that is permitted or required to be given to Registered Owners hereunder  
6 (except such notice as is required to be given by the Bond Registrar to the Securities  
7 Depository). Registered ownership of a Bond initially held in Book-Entry Form, or any portion  
8 thereof, may not be transferred except: (i) to any successor Securities Depository; (ii) to any  
9 substitute Securities Depository appointed by the City or such substitute Securities Depository's  
10 successor; or (iii) to any person if the Bond is no longer held in Book-Entry Form.

11       Upon the resignation of the Securities Depository from its functions as depository, or  
12 upon a determination by the Director of Finance to discontinue utilizing the then-current  
13 Securities Depository, the Director of Finance may appoint a substitute Securities Depository. If  
14 the Securities Depository resigns from its functions as depository and no substitute Securities  
15 Depository can be obtained, or if the Director of Finance determines not to utilize a Securities  
16 Depository, then the Bonds shall no longer be held in Book-Entry Form and ownership may be  
17 transferred only as provided herein.

18       Nothing herein shall prevent the Bond Sale Terms from providing that a Series of the  
19 Bonds shall be issued in certificated form without utilizing a Securities Depository, and that the  
20 Bonds of such Series shall be registered as of their Issue Date in the names of the Owners  
21 thereof, in which case ownership may be transferred only as provided herein.

22       (d)     **Lost or Stolen Bonds.** In case any Bond shall be lost, stolen or destroyed, the  
23 Bond Registrar may authenticate and deliver a new bond or bonds of like amount, date, tenor,

1 and effect to the Registered Owner(s) thereof upon the Registered Owner(s)' paying the  
2 expenses and charges of the City in connection therewith and upon filing with the Bond  
3 Registrar evidence satisfactory to the Bond Registrar that such bond or bonds were actually lost,  
4 stolen or destroyed and of Registered Ownership thereof, and upon furnishing the City with  
5 indemnity satisfactory to both.

6           Section 7.     **Payment of Bonds.**

7           (a)     **Payment.** Each Bond shall be payable in lawful money of the United States of  
8 America on the dates and in the amounts as provided in the Bond Documents for that Series.  
9 Principal of and interest on each Bond designated as a Parity Bond shall be payable solely out of  
10 the Parity Bond Fund. Principal of and interest on each Bond designated as a Junior Lien Bond  
11 shall be payable solely out of the Junior Lien Debt Service Fund. The Bonds shall not be general  
12 obligations of the City. No Bonds of any Series shall be subject to acceleration under any  
13 circumstances.

14           (b)     **Bonds Held In Book-Entry Form.** Principal of and interest on each Bond held  
15 in Book-Entry Form shall be payable in the manner set forth in the Letter of Representations.

16           (c)     **Bonds Not Held In Book-Entry Form.** Interest on each Bond not held in Book-  
17 Entry Form shall be payable by electronic transfer on the interest payment date, or by check or  
18 draft of the Bond Registrar mailed on the interest payment date to the Registered Owner at the  
19 address appearing on the Bond Register on the Record Date. The City, however, shall not be  
20 required to make electronic transfers except pursuant to a request by a Registered Owner in  
21 writing received at least ten days prior to the Record Date and at the sole expense of the  
22 Registered Owner. Principal of each Bond not held in Book-Entry Form shall be payable upon  
23 presentation and surrender of the Bond by the Registered Owner to the Bond Registrar.

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

(a) **Optional Redemption.** All or some of the Bonds of any Series may be subject to redemption prior to their stated maturity dates at the option of the City at the times and on the terms set forth in the applicable Bond Documents.

(b) **Mandatory Redemption.** All or some of the Bonds of any Series may be designated as Term Bonds, subject to mandatory redemption in Sinking Fund Requirements, as set forth in the applicable Bond Documents. If not redeemed or purchased at the City's option prior to maturity, Term Bonds (if any) must be redeemed, at a price equal to one hundred percent of the principal amount to be redeemed, plus accrued interest, on the dates and in the years and Sinking Fund Requirements as set forth in the applicable Bond Documents. If the City optionally redeems or purchases a Term Bond prior to maturity, the principal amount of that Term Bond that is so redeemed or purchased (irrespective of its redemption or purchase price) shall be credited against the remaining Sinking Fund Requirements for that Term Bond in the manner as directed by the Director of Finance. In the absence of direction by the Director of Finance, credit shall be allocated to the remaining Sinking Fund Requirements for that Term Bond on a *pro rata* basis.

(c) **Extraordinary Redemption.** All or some of the Bonds of any Series may be subject to extraordinary optional or extraordinary mandatory redemption prior to maturity upon the occurrence of an extraordinary event at the prices, in the principal amounts, and on the dates, all as set forth in the applicable Bond Documents.

(d) **Selection of Bonds for Redemption; Partial Redemption.** If fewer than all of the outstanding Bonds of a Series are to be redeemed at the option of the City, the Director of Finance shall select the maturity or maturities to be redeemed. If less than all of the principal



1 amount of a maturity of the selected Series is to be redeemed and such Series is held in Book-  
2 Entry Form, the portion of such maturity to be redeemed shall be selected for redemption by the  
3 Securities Depository in accordance with the Letter of Representations. If the Series is not then  
4 held in Book-Entry Form, the portion of such maturity to be redeemed shall be selected by the  
5 Bond Registrar using such method of random selection as the Bond Registrar shall determine.  
6 All or a portion of the principal amount of any Bond that is to be redeemed may be redeemed in  
7 any applicable Authorized Denomination. If less than all of the outstanding principal amount of  
8 any Bond is redeemed, upon surrender of that Bond to the Bond Registrar there shall be issued to  
9 the Registered Owner, without charge, a new Bond (or Bonds, at the option of the Registered  
10 Owner) of the same Series, seniority, maturity, and interest rate in any Authorized Denomination  
11 in the aggregate principal amount to remain outstanding.

12 (e) **Purchase.** The City reserves the right and option to purchase any or all of the  
13 Bonds at any time at any price acceptable to the City plus accrued interest to the date of  
14 purchase.

15 Section 9. **Notice of Redemption; Rescission of Notice.** Unless otherwise set forth  
16 in the applicable Bond Documents, the City must cause notice of any intended redemption of  
17 Bonds to be given not less than 20 nor more than 60 days prior to the date fixed for redemption  
18 by first-class mail, postage prepaid, to the Registered Owner of any Bond to be redeemed at the  
19 address appearing on the Bond Register on the Record Date, and the requirements of this  
20 sentence shall be deemed to have been fulfilled when notice has been mailed as so provided,  
21 whether or not it is actually received by the Owner of any Bond. Interest on Bonds called for  
22 redemption shall cease to accrue on the date fixed for redemption unless the Bond or Bonds  
23 called are not redeemed when presented pursuant to the call.

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

7           Section 10.    **Failure to Pay Bonds.** If any Bond is not paid when properly presented  
8 at its maturity or redemption date, the City shall be obligated to pay, solely from the sources  
9 pledged to that Bond in this ordinance, interest on that Bond at the same rate provided on that  
10 Bond from and after its maturity or redemption date until that Bond, principal (including  
11 redemption premium, if any) and interest, is paid in full or until sufficient money for its payment  
12 in full is on deposit in the Parity Bond Fund (if such Bond is a Parity Bond) or the Junior Lien  
13 Debt Service Fund (if such Bond is a Junior Lien Bond) and that Bond has been called for  
14 payment by giving notice of that call to the Registered Owner of that Bond. The exercise of  
15 remedies of Owners of the Bonds are limited as set forth in Section 24.

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

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

1 this ordinance: “This Bond is one of the fully registered The City of Seattle, Washington,  
2 Municipal Light and Power [Improvement] Revenue Bonds, [Year], [Series and/or Seniority, if  
3 applicable], described in [this ordinance].” Junior Lien Bonds shall also bear the words “Junior  
4 Lien” in their name in the foregoing certificate of authentication. The authorized signing of a  
5 certificate of authentication shall be conclusive evidence that the Bond so authenticated has been  
6 duly executed, authenticated, and delivered and is entitled to the benefits of this ordinance.

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

16 Section 12. **Construction Account; Deposit of Proceeds.** The principal proceeds of  
17 the sale of each Series of the Bonds (other than amounts necessary to pay accrued interest (if  
18 any), to pay costs of issuance, and to provide for the Reserve Fund Requirement with respect to a  
19 Series of Parity Bonds) shall be deposited into the Construction Account (or such other fund or  
20 account as may be directed by the Director of Finance) to be used for the purposes set forth in  
21 Section 3. Until needed for such purposes, the City may invest principal proceeds and interest  
22 thereon temporarily in any Permitted Investments, and the investment earnings may, as  
23 determined by the Director of Finance, be either (a) retained in the Construction Account to be

1 spent for the purposes of that account, or (b) deposited into the Parity Bond Fund or Junior Lien  
2 Debt Service Fund, as applicable.

3           Section 13.    **Security for the Bonds; Designation as Parity Bonds or Junior Lien**

4 **Bonds.** The Bonds shall not constitute general obligations of the City, the State or any political  
5 subdivision of the State or a charge upon any general fund or upon any money or other property  
6 of the City, the State or any political subdivision of the State not specifically pledged by this  
7 ordinance.

8           (a)    **Parity Bonds.** Each Series of the Bonds that is designated as Parity Bonds shall  
9 be a special limited obligation of the City payable from and secured solely by Gross Revenues  
10 available after payment of Operating and Maintenance Expense (“Net Revenue”) and by money  
11 in the Parity Bond Fund and the Reserve Fund. Net Revenue is pledged to make the payments  
12 into the Parity Bond Fund and the Reserve Fund required by Sections 14 and 15, which pledge  
13 shall constitute a lien and charge upon such Net Revenue prior and superior to all other charges  
14 whatsoever. Each Series of the Bonds designated as Parity Bonds shall be issued on parity with  
15 the Outstanding Parity Bonds and all Future Parity Bonds, without regard to date of issuance or  
16 authorization and without preference or priority of right or lien.

17           (b)    **Junior Lien Bonds.** Each Series of the Bonds that is designated as Junior Lien  
18 Bonds shall be a special limited obligation of the City payable from and secured solely by Net  
19 Revenue and by money in the Junior Lien Debt Service Fund. Net Revenue is pledged to make  
20 the payments into the Junior Lien Debt Service Fund required by Sections 14 and 16, which  
21 pledge shall constitute a lien and charge upon such Net Revenue (i) subordinate only to the  
22 payments to be made (A) into the Parity Bond Fund in respect of the principal of and interest on  
23 the Outstanding Parity Bonds and Parity Payment Agreements, (B) in respect of reimbursement

obligations arising under Alternate Reserve Securities, and (C) in respect of obligations arising under Intermediate Lien Reimbursement Obligations, and (ii) prior and superior to all other charges whatsoever. Each Series of the Bonds designated as Junior Lien Bonds shall be issued on parity with the lien and charge of any then outstanding Junior Lien Bonds and all Future Junior Lien Bonds, without regard to date of issuance or authorization and without preference or priority of right or lien. Nothing in this ordinance prevents the City from issuing revenue bonds or other obligations which are a charge or lien upon Net Revenue subordinate to the payments required to be made into the Junior Lien Debt Service Fund and the Reserve Fund, and any subfund, account, or subaccount within the foregoing funds.

Section 14. **Priority Expenditure of Gross Revenues; Flow of Funds.** Gross Revenues shall be deposited as received in the Light Fund and used for the following purposes only, in the following order of priority:

- (a) To pay the Operating and Maintenance Expense of the Light System;
- (b) To make, when due, all payments into the Parity Bond Fund required to be made in order to pay the interest on and principal of all Parity Bonds, including all Parity Bond Sinking Fund Requirements, all net payments under Parity Payment Agreements, *and, from and after the Parity Covenant Date, to make all payments required to be made (if any) in respect of Parity Reimbursement Obligations;*
- (c) To make all payments required to be made (if any) into the Reserve Fund necessary to satisfy the Reserve Fund Requirement, to make all payments (if any) required to be made under Section 15(c)(i)(B) into a special account within the Light Fund for the replacement of an Alternate Reserve Security as to which the City has received a notice of cancellation, *and,*

1 *from and after the Parity Covenant Date, to pay any reimbursement obligations under any*  
2 *Alternate Reserve Security;*

3 (d) To make all payments required to be made (if any) in respect of Intermediate Lien  
4 Reimbursement Obligations;

5 (e) To make all payments into the Junior Lien Debt Service Fund required to be made  
6 in order to pay the interest on and principal of all Junior Lien Bonds, including all net payments  
7 under Junior Lien Payment Agreements and all Junior Lien Reimbursement Obligations, when  
8 due;

9 (f) To make all required payments into any revenue bond redemption fund created to  
10 pay and secure the payment of the principal of and interest on any revenue bonds or short-term  
11 obligations of the City having a charge and lien upon Net Revenue subordinate to the lien  
12 thereon for the payment of the principal of and interest on the Parity Bonds and the Junior Lien  
13 Bonds; and

14 (g) Without priority, for any of the following purposes: to retire by redemption or  
15 purchase any outstanding revenue bonds or revenue obligations of the Light System; to make  
16 necessary additions, betterments, repairs, extensions, and replacements of the Light System; to  
17 pay City taxes or other payments in lieu of taxes payable from Gross Revenues; to make deposits  
18 to the Rate Stabilization Account; or for any other lawful Light System purpose.

19 Section 15. **Parity Bond Fund; Reserve Fund.** The special funds of the City known  
20 as the Parity Bond Fund and the Reserve Fund have been previously created and shall be  
21 maintained as special funds for the sole purpose of paying the principal (including redemption  
22 premium, if any) of and interest on the Parity Bonds as the same shall become due. The Director  
23 of Finance may create subfunds, accounts, or subaccounts in the Parity Bond Fund and the

1 Reserve Fund to pay or secure the payment of Parity Bonds as long as the maintenance of such  
2 subfunds, accounts, or subaccounts does not conflict with the rights of the owners of the Parity  
3 Bonds. Principal (including redemption premium, if any) of and interest on the Parity Bonds  
4 shall be payable solely out of the Parity Bond Fund.

5 (a) **Required Payments Into the Parity Bond Fund and Reserve Fund.** So long as  
6 any Parity Bonds (including any Parity Payment Agreements) are outstanding, the City shall set  
7 aside and pay out of Net Revenue certain fixed amounts, without regard to any fixed proportion,  
8 namely:

9 (i) Into the Parity Bond Fund, on or prior to the respective dates on which  
10 such payments shall become due and payable, an amount sufficient, together with other money  
11 on deposit therein, to pay the interest (including net payments due on Parity Payment  
12 Agreements) on and principal (including any Sinking Fund Requirements) of the Parity Bonds as  
13 the same shall become due; and

14 (ii) Into the Reserve Fund, an amount necessary to provide for the Reserve  
15 Fund Requirement within the time and manner required by this ordinance and the Bond Sale  
16 Terms.

17 To meet the required payments to be made into the Parity Bond Fund and the Reserve  
18 Fund, the Director of Finance may transfer any money from any funds or accounts of the City  
19 legally available therefor, except bond redemption funds, refunding escrow funds, or defeasance  
20 funds. The Director of Finance may provide for the purchase, redemption or defeasance of any  
21 Parity Bonds by the use of money on deposit in any subfund, account, or subaccount in the Parity  
22 Bond Fund or Reserve Fund, so long as the money remaining in those subfunds, accounts, or

subaccounts is sufficient to satisfy the required deposits with respect to the remaining Parity Bonds.

(b) **Parity Bond Fund.** The Parity Bond Fund has been previously created for the sole purpose of paying the principal of and interest on the Parity Bonds as the same shall become due. Each Series of the Bonds designated as Parity Bonds shall be payable (including principal, Sinking Fund Requirements, redemption premium (if any), and interest) out of the Parity Bond Fund. Money in the Parity Bond Fund shall, to the fullest extent practicable and reasonable, be invested and reinvested at the direction of the Director of Finance solely in, and obligations deposited in such accounts shall consist of, Permitted Investments. Earnings on money and investments in the Parity Bond Fund shall be deposited in and used for the purposes of that fund.

(c) **Reserve Fund.** The Reserve Fund has been previously created for the purpose of securing the payment of the principal of and interest on all Parity Bonds (including all net payments due under any Parity Payment Agreements, if any). Money held in the Reserve Fund shall, to the fullest extent practicable and reasonable, be invested and reinvested at the direction of the Director of Finance solely in, and obligations deposited in such accounts shall consist of, Permitted Investments. Earnings on money and investments in the Reserve Fund shall be deposited in that fund and credited against amounts required to be deposited therein until the Reserve Fund is fully funded, and thereafter such earnings shall be deposited in the Parity Bond Fund.

(i) **Reserve Fund Requirement.** The Bond Sale Terms for each Series of the Bonds shall establish the amount (if any) to be added to the aggregate Reserve Fund Requirement for such Series, and the method for providing for such incremental addition to the Reserve Fund deposit, subject to the following:



1                               (A)     In connection with the issuance of Future Parity Bonds, the City  
2 shall provide the amounts required for deposit into the Reserve Fund (1) at one time on the Issue  
3 Date, or (2) in periodic deposits of Net Revenue (or any other legally available source of funds),  
4 so that by five years from the date of such Future Parity Bonds there will have been paid into the  
5 Reserve Fund an amount that, together with the money already on deposit therein, will be at least  
6 equal to the Reserve Fund Requirement for the Parity Bonds scheduled to be outstanding at the  
7 end of that five-year period.

8                               (B)     The City may obtain one or more Alternate Reserve Securities for  
9 specific amounts required to be paid into the Reserve Fund. The amount available to be drawn  
10 upon under each such Alternate Reserve Security shall be credited against the amounts needed to  
11 satisfy the Reserve Fund Requirement. In the event of receipt of any notice of cancellation of an  
12 Alternate Reserve Security, the City shall (and, in preparation for the expiration of any such  
13 Alternate Reserve Security in accordance with its terms, the City may) either: (1) obtain a  
14 substitute Alternate Reserve Security in the amount necessary to satisfy the Reserve Fund  
15 Requirement on the date any such cancellation (or expiration) becomes effective, or (2) create a  
16 special account in the Light Fund and deposit therein amounts necessary to replace the Alternate  
17 Reserve Security upon its expiration or cancellation. In the case of receipt of a notice of  
18 cancellation, such periodic deposits are to be made on or before the 25<sup>th</sup> day of each of the  
19 60 calendar months succeeding receipt of such notice, in an amount equal to 1/60<sup>th</sup> of the amount  
20 necessary (together with other money and investments then on deposit in the Reserve Fund) to  
21 satisfy the expected Reserve Fund Requirement on the date such cancellation shall become  
22 effective, taking into account scheduled redemptions of Parity Bonds and disregarding any  
23 incremental additional amounts that may become necessary due to the issuance of Future Parity

1 Bonds subsequent to the date of such notice of cancellation. Such amounts shall be transferred  
2 from Net Revenue available in the Light Fund after making provision for the required payments  
3 into the Parity Bond Fund, in accordance with Section 14. Amounts on deposit in such special  
4 account are preliminarily earmarked for the replacement of such Alternate Reserve Security and  
5 shall not be available to pay debt service on Parity Bonds or for any other purpose of the City,  
6 and shall be transferred to the Reserve Fund on the effective date of any cancellation or  
7 expiration of the Alternate Reserve Security to make up the deficiency caused thereby. In the  
8 event that the Reserve Fund is completely depleted and all Alternate Reserve Securities have  
9 been fully drawn, the amounts in that special account may be withdrawn and treated as Gross  
10 Revenues available to be used in accordance with the flow of funds set forth in Section 14. If and  
11 when a substitute Alternate Reserve Security having a sufficient value or policy limit is obtained,  
12 amounts held in that special account may be transferred back to the Light Fund and treated as  
13 Gross Revenues available to be used in accordance with the flow of funds set forth in Section 14.

14 (C) If the amount on deposit in the Reserve Fund is less than the  
15 Reserve Fund Requirement (taking into account the five-year period referred to in paragraph (A)  
16 of this subsection), the City shall transfer to the Reserve Fund money in an amount sufficient to  
17 restore the Reserve Fund to the Reserve Fund Requirement within 12 months after the date of  
18 such deficiency. The City shall transfer such amount first from Net Revenue available in  
19 accordance with the priority of payment in Section 14, and only thereafter from money in any  
20 construction fund or account established with respect to any issue of Parity Bonds, first taking  
21 money from the unrestricted portion thereof, then taking money from the restricted portion  
22 thereof. If the amount in the Reserve Fund is greater than the Reserve Fund Requirement, then

1 and only then may the City withdraw such excess from the Reserve Fund and deposit such  
2 excess in the Light Fund.

3 (ii) **Use of Reserve Fund to Refund Parity Bonds.** If any Parity Bonds are  
4 to be refunded, the money set aside in the Reserve Fund to secure the payment of such Parity  
5 Bonds may be used to retire such Parity Bonds, or may be transferred to any reserve fund or  
6 account which may be created to secure the payment of any bonds issued to refund such Parity  
7 Bonds, as long as the money left remaining in the Reserve Fund is at least equal, together with  
8 all Alternate Reserve Securities, to the Reserve Fund Requirement.

9 (iii) **Use of Reserve Fund to Pay Debt Service.** If the money in the Parity  
10 Bond Fund is insufficient to meet maturing installments of either interest on or principal of and  
11 interest on the Parity Bonds (including net amounts payable under any Parity Payment  
12 Agreements), such deficiency shall be made up from the Reserve Fund by the withdrawal of  
13 money or proceeds of Alternate Reserve Securities, as the case may be. Any deficiency created  
14 in the Reserve Fund by reason of any such withdrawal or claim against an Alternate Reserve  
15 Security shall then be made up out of Net Revenue or out of any other legally available funds of  
16 the City.

17 (iv) **Withdrawals From Reserve Fund.** Money in the Reserve Fund may be  
18 withdrawn by the City for any lawful purpose as long as the aggregate of any money and  
19 Alternate Reserve Securities remaining on deposit in the Reserve Fund is at least equal to the  
20 Reserve Fund Requirement for the Parity Bonds then outstanding. The City reserves the right to  
21 substitute one or more Alternate Reserve Securities for money previously deposited in the  
22 Reserve Fund and to withdraw such excess to the extent described in the preceding sentence.  
23 Any withdrawals from subaccounts within the Reserve Fund shall be made on a *pro rata* basis,

1 except when the terms of an Alternate Reserve Security require all cash and investments in the  
2 Reserve Fund to be withdrawn before any draw or claim is made on the Alternate Reserve  
3 Security, or unless the City receives an opinion of Bond Counsel to the effect that such *pro rata*  
4 withdrawal is not required to maintain the federal tax benefits (if any) of any then outstanding  
5 Parity Bonds issued as Tax-Exempt Bonds or Tax Credit Subsidy Bonds. If multiple Alternate  
6 Reserve Securities are on deposit in the Reserve Fund, draws on such Alternate Reserve  
7 Securities shall be made on a *pro rata* basis.

8           Section 16.    **Junior Lien Debt Service Fund.**

9           (a)    **Use of Fund.** The Junior Lien Debt Service Fund has previously been created for  
10 the sole purpose of paying the principal (including redemption premium, if any) of and interest  
11 on the Junior Lien Bonds as the same shall become due. The Junior Lien Debt Service Fund shall  
12 consist of a Principal and Interest Account and such additional subfunds, accounts, or  
13 subaccounts as the Director of Finance may find it necessary or convenient to create in order to  
14 pay or secure the payment of Junior Lien Bonds, as long as the maintenance of such subfunds,  
15 accounts, or subaccounts does not conflict with the rights of the owners of the Junior Lien Bonds  
16 or the Parity Bonds.

17           Each Series of the Bonds designated as Junior Lien Bonds shall be payable (including  
18 principal, Sinking Fund Requirements, redemption premium (if any), and interest) out of the  
19 Junior Lien Debt Service Fund. Money in the Junior Lien Debt Service Fund shall, to the fullest  
20 extent practicable and reasonable, be invested and reinvested at the direction of the Director of  
21 Finance solely in, and obligations deposited in such accounts shall consist of, Permitted  
22 Investments. Earnings on money and investments in the Junior Lien Debt Service Fund shall be  
23 deposited in and used for the purposes of that fund.

1           (b)     **Required Payments Into the Junior Lien Debt Service Fund.** So long as any  
2 Junior Lien Bonds (including any Junior Lien Payment Agreements) are outstanding, the City  
3 shall set aside and pay out of Net Revenue certain fixed amounts, without regard to any fixed  
4 proportion, namely, into the Principal and Interest Account of the Junior Lien Debt Service  
5 Fund, on or prior to the respective dates on which such payments shall become due and payable,  
6 an amount sufficient, together with other money on deposit therein, to pay the interest on and the  
7 principal of the Junior Lien Bonds, including net payments due on Junior Lien Payment  
8 Agreements and all payments under Junior Lien Reimbursement Obligations, as the same shall  
9 become due. To meet the required payments to be made into the Junior Lien Debt Service Fund,  
10 the Director of Finance may transfer any money from any funds or accounts of the City legally  
11 available therefor, except the Parity Bond Fund, the Reserve Fund, other bond redemption funds,  
12 refunding escrow funds, or defeasance funds. The Director of Finance may provide for the  
13 purchase, redemption or defeasance of any Junior Lien Bonds by the use of money on deposit in  
14 any subfund, account, or subaccount in the Junior Lien Debt Service Fund, so long as the money  
15 remaining in those subfunds, accounts, or subaccounts is sufficient to satisfy the required  
16 deposits with respect to the remaining Junior Lien Bonds.

17           Section 17.     **Bond Covenants.**

18           (a)     **Parity Bond Covenants.** The City covenants with the Owner of each Bond that  
19 is designated as a Parity Bond, for so long as such Bond remains outstanding, as follows:

20                   (i)     **Sale or Disposition of the Light System.**

21                           (A)     The City may dispose of all or substantially all of the Light System  
22 only if the City simultaneously causes all of the Parity Bonds to be, or be deemed to be, no  
23 longer outstanding.

1                               (B)     Except as provided below, the City will not dispose of any part of  
2 the Light System in excess of 5% of the value of the net utility plant of the Light System in  
3 service unless prior to such disposition: (1) there has been filed with the Director of Finance a  
4 certificate of a Professional Utility Consultant stating that such disposition will not impair the  
5 ability of the City to comply with the rate covenant set forth in Section 17(a)(ii), in which the  
6 Professional Utility Consultant may make those assumptions permitted in delivering a Parity  
7 Certificate under Section 18(a); or (2) provision is made for the payment, redemption or other  
8 retirement of a principal amount of Parity Bonds equal to the greater of the following amounts:  
9 (I) an amount which will be in the same proportion to the net principal amount of Parity Bonds  
10 then outstanding (defined as the total principal amount of Parity Bonds then outstanding less the  
11 amount of cash and investments in the Parity Bond Fund) that Gross Revenues for the twelve  
12 preceding months attributable to the part of the Light System being sold or disposed of bears to  
13 the total Gross Revenues for such period; or (II) an amount which will be in the same proportion  
14 to the net principal amount of Parity Bonds then outstanding that the book value of the part of the  
15 Light System being sold or disposed of bears to the book value of the entire Light System  
16 immediately prior to such sale or disposition.

17                               (C)     Notwithstanding the foregoing, the City may dispose of any  
18 portion of the Light System that has become unserviceable, inadequate, obsolete, worn out or  
19 unfit to be used, or no longer necessary for, material to, or useful in the operation of the Light  
20 System.

21                               (D)     If the ownership of all or part of the Light System is transferred  
22 from the City through the operation of law, the City shall reconstruct or replace the transferred  
23 portion using any proceeds of the transfer unless the City Council determines that such

1 reconstruction or replacement is not in the best interests of the City and the Owners of the Parity  
2 Bonds, in which case any proceeds shall be used to purchase, defease, or redeem Parity Bonds  
3 prior to maturity.

4 (ii) **Rates and Charges.** The City will establish from time to time and  
5 maintain such rates for electric energy as will maintain the Light System in sound financial  
6 condition and provide sufficient revenues to pay all Operating and Maintenance Expense, to pay  
7 into the Parity Bond Fund the amounts that are required by this ordinance to be applied to the  
8 payment of the principal of and interest on the Parity Bonds until the Parity Bonds shall have  
9 been paid in full, and to pay all bonds, warrants, and indebtedness for which any revenues of the  
10 Light System shall have been pledged.

11 (iii) **Operation and Maintenance of the Light System.** The City will operate  
12 the properties of the Light System in an efficient manner and at a reasonable cost; will maintain,  
13 preserve and keep, or cause to be maintained, preserved and kept, the properties of the Light  
14 System and every part and parcel thereof in good repair, working order and condition; and from  
15 time to time will make or cause to be made all necessary and proper repairs, renewals and  
16 replacements thereto so that at all times the business carried on in connection therewith will be  
17 properly and advantageously conducted.

18 (iv) **Books and Financial Statements.** The City will keep and maintain  
19 proper books of account for the Light System in accordance with generally accepted accounting  
20 principles applicable to governmental utilities; will generally adhere to the uniform system of  
21 accounts prescribed by the State Auditor's Office and the Federal Energy Regulatory  
22 Commission (if any); and will prepare, on or before 120 days after the end of each calendar year,  
23 *and, upon the Second Parity Covenant Date, on or before 180 days after the end of each*

1 **calendar year**, annual financial statements showing reasonable detail, including a balance sheet,  
2 an income statement, and a statement of cash flows or other such statement. Copies of such  
3 financial statements shall be placed on file in the office of the Director of Finance and shall be  
4 open to inspection at any reasonable time by any owner of any Parity Bonds. A copy of such  
5 financial statements shall be sent to any owner of Parity Bonds upon request in writing setting  
6 forth the name and address to which such financial statements may be sent.

7 (b) **Junior Lien Bond Covenants.** The City covenants with the Owner of each Bond  
8 that is designated as a Junior Lien Bond, for so long as such Bond remains outstanding, as  
9 follows:

10 (i) **Sale or Disposition of the Light System.** The City may dispose of all or  
11 substantially all of the Light System only if the City simultaneously causes all of the Junior Lien  
12 Bonds to be, or be deemed to be, no longer outstanding. The City will not dispose of any part of  
13 the Light System in excess of 5% of the value of the net utility plant of the Light System in  
14 service except upon compliance with the covenant set forth in Section 17(a)(i)(B), above.  
15 Notwithstanding the foregoing, the City may dispose of any portion of the Light System that has  
16 become unserviceable, inadequate, obsolete, worn out or unfit to be used, or no longer necessary,  
17 material to, or useful in the operation of the Light System.

18 (ii) **Rates and Charges.** The City will establish from time to time and  
19 maintain such rates for electric energy as will maintain the Light System in sound financial  
20 condition and provide sufficient revenues to pay all Operating and Maintenance Expense; to pay  
21 into the Parity Bond Fund the amounts that are required by this ordinance to be applied to the  
22 payment of the principal of and interest on the Parity Bonds until the Parity Bonds shall have  
23 been paid in full; to pay into the Junior Lien Debt Service Fund the amounts that are required by



1 this ordinance to be paid into such fund, in accordance with the priority of payment set forth in  
2 Section 14, until the Junior Lien Bonds (including Junior Lien Payment Agreements and Junior  
3 Lien Reimbursement Obligations) shall have been paid in full; and to pay all other bonds,  
4 warrants, and indebtedness for which any revenues of the Light System shall have been pledged.

5 (iii) **Operation and Maintenance of the Light System.** The City will operate  
6 the properties of the Light System in an efficient manner and at a reasonable cost; will maintain,  
7 preserve and keep, or cause to be maintained, preserved and kept, the properties of the Light  
8 System and every part and parcel thereof in good repair, working order and condition; and from  
9 time to time will make or cause to be made all necessary and proper repairs, renewals, and  
10 replacements thereto so that at all times the business carried on in connection therewith will be  
11 properly and advantageously conducted.

12 (iv) **Books and Financial Statements.** The City will keep and maintain  
13 proper books of account for the Light System in accordance with generally accepted accounting  
14 principles applicable to governmental utilities; will generally adhere to the uniform system of  
15 accounts prescribed by the State Auditor's Office and the Federal Energy Regulatory  
16 Commission (if any); and will prepare, on or before 180 days after the end of each calendar year,  
17 annual financial statements showing reasonable detail, including a balance sheet, an income  
18 statement, and a statement of cash flows or other such statement. Copies of such financial  
19 statements shall be placed on file in the office of the Director of Finance and shall be open to  
20 inspection at any reasonable time by any owner of any Junior Lien Bonds. A copy of such  
21 financial statements shall be sent to any owner of Junior Lien Bonds upon request in writing  
22 setting forth the name and address to which such financial statements may be sent.

Section 18. **Additional Bonds.**

(a) **Future Parity Bonds.** The City reserves the right to issue Future Parity Bonds (which term includes Parity Payment Agreements) for any lawful purpose of the City's Light System if the Parity Conditions are met and complied with as of the date of issuance of such Future Parity Bonds, or as of the effective date of the Parity Payment Agreement, as appropriate.

If the Parity Conditions are met and complied with, then payments into the Parity Bond Fund with respect to such Future Parity Bonds shall rank equally with the payments out of Net Revenue required to be made into the Parity Bond Fund by this ordinance. Nothing set forth herein shall prevent the City from (i) issuing revenue bonds or other obligations that are a charge upon Net Revenue junior and inferior to the payments required to be made therefrom into the Parity Bond Fund for the payment of the Parity Bonds, provided that such subordinate bonds may not be subject to acceleration under any circumstances; or (ii) issuing Refunding Parity Bonds to refund maturing Parity Bonds of the City for the payment of which money is not otherwise available.

(i) **Parity Conditions.** The Parity Conditions are as follows:

(A) No deficiency may then exist in the Parity Bond Fund or in any of the accounts therein; and

(B) Provision must be made to satisfy the Reserve Fund Requirement for all Parity Bonds then outstanding plus any additional amount required in connection with the issuance and sale of the proposed Future Parity Bonds (if any) in accordance with Section 15(c); and

(C) There must be on file with the City a Parity Certificate as described in subsection (a)(ii), below. If the proposed Future Parity Bonds (or any portion thereof) are to be

1 issued for the purpose of refunding outstanding Parity Bonds and the Annual Debt Service on the  
2 refunding portion of the proposed Future Parity Bonds is not more than \$5,000 greater than the  
3 Annual Debt Service on the Parity Bonds to be refunded thereby, then no Parity Certificate shall  
4 be required as to that portion issued for refunding purposes. If the requirements of the preceding  
5 sentence are not satisfied, Refunding Parity Bonds may alternatively be issued upon delivery of a  
6 Parity Certificate.

7 (ii) **Parity Certificate.** A Parity Certificate required by subsection (a)(i) may  
8 be provided by either the Director of Finance or by a Professional Utility Consultant, as follows:

9 (A) A Parity Certificate may be prepared by the Director of Finance,  
10 demonstrating that the amount of Adjusted Net Revenue in any 12 consecutive months out of the  
11 most recent 24 months preceding the delivery of the proposed series of Future Parity Bonds (the  
12 “Base Period”) was not less than 125% of Maximum Annual Debt Service in any future calendar  
13 year on all Parity Bonds then outstanding and the proposed series of Future Parity Bonds. For the  
14 purposes of a Parity Certificate delivered under this subsection (A), the Director of Finance shall  
15 reflect in his or her certificate any adjustment in the rates, fees, and charges for the services of  
16 the Light System that will become effective at any time prior to or within six months after the  
17 delivery of the proposed Future Parity Bonds, by including in the amount of Adjusted Net  
18 Revenue the amount that he or she estimates would have been collected in the Base Period if  
19 such new rates, fees, and charges had been in effect for the entire Base Period.

20 (B) A Parity Certificate may be prepared by a Professional Utility  
21 Consultant, demonstrating that the amount of Adjusted Net Revenue (which may be further  
22 adjusted as provided in paragraphs (1) through (5) below) in any 12 consecutive months out of  
23 the most recent 24 months preceding the delivery of the proposed Series of Future Parity Bonds

1 (the “Base Period”) is not less than 125% of the amount of Maximum Annual Debt Service on  
2 all Parity Bonds and the proposed series of Future Parity Bonds in any future calendar year on all  
3 Parity Bonds then outstanding and the proposed series of Parity Bonds. For the purposes of a  
4 certificate delivered under this subsection (a)(ii), Adjusted Net Revenue may be further adjusted  
5 by the Professional Utility Consultant using any or all of the following methods reflecting the  
6 conditions and requirements as may be appropriate to the circumstances:

7 (1) If the purpose for which the proposed Future Parity Bonds  
8 are being issued is to acquire operating electric utility properties having an earnings record, the  
9 Professional Utility Consultant shall estimate the effect on Adjusted Net Revenue for the Base  
10 Period of the acquisition of such electric utility properties and the integration thereof into the  
11 Light System, and shall further adjust Adjusted Net Revenue for the Base Period to give effect to  
12 such estimate. Any such estimate shall be based upon the operating experience and records of the  
13 City and upon any available financial statements and records relating to the earnings of such  
14 electric utility properties to be acquired.

15 (2) If any changes to rates, fees, or charges imposed by the  
16 City on sales of power, energy, or other services furnished by the Light System, which were not  
17 in effect during the entire Base Period, have been adopted by the City Council and are in effect  
18 on the date of sale of the proposed Future Parity Bonds (or effective date of the proposed Parity  
19 Payment Agreement) or are to go into effect not later than 12 months after such date, the  
20 Professional Utility Consultant may, if such changes resulted in increases in such rates, fees, or  
21 charges, and shall, if such changes resulted in reductions in such rates, fees, or charges, further  
22 adjust Adjusted Net Revenue for the Base Period to reflect any change in such Adjusted Net

1 Revenue that would have occurred if the changed rates, fees, or charges had been in effect during  
2 the entire Base Period.

3 (3) If the purpose for which the proposed Future Parity Bonds  
4 are being issued is to acquire or construct generation or transmission facilities required to furnish  
5 or make available to the Light System additional power and energy, or transmission facilities  
6 required to enable the City to sell additional power and energy, the Professional Utility  
7 Consultant may further adjust Adjusted Net Revenue for the Base Period by (I) deducting the  
8 amount of the estimated increase in Operating and Maintenance Expense resulting from the  
9 acquisition or construction of such facilities in their first year of full operation, (II) adding any  
10 additional revenues to be derived from the sale or transmission of such additional power and  
11 energy pursuant to executed power sales contracts, and (III) adding an amount equal to the  
12 estimated cost of the power and energy which would have been replaced or displaced by such  
13 facilities had such additional power and energy in excess of the power and energy to be sold  
14 pursuant to paragraph (2), above, been used in the Light System during the Base Period.

15 (4) If any customers were added to the Light System during the  
16 Base Period or thereafter (and prior to the date of the Professional Utility Consultant's  
17 certificate), Adjusted Net Revenue may be further adjusted as if such added customers were  
18 customers of the Light System during the entire Base Period.

19 (5) If extensions of or additions to the Light System (not  
20 described in paragraph (3) above) are in the process of construction on the date of the  
21 Professional Utility Consultant's certificate, or if the proceeds of the proposed Future Parity  
22 Bonds are to be used to acquire or construct extensions of or additions to the Light System (not  
23 described in paragraph (3) above), Adjusted Net Revenue for the Base Period may be further

1 adjusted by adding any additional revenues not included in the preceding paragraphs that will be  
2 derived from such additions and extensions, and deducting the estimated increase in Operating  
3 and Maintenance Expense resulting from such additions and extensions.

4 In rendering any Parity Certificate under this subsection (a)(ii)(B), the Professional  
5 Utility Consultant may rely upon the following documents, which shall be attached to the Parity  
6 Certificate: financial statements of the Light System, certified by the Director of Finance,  
7 showing income and expenses for the period upon which the same are based and a balance sheet  
8 as of the end of such period; financial statements certified by the Office of the State Auditor of  
9 the State (or any successor thereto); or financial statements certified by a certified public  
10 accountant for as much of such period as any examination by such accountant has been made and  
11 completed. If two or more of such statements are inconsistent with each other, the Professional  
12 Utility Consultant shall rely on the statements certified by the Director of Finance.

13 (b) **Future Junior Lien Bonds.** The City reserves the right to issue Future Junior  
14 Lien Bonds (which term includes Junior Lien Payment Agreements and Junior Lien  
15 Reimbursement Obligations) for any lawful purpose of the City's Light System if the Junior Lien  
16 Additional Bonds Test is met and complied with as of the date of issuance of such Future Junior  
17 Lien Bonds, or as of the effective date of the Junior Lien Payment Agreement or Junior Lien  
18 Reimbursement Obligation, as appropriate.

19 If the Junior Lien Additional Bonds Test is met and complied with, then payments into  
20 the Junior Lien Debt Service Fund with respect to such Future Junior Lien Bonds shall rank  
21 equally with the payments out of Net Revenue required to be made into the Junior Lien Debt  
22 Service Fund by this ordinance. Nothing set forth herein shall prevent the City from (i) issuing  
23 revenue bonds or other obligations that are a charge upon Net Revenue junior and inferior to the

1 payments required to be made therefrom into the Junior Lien Debt Service Fund for the payment  
2 of the Junior Lien Bonds, provided that such subordinate bonds may not be subject to  
3 acceleration under any circumstances; or (ii) issuing Refunding Junior Lien Bonds for the  
4 purpose of refunding outstanding Junior Lien Bonds to fund or refund maturing Junior Lien  
5 Bonds of the City for the payment of which money is not otherwise available.

6 (i) **Junior Lien Additional Bonds Test.** The Junior Lien Additional Bonds  
7 Test is as follows:

8 (A) No deficiency may then exist in the Junior Lien Debt Service Fund  
9 or in any of the accounts therein; and

10 (B) No default may have occurred that is then continuing with respect  
11 to any then outstanding Parity Bonds or Junior Lien Bonds; and

12 (C) There must be on file with the City a Junior Lien Coverage  
13 Certificate as described in subsection (b)(ii), below. If the proposed Future Junior Lien Bonds (or  
14 any portion thereof) are to be issued for the purpose of refunding outstanding Junior Lien Bonds  
15 and the Annual Debt Service on the refunding portion of the proposed Future Junior Lien Bonds  
16 is not more than \$5,000 greater than the Annual Debt Service on the Junior Lien Bonds to be  
17 refunded thereby, then no Junior Lien Coverage Certificate shall be required as to that portion  
18 issued for refunding purposes. If the requirements of the preceding sentence are not satisfied,  
19 Refunding Junior Lien Bonds may alternatively be issued upon delivery of a Junior Lien  
20 Coverage Certificate.

21 (ii) **Junior Lien Coverage Certificate.** A Junior Lien Coverage Certificate  
22 required by subsection (b)(i) may be provided by either the Director of Finance or by a  
23 Professional Utility Consultant, as follows:

1                               (A)     A Junior Lien Coverage Certificate may be prepared by the  
2 Director of Finance, demonstrating that the amount of Adjusted Net Revenue in any 12  
3 consecutive months out of the most recent 24 months preceding the delivery of the proposed  
4 Series of Future Junior Lien Bonds (the “Base Period”) was not less than 115% of Maximum  
5 Annual Debt Service in any future calendar year on all Parity Bonds, Intermediate Lien  
6 Reimbursement Obligations (if any), and Junior Lien Bonds then outstanding plus the proposed  
7 Series of Future Junior Lien Bonds. For the purposes of a Junior Lien Coverage Certificate  
8 delivered under this subsection (A), the Director of Finance shall reflect in his or her certificate  
9 any adjustment in the rates, fees, and charges for the services of the Light System that will  
10 become effective at any time prior to or within six months after the delivery of the proposed  
11 Future Junior Lien Bonds, by including in the amount of Adjusted Net Revenue the amount that  
12 he or she estimates would have been collected in the Base Period if such new rates, fees, and  
13 charges had been in effect for the entire Base Period.

14                               (B)     A Junior Lien Coverage Certificate may be prepared by a  
15 Professional Utility Consultant, demonstrating that the amount of Adjusted Net Revenue (which  
16 may be further adjusted as provided in subsection (a)(ii)(B)(1) through (5), above) in any 12  
17 consecutive months out of the most recent 24 months preceding the delivery of the proposed  
18 Series of Future Junior Lien Bonds (the “Base Period”) not less than 115% of Maximum Annual  
19 Debt Service in any future calendar year on all Parity Bonds and Junior Lien Bonds then  
20 outstanding plus the proposed Series of Future Junior Lien Bonds.

21               Section 19.     **Rate Stabilization Account.** The City may at any time deposit in the  
22 Rate Stabilization Account Net Revenue and any other money received by the Light System and  
23 available to be used therefor. Thereafter, the City may withdraw any or all of the money from the



1 Rate Stabilization Account for inclusion in Adjusted Net Revenue for any applicable year of the  
2 City. Such deposits or withdrawals may be made up to and including the date 90 days after the  
3 end of the applicable year for which the deposit or withdrawal will be included as Adjusted Net  
4 Revenue.

5 Section 20. **Refunding or Defeasance of Bonds.**

6 (a) **Bonds Designated as Refundable Bonds.** Each Series of the Bonds is hereby  
7 designated as a Series of “Refundable Bonds” for purposes of the Omnibus Refunding  
8 Ordinance.

9 (b) **Refunding; Defeasance.** The City may issue refunding bonds pursuant to the  
10 laws of the State or use money available from any other lawful source (i) to pay when due the  
11 principal (including redemption premium, if any) of and interest on any Bond, or any portion  
12 thereof, included in a refunding or defeasance plan (the “Defeased Bonds”); (ii) to redeem and  
13 retire, release, refund, or defease the Defeased Bonds; and (iii) to pay the costs of such refunding  
14 or defeasance. If money and/or Government Obligations maturing at a time or times and in an  
15 amount sufficient (together with known earned income from the investment thereof) to redeem  
16 and retire, release, refund, or defease the Defeased Bonds in accordance with their terms is set  
17 aside in a special trust fund or escrow account irrevocably pledged to such redemption,  
18 retirement or defeasance (the “Trust Account”), then all right and interest of the Owners of the  
19 Defeased Bonds in the covenants of this ordinance and in Net Revenue and the funds and  
20 accounts pledged to the payment of such Defeased Bonds, other than the right to receive the  
21 funds so set aside and pledged, thereafter shall cease and become void. Such Owners thereafter  
22 shall have the right to receive payment of the principal or redemption price of and interest on the  
23 Defeased Bonds from the Trust Account. After establishing and fully funding such a Trust

Account, the Defeased Bonds shall be deemed no longer outstanding and the Director of Finance may then apply any money in any other fund or account established for the payment or redemption of the Defeased Bonds to any lawful purpose.

(c) **Notice of Defeasance or Refunding.** Unless otherwise specified in the applicable Bond Documents, notice of refunding or defeasance shall be given, and selection of Bonds for any partial refunding or defeasance shall be conducted, in the manner set forth in this ordinance for the redemption of Bonds.

(d) **Annual Debt Service Calculation Adjustments for Defeased Bonds.** If the refunding or defeasance plan provides (i) that the Defeased Bonds (or the refunding bonds issued to redeem those Defeased Bonds) are to be secured by money and/or Government Obligations pending the redemption of the Defeased Bonds, and (ii) that certain money and/or Government Obligations are pledged irrevocably for the redemption of the Defeased Bonds, then only the debt service on such Bonds as are not Defeased Bonds (and any refunding bonds, the payment of which is not so secured by the refunding plan) shall be included in the calculation of Annual Debt Service.

Section 21. **Federal Tax Matters.** The Bond Documents may include such additional terms and covenants relating to federal tax matters as the Director of Finance deems necessary or appropriate, including the following:

(a) **Tax-Exempt Bonds.** For each Series of the Bonds issued as Tax-Exempt Bonds, the City covenants that it will take all actions, consistent with the terms of such Series as set forth in this ordinance and the applicable Bond Documents, that are reasonably within its power and necessary to prevent interest on that Series from being included in gross income for federal income tax purposes. The City further covenants that it will neither take any action nor make or

1 permit any use of gross proceeds of that Series (or other funds of the City treated as gross  
2 proceeds of that Series) at any time during the term of such Series that will cause interest on such  
3 Series to be included in gross income for federal income tax purposes. The City also covenants  
4 that, to the extent the arbitrage rebate requirement of Section 148 of the Code is applicable to any  
5 Series issued as Tax-Exempt Bonds, it will take all actions necessary to comply (or to be treated  
6 as having complied) with that requirement in connection with that Series (including the  
7 calculation and payment of any penalties that the City may elect to pay as an alternative to  
8 calculating rebatable arbitrage and the payment of any other penalties if required under Section  
9 148 of the Code) to prevent interest on such Series from being included in gross income for  
10 federal income tax purposes.

11 (b) **Taxable Bonds; Tax Credit Subsidy Bonds.** For each Series of the Bonds  
12 issued as Taxable Bonds or as Tax Credit Subsidy Bonds, the Director of Finance is authorized  
13 to make provision in the Bonds and other Bond Documents, to execute additional written  
14 agreements, and to make additional covenants on behalf of the City, all as he or she may deem  
15 necessary or appropriate in order to obtain, maintain, and administer such tax status. In the case  
16 of Tax Credit Subsidy Bonds, such additional covenants and agreement may include (without  
17 limiting the generality of the foregoing) those necessary in order for the City (i) to receive from  
18 the United States Treasury the applicable Tax Credit Subsidy Payments in respect of such Tax  
19 Credit Subsidy Bonds, and (ii) to ensure that such Series otherwise becomes and remains eligible  
20 for tax benefits under the Code.

21 Section 22. **Official Statement; Continuing Disclosure.**

22 (a) **Preliminary Official Statement.** The Director of Finance and other appropriate  
23 City officials are directed to cause the preparation of and review the form of a preliminary

1 official statement in connection with each sale of one or more Series to the public. For the sole  
2 purpose of the Purchaser's compliance with paragraph (b)(1) of Rule 15c2-12, the Director of  
3 Finance is authorized to deem that preliminary official statement final as of its date, except for  
4 the omission of information permitted to be omitted by Rule 15c2-12. The City approves the  
5 distribution to potential purchasers of the Bonds of a preliminary official statement that has been  
6 deemed final in accordance with this subsection.

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

14 (c) **Undertaking to Provide Continuing Disclosure.** To meet the requirements of  
15 paragraph (b)(5) of Rule 15c2-12, as applicable to a participating underwriter for a Series of the  
16 Bonds, the Director of Finance is authorized to execute a written Continuing Disclosure  
17 Agreement with respect to that Series, in substantially the form attached as Exhibit B.

18 Section 23. **Supplemental or Amendatory Bond Documents.** This ordinance and  
19 the other applicable Bond Documents for any Series of the Bonds may not be supplemented or  
20 amended in any respect subsequent to the Issue Date of such Series, except in accordance with  
21 and subject to the provisions of this section.

22 (a) **Amendments Without Bond Owners' Consent.** From time to time and at any  
23 time, without the consent of or notice to the owners of any Parity Bonds or Junior Lien Bonds,

1 the City may supplement or amend the Bond Documents applicable to any Series of the Bonds  
2 for any of the purposes set forth in this subsection (a). Any such supplement or amendment may  
3 be passed, adopted, or otherwise approved in writing by the City, without requiring the consent  
4 of the registered owners of any Parity Bonds or Junior Lien Bonds, but may become effective  
5 only upon receipt by the City of an opinion of Bond Counsel to the effect that such supplement  
6 or amendment is permitted by the terms of this ordinance. The City shall deliver a copy of any  
7 such supplement or amendment to each Rating Agency prior to its passage, adoption, or approval  
8 (as applicable) by the City. The types of supplements and amendments permitted under this  
9 subsection (a) are as follows:

10 (i) To add to any Parity Bond Documents (or to any Junior Lien Bond  
11 Documents, as applicable) additional covenants and agreements that do not adversely affect the  
12 interests of the owners of any Parity Bonds (or, as to Junior Lien Bond Documents, the interests  
13 of the owners of any Junior Lien Bonds) then outstanding, or to surrender any right or power  
14 reserved to or conferred upon the City in any Bond Documents.

15 (ii) To cure any ambiguities or to cure, correct, or supplement any defective  
16 provision in any Bond Documents, in regard to matters or questions arising under such Bond  
17 Documents, as the City may deem necessary or desirable and not inconsistent with this  
18 ordinance, and which do not materially adversely affect the interests of the owners of any Parity  
19 Bonds or Junior Lien Bonds then outstanding.

20 (iii) To make such changes as may be necessary to permit the Bonds to be held  
21 in registered certificate form or in Book-Entry Form, as the case may be, and to make similar  
22 amendments or modifications of a technical nature.

23 (b) **Amendments Permitted Upon Bond Owners' Consent.**

1                   (i)       **Parity Bond Documents.** With the consent of the registered owners  
2 representing not less than 60% in aggregate principal amount of the Parity Bonds then  
3 outstanding, the City may pass, adopt, or otherwise provide its written approval of any  
4 supplement or amendment to add to, change, or eliminate any provision of the Bond Documents  
5 applicable to a Series of the Bonds designated as Parity Bonds in any manner other than a  
6 supplement or amendment effecting a change described in subsection (c)(i).

7                   (ii)       **Junior Lien Bond Documents.** With the consent of the registered owners  
8 representing not less than 60% in aggregate principal amount of the Junior Lien Bonds then  
9 outstanding, the City may pass, adopt, or otherwise approve in writing any supplement or  
10 amendment to add to, change, or eliminate any provision of the Bond Documents applicable to a  
11 Series of the Bonds designated as Junior Lien Bonds in any manner other than a supplement or  
12 amendment effecting a change described in subsection (c)(ii).

13           (c)       **Amendments Prohibited Except Upon Unanimous Consent.**

14                   (i)       **Amendments to Parity Bond Documents.** Nothing contained in this  
15 section shall permit or be construed as permitting an amendment or supplement that would:

16                               (A)       Except upon consent from the registered owners of or on behalf of  
17 all Parity Bonds so affected, extend the fixed maturity of any Parity Bond, reduce the rate of  
18 interest on any Parity Bond (other than a change in interest rate permitted under the applicable  
19 Parity Bond Documents then in effect), extend the times of payment of interest from their  
20 respective due dates, reduce the principal amount of any Parity Bond, or reduce any redemption  
21 premium; or

1 (B) Except upon consent from the registered owners of or on behalf of  
2 all of the Parity Bonds then outstanding, reduce the percentage of ownership required under  
3 subsection (b)(i), above, to approve any supplement or amendment.

4 (ii) **Amendments to Junior Lien Bond Documents.** Nothing contained in  
5 this section shall permit or be construed as permitting an amendment or supplement that would:

6 (A) Except upon consent from the registered owners of or on behalf of  
7 all Junior Lien Bonds so affected, extend the fixed maturity of any Junior Lien Bond, reduce the  
8 rate of interest on any Junior Lien Bond (other than a change in interest rate permitted under the  
9 applicable Junior Lien Bond Documents then in effect), extend the times of payment of interest  
10 from their respective due dates, reduce the principal amount of any Junior Lien Bond, or reduce  
11 any redemption premium; or

12 (B) Except upon consent from the registered owners of or on behalf of  
13 all of the Junior Lien Bonds then outstanding, reduce the percentage of ownership required under  
14 subsection (b)(ii), above, to approve any supplement or amendment.

15 (d) **Notice and Consents.** If at any time the City passes, adopts, or otherwise  
16 approves in writing a supplement or amendment for any of the purposes requiring consent under  
17 subsection (b) or (c) of this section, it shall provide a notice to each registered owner and to each  
18 Rating Agency briefly summarizing the nature of the proposed supplement or amendment and  
19 stating that a copy of such supplement or amendment is on file at the office of the City Clerk. It  
20 shall not be necessary to obtain consent to or approval of the particular form of any proposed  
21 supplement or amendment, but it shall be sufficient if the consent shall approve the substance  
22 thereof. For purposes of determining whether consents representing the requisite percentage of

principal amount of Parity Bonds or Junior Lien Bonds have been obtained, the Accreted Value of Capital Appreciation Bonds shall be deemed to be the principal amount.

(e) **Effect of Amendment or Supplement.** Upon the effective date of any amendment or supplement to any Bond Documents, such Bond Documents shall be deemed to be amended and modified in accordance with such amendment or supplement. Thereafter, the respective rights, duties, and obligations of the City under the applicable Bond Documents shall be determined, exercised, and enforced subject in all respects to such supplement or amendments, and all the terms and conditions of any such supplement or amendment shall be deemed to be a part of the terms and conditions of those Bond Documents for any and all purposes. The effective dates of such amendments and supplements shall be as follows:

(i) An amendment and supplement permitted under subsection (a) shall become effective immediately upon (A) the passage, adoption, or other approval of such amendment or supplement (or upon the effective date of such document as stated therein, if any), and (B) the delivery of the required opinion of Bond Counsel stating that such amendment or supplement is permitted under this ordinance.

(ii) A supplement or amendment permitted under subsection (b) or (c) shall become effective on the date on which the City has received the written consents of the requisite percentage of registered owners. If the requisite percentage of registered owners of Parity Bonds or Junior Lien Bonds, as applicable, have given their consent to any such amendment or supplement, no owner of any Bond shall have any right (i) to object to the passage, adoption, or approval of such supplement or amendment, (ii) to object to any of the terms and provisions contained therein or the operation thereof, (iii) in any manner to question the propriety of the passage, adoption, or approval thereof, (iv) to enjoin or restrain the City, or any authorized



official thereof, from passing, adopting, or otherwise approving the same, or (v) to enjoin or restrain the City, any authorized official thereof, or the Bond Registrar from taking any action pursuant to the provisions thereof.

(f) **Notation on Bonds.** Any Bonds executed and delivered after the effective date of any amendment or supplement that is passed, adopted, or otherwise approved in writing pursuant to this section may include a notation as to any matter provided for in such amendment or supplement. The City may, in its discretion, prepare and deliver replacement bonds, modified to reflect any such amendment or supplement, to the registered owner(s) thereof upon surrender of the original bonds for cancellation.

Section 24. **Defaults and Remedies.**

(a) **Parity Bond Events of Default.** Each of the following shall constitute an Event of Default with respect to the Bonds designated as Parity Bonds, except as set forth in subsection (c) of this section:

(i) If a default is made in the payment of the principal (including Sinking Fund Requirements and any redemption premium thereon, if any) of or interest on any Parity Bond when the same shall become due and payable; or

(ii) If the City defaults in the observance and performance of any other of the Parity Bond covenants, conditions, or agreements on the part of the City set forth in this ordinance or the applicable Parity Bond Documents (except as otherwise provided herein or in such Parity Bond Documents) and such default or defaults shall have continued for a period of six months (the “cure period”) after the City shall have received from the registered owners of not less than 25% in principal amount of the Parity Bonds then outstanding (or from a Bond Owners’ Trustee duly appointed as set forth in subsection (e), below) a written notice specifying

1 and demanding the cure of such default. However, if such default is one that cannot be  
2 completely remedied within the cure period, it shall not be an Event of Default with respect to  
3 the Parity Bonds, so long as the City has taken active steps within the cure period to remedy the  
4 default and is diligently pursuing such remedy.

5 (b) **Junior Lien Bond Events of Default.** Each of the following shall constitute an  
6 Event of Default with respect to the Bonds designated as Junior Lien Bonds, except as set forth  
7 in subsection (c) of this section:

8 (i) If a default is made in the payment of the principal (including Sinking  
9 Fund Requirements and any redemption premium thereon, if any) of or interest on any Junior  
10 Lien Bond when the same shall become due and payable; or

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

22 (c) **Exceptions.** Notwithstanding anything in this section to the contrary, the failure  
23 of the City or any obligated person to comply with a Continuing Disclosure Agreement shall not

1 constitute an Event of Default, and the sole remedy of any holder of any Parity Bond or Junior  
2 Lien Bond, as applicable, shall be to seek an order of specific performance from an appropriate  
3 court to compel the City to comply with the Continuing Disclosure Agreement. For purposes of  
4 determining whether an Event of Default has occurred and is continuing with respect to the rate  
5 covenant set forth in Section 17(a)(ii) or (b)(ii), if such covenant is met for any fiscal year, it  
6 shall be deemed to have been met for all prior fiscal years.

7 (d) **Remedies; No Acceleration.** In the case of a Parity Bond Event of Default, an  
8 owner of a Parity Bond shall have the remedies set forth in Section 10 and in the applicable  
9 Parity Bond Documents. *Upon the Second Parity Covenant Date, the rights and remedies of*  
10 *the owners from time to time of Parity Bonds shall be limited by subsection (e), below.* In the  
11 case of a Junior Lien Bond Event of Default, the owner of a Junior Lien Bond shall have the  
12 remedies set forth in Section 10 and in the applicable Junior Lien Bond Documents, as limited by  
13 subsection (e), below. Nothing contained in this ordinance shall, in any event or under any  
14 circumstance, be deemed to authorize the acceleration of the maturity of principal on the Bonds,  
15 and the remedy of acceleration is expressly denied to the registered owners of the Bonds under  
16 any circumstances including, without limitation, upon the occurrence and continuance of an  
17 Event of Default.

18 (e) **Bond Owners' Trustee.** *The provisions of this subsection shall become*  
19 *effective with respect to Parity Bonds only upon the Second Parity Covenant Date.* The  
20 provisions of this subsection shall become effective immediately with respect to Bonds issued as  
21 Junior Lien Bonds. A Bond Owners' Trustee appointed in the manner provided in this section,  
22 and each successor thereto, is declared to be a trustee for all of the owners of the Parity Bonds (in  
23 the case of a Parity Bond Event of Default) or the owners of the Junior Lien Bonds (in the case

of a Junior Lien Bond Event of Default), as applicable, and is empowered to exercise all the rights and powers herein conferred on the Bond Owners' Trustee.

(i) **Appointment of Bond Owners' Trustee; Removal.** Upon the occurrence and continuance of an Event of Default described in subsection (a) of this section, the registered owners of 25% in principal amount of the then outstanding Parity Bonds (or upon the occurrence and continuance of an Event of Default described in subsection (b) of this section, the registered owners of 25% in principal amount of the then outstanding Junior Lien Bonds, if such default is one described in subsection (b) of this section) may appoint a Bond Owners' Trustee by an instrument or concurrent instruments in writing signed by such registered owners (or by their duly authorized attorneys-in-fact) and delivered to such Bond Owners' Trustee, with notification of such appointment given to the City. That appointment shall become effective immediately upon acceptance thereof by the Bond Owners' Trustee. The entity acting as Bond Owners' Trustee may be removed at any time, and a successor Bond Owners' Trustee may be appointed, by the registered owners of more than 50% in principal amount of the Parity Bonds (in the case of a Parity Bond Event of Default) or 50% in principal amount of the Junior Lien Bonds (in the case of a Junior Lien Bond Event of Default), as applicable, by an instrument or concurrent instruments in writing signed and acknowledged by such registered owners or by their duly authorized attorneys-in-fact.

(ii) **Cure of Event of Default.** If the Bond Owners' Trustee furnishes to the City a certificate stating that, in its sole judgment, an Event of Default that has occurred has been cured, such Event of Default shall be conclusively deemed to be cured, and the City, the Bond Owners' Trustee, and the registered owners of the Parity Bonds or Junior Lien Bonds, as

1 applicable, shall be restored to the same rights and position which they would have held if no  
2 Event of Default had occurred.

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

13 Any action, suit or other proceedings instituted by the Bond Owners' Trustee hereunder  
14 shall be brought in its name as the Bond Owners' Trustee and all such rights of action upon or  
15 under any of the Parity Bonds or the provisions of this ordinance may be enforced by the Bond  
16 Owners' Trustee without the possession of any of those Parity Bonds and without the production  
17 of the same at any trial or proceedings relative thereto except where otherwise required by law.

18 (iv) **Effect of Appointment of Bond Owners' Trustee.** Any suit, action, or  
19 proceeding instituted by the Bond Owners' Trustee shall be brought for the ratable benefit of all  
20 of the owners of the Parity Bonds (or Junior Lien Bonds, as applicable), subject to the provisions  
21 of this ordinance. The respective owners, by taking and holding the same, shall be conclusively  
22 deemed irrevocably to appoint the Bond Owners' Trustee the true and lawful trustee of the  
23 respective owners, with authority to institute any such action, suit or proceeding; to receive as

1 trustee and deposit in trust any sums becoming distributable on account of those Parity Bonds; to  
2 execute any paper or documents for the receipt of money; and to do all acts with respect thereto  
3 that the owner himself or herself might have done in person. Nothing herein shall be deemed to  
4 authorize or empower the Bond Owners' Trustee to consent to accept or adopt, on behalf of any  
5 owner of the Parity Bonds, any plan of reorganization or adjustment affecting the Parity Bonds  
6 (or Junior Lien Bonds, as applicable) or any right of any registered owner thereof, or to authorize  
7 or empower the Bond Owners' Trustee to vote the claims of the registered owners thereof in any  
8 receivership, insolvency, liquidation, bankruptcy, reorganization or other proceeding to which  
9 the City is a party.

10 (v) **Bond Owners' Direction of Proceedings.** By an instrument or  
11 concurrent instruments in writing executed and delivered to the Bond Owners' Trustee, the  
12 owners of more than 50% in aggregate principal amount of the Parity Bonds (or Junior Lien  
13 Bonds, as applicable) then outstanding shall be entitled to control and direct the enforcement of  
14 all rights and remedies granted to the owners (or the Bond Owners' Trustee for the benefit of the  
15 owners) under the applicable Parity Bond Documents. Notwithstanding the foregoing, the Bond  
16 Owners' Trustee shall have the right to decline to follow any such direction which in the opinion  
17 of the Bond Owners' Trustee, in reasonable reliance on advice of counsel, would be unjustly  
18 prejudicial to owners not parties to such direction.

19 (vi) **Limitation on Remedies; Limitations on Individual Actions.** It is  
20 understood and intended that no owner of a Parity Bond, in the case of a Parity Bond Event of  
21 Default (or owner of a Junior Lien Bond, in the case of a Junior Lien Bond Event of Default)  
22 shall have any right in any manner whatever by its action to affect, disturb, or prejudice the  
23 security pledged in this ordinance or the rights of any other owners, or to enforce any right under

1 the applicable Bond Documents or applicable law except in the manner provided in this section,  
2 and that all proceedings at law or in equity to enforce any such right shall be instituted, had, and  
3 maintained in the manner herein provided and for the equal and ratable benefit and protection of  
4 all owners of the Parity Bonds (or Junior Lien Bonds, as applicable), subject to the provisions of  
5 this ordinance.

6 (vii) **Limitations on Individual Actions.** No owner of a Parity Bond (or  
7 Junior Lien Bond, as applicable) shall have any right to institute any action, suit or proceeding at  
8 law or in equity for the enforcement of same unless (A) such owner previously shall have given  
9 to the Bond Owners' Trustee written notice of the occurrence of an Event of Default; (B) the  
10 owners of more than 50% in aggregate principal amount of the then outstanding Parity Bonds (in  
11 the case of a Parity Bond Event of Default) or 50% in aggregate principal amount of the then  
12 outstanding Junior Lien Bonds (in the case of a Junior Lien Bond Event of Default) shall have  
13 made a written request to the Bond Owners' Trustee to exercise the powers granted above or to  
14 institute such suit, action, or proceeding in its own name; (C) such owners shall have tendered to  
15 the Bond Owners' Trustee reasonable indemnity against the costs, expenses and liabilities to be  
16 incurred in compliance with such request; and (D) the Bond Owners' Trustee shall have refused  
17 or omitted to comply with such request for a period of 60 days after such written request shall  
18 have been received by, and said tender of indemnity shall have been made to, the Bond Owners'  
19 Trustee. The conditions set forth in (A) through (D) in the preceding sentence are hereby  
20 declared to be conditions precedent to the exercise by any owner of a Parity Bond (in the case of  
21 a Parity Bond Event of Default) or owner of a Junior Lien Bond (in the case of a Junior Lien  
22 Bond Event of Default) of any remedy under the applicable Bond Documents or under applicable  
23 law.

1                   (viii) **Duties and Obligations of Bond Owners' Trustee.** The Bond Owners'  
2 Trustee shall not be liable except for the performance of such duties as are specifically set forth  
3 herein. During any period in which an Event of Default has occurred and is continuing as to the  
4 Parity Bonds (or the Junior Lien Bonds, as applicable) the Bond Owners' Trustee shall exercise  
5 such of the rights and powers vested in it hereby, and shall use the same degree of care and skill  
6 in its exercise, as a prudent person would exercise or use under the circumstances in the conduct  
7 of his or her own affairs. The Bond Owners' Trustee shall have no liability for any act or  
8 omission to act hereunder except for the Bond Owners' Trustee's own negligent action, its own  
9 negligent failure to act or its own willful misconduct. The duties and obligations of the Bond  
10 Owners' Trustee shall be determined solely by the express provisions of this ordinance, and no  
11 implied powers, duties or obligations of the Bond Owners' Trustee shall be read into this  
12 ordinance. The Bond Owners' Trustee shall not be required to expend or risk its own funds or  
13 otherwise incur individual liability in the performance of any of its duties or in the exercise of  
14 any of its rights or powers as the Bond Owners' Trustee, except as may result from its own  
15 negligent action, its own negligent failure to act or its own willful misconduct. The fees and  
16 expenses of the Bond Owners' Trustee shall be borne by the owners of the Parity Bonds (or  
17 Junior Lien Bonds, as applicable) and not by the City. A Bond Owners' Trustee may require  
18 such security and indemnity as may be reasonable against the costs, expenses and liabilities that  
19 may be incurred in the performance of its duties. The Bond Owners' Trustee shall not be bound  
20 to recognize any person as a registered owner of any Parity Bond (or Junior Lien Bond, as  
21 applicable) until his or her title thereto, if disputed, has been established to its reasonable  
22 satisfaction. The Bond Owners' Trustee may consult with counsel, and the opinion of such  
23 counsel shall be full and complete authorization and protection in respect of any action taken or



1 suffered by it hereunder in good faith and in accordance with the opinion of such counsel. The  
2 Bond Owners' Trustee shall not be answerable for any neglect or default of any person, firm or  
3 corporation employed and selected by it with reasonable care.

4       Section 25.    **General Authorization.** In addition to the specific authorizations in this  
5 ordinance, the Mayor and the Director of Finance and each of the other appropriate officers of  
6 the City are each authorized and directed to do everything as in his or her judgment may be  
7 necessary, appropriate, or desirable in order to carry out the terms and provisions of, and  
8 complete the transactions contemplated by, this ordinance. In particular and without limiting the  
9 foregoing:

10       (a)       The Director of Finance, in his or her discretion and without further action by the  
11 City Council, (i) may issue requests for proposals to provide underwriting services or financing  
12 facilities (including, without limitation, Qualified Insurance, a Qualified Letter of Credit, or other  
13 credit support or liquidity facility) and may execute engagement letters and other agreements  
14 with underwriters and other financial institutions (including providers of liquidity or credit  
15 support) based on responses to such requests; (ii) may select and make decisions regarding the  
16 Bond Registrar, fiscal or paying agents, and any Securities Depository for each Series of the  
17 Bonds; (iii) may take any and all actions necessary or convenient to provide for the conversion of  
18 interest rate modes for any Series in accordance with the applicable Bond Documents; and  
19 (iv) may take such actions on behalf of the City as are necessary or appropriate for the City to  
20 designate, qualify, or maintain the tax-exempt treatment with respect to any Series issued as Tax-  
21 Exempt Bonds, to receive from the United States Treasury the applicable Tax Credit Subsidy  
22 Payments in respect of any Series issued as Tax Credit Subsidy Bonds, and to otherwise receive

1 any other federal tax benefits relating to any Series of the Bonds that are available to the City;  
2 and

3 (b) Each of the Mayor and the Director of Finance are each separately authorized to  
4 execute and deliver (i) any and all contracts or other documents as are consistent with this  
5 ordinance and for which the City's approval is necessary or to which the City is a party  
6 (including but not limited to agreements with escrow agents, refunding or defeasance trustees,  
7 liquidity or credit support providers, providers of Qualified Insurance or Alternate Reserve  
8 Securities, remarketing agents, underwriters, lenders or other financial institutions, fiscal or  
9 paying agents, Qualified Counterparties, custodians, and the Bond Registrar); and (ii) such other  
10 contracts or documents incidental to the issuance and sale of any Series of the Bonds; the  
11 establishment of the interest rate or rates on a Bond; or the conversion, tender, purchase,  
12 remarketing, or redemption of a Bond, as may in the judgment of the Mayor or Director of  
13 Finance, as applicable, be necessary or appropriate.

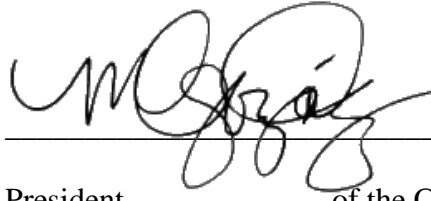
14 Section 26. **Severability**. The provisions of this ordinance are declared to be separate  
15 and severable. If a court of competent jurisdiction, all appeals having been exhausted or all  
16 appeal periods having run, finds any provision of this ordinance to be invalid or unenforceable as  
17 to any person or circumstance, such offending provision shall, if feasible, be deemed to be  
18 modified to be within the limits of enforceability or validity. However, if the offending provision  
19 cannot be so modified, it shall be null and void with respect to the particular person or  
20 circumstance, and all other provisions of this ordinance in all other respects, and the offending  
21 provision with respect to all other persons and all other circumstances, shall remain valid and  
22 enforceable.

1           Section 27.    **Ratification of Prior Acts.** Any action taken consistent with the authority  
2 of this ordinance after its passage but prior to its effective date is ratified, approved and  
3 confirmed.

4           Section 28.    **Section Headings.** Section headings in this ordinance are used for  
5 convenience only and shall not constitute a substantive portion of this ordinance.

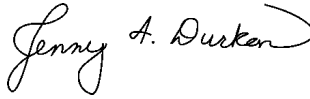
Section 29. **Effective Date.** This ordinance shall take effect and be in force 30 days after its approval by the Mayor, but if not approved and returned by the Mayor within ten days after presentation, it shall take effect as provided by Seattle Municipal Code Section 1.04.020.

Passed by the City Council the 23rd day of November, 2020,  
and signed by me in open session in authentication of its passage this 23rd day of  
November, 2020.



President \_\_\_\_\_ of the City Council

Approved by me this 1st day of December, 2020.



Jenny A. Durkan, Mayor

Filed by me this 1st day of December, 2020.



Monica Martinez Simmons, City Clerk

(Seal)

Exhibits:

Exhibit A – Outstanding Parity Bonds

Exhibit B – Form of Continuing Disclosure Agreement

# EXHIBIT A

## OUTSTANDING PARITY BONDS

Issue Name	Dated Date	Original Par Amount	Bond Legislation		
			New Money Ord.	Refunding Ord.	Bond Sale Res.
Municipal Light and Power Revenue Bonds, 2010A (Taxable Build America Bonds – Direct Payment)	5/26/2010	\$181,625,000	Ord. 123169	--	Res. 31213
Municipal Light and Power Revenue Bonds, 2010C (Taxable Recovery Zone Economic Development Bonds – Direct Payment)	5/26/2010	\$13,275,000	Ord. 123169	--	Res. 31213
Municipal Light and Power Improvement and Refunding Revenue Bonds, 2011A	2/8/2011	\$296,315,000	Ord. 123483	Ord. 121941 (as amended by Ord. 122838)	Res. 31263
Municipal Light and Power Improvement Revenue Bonds, 2011B (Taxable New Clean Renewable Energy Bonds – Direct Payment)	2/8/2011	\$10,000,000	Ord. 123483	Ord. 121941 (as amended by Ord. 122838)	Res. 31263
Municipal Light and Power Improvement and Refunding Revenue Bonds, 2012A	7/17/2012	\$293,280,000	Ord. 123752	Ord. 121941 (as amended by Ord. 122838)	Res. 31390
Municipal Light and Power Improvement Revenue Bonds, 2012C (Taxable New Clean Renewable Energy Bonds – Direct Payment)	7/17/2012	\$43,000,000	Ord. 123752	--	Res. 31390
Municipal Light and Power Improvement and Refunding Revenue Bonds, 2013	7/9/2013	\$190,755,000	Ord. 124045	Ord. 121941 (as amended by Ord. 122838)	Res. 31456
Municipal Light and Power Improvement and Refunding Revenue Bonds, 2014	11/05/2014	\$265,210,000	Ord. 124336	Ord. 124335 (amending and restating Ord. 121941)	Res. 31552
Municipal Light and Power Revenue Bonds, 2015A	7/9/2015	\$171,850,000	Ord. 124633	--	Res. 31592
Municipal Light and Power Revenue Bonds, 2016A (Taxable New Clean Renewable Energy Bonds – Direct Payment)	01/28/2016	\$31,870,000	Ord. 124916	--	Res. 31646

Issue Name	Dated Date	Original Par Amount	Bond Legislation		
			New Money Ord.	Refunding Ord.	Bond Sale Res.
Municipal Light and Power Refunding Revenue Bonds, 2016B	01/28/2016	\$116,875,000	Ord. 124916	Ord. 124335 (amending and restating Ord. 121941) as amended by Ord. 124916	Res. 31646
Municipal Light and Power Improvement and Refunding Revenue Bonds, 2016C	09/28/2016	\$160,815,000	Ord. 124916	Ord. 124335 (amending and restating Ord. 121941) as amended by Ord. 124916	Res. 31707
Municipal Light and Power Improvement and Refunding Revenue Bonds, 2017C	09/28/2017	\$385,530,000	Ord. 125298	Ord. 124335 (amending and restating Ord. 121941) as amended by Ord. 124916	Res. 31771
Municipal Light and Power Improvement Revenue Bonds, 2018, Series A	07/19/2018	\$263,755,000	Ord. 125459	--	--
Municipal Light and Power Refunding Revenue Bonds, 2018B-1 (SIFMA Index), 2018B-2 (SIFMA Index), 2018C-1 (SIFMA Index) and 2018C-2 (SIFMA Index)	09/04/2018	\$198,760,000	--	Ord. 125460	--
Municipal Light and Power Improvement Revenue Bonds, 2019, Series A	10/15/2019	\$210,540,000	125711	--	--
Municipal Light and Power Refunding Revenue Bonds, 2019, Series B	11/05/2019	\$140,275,000	--	125460	--
Municipal Light and Power Improvement Revenue Bonds, 2020, Series A	8/5/2020	\$198,305,000	125987	--	--

**EXHIBIT B**

**FORM OF CONTINUING DISCLOSURE AGREEMENT**

The City of Seattle, Washington (the “City”) makes the following written undertaking (the “Undertaking”) for the benefit of the Owners of the City’s Municipal Light and Power Revenue Bonds, [Year] [Series] (the “Bonds”), for the sole purpose of assisting the underwriter for the Bonds in meeting the requirements of paragraph (b)(5) of Rule 15c2-12 (the “Rule”), as applicable to a participating underwriter for the Bonds. Capitalized terms used but not defined below shall have the meanings given in Ordinance \_\_\_\_\_ (the “Bond Ordinance”).

(a) Undertaking to Provide Annual Financial Information and Notice of Listed Events.

The City undertakes to provide or cause to be provided, either directly or through a designated agent, to the Municipal Securities Rulemaking Board (the “MSRB”), in an electronic format as prescribed by the MSRB, accompanied by identifying information as prescribed by the MSRB:

(i) Annual financial information and operating data regarding the Municipal Light and Power System (the “Light System”) of the type included in the final official statement for the Bonds and described in subsection (b) of this section (“annual financial information”). The timely filing of unaudited financial statements shall satisfy the requirements and filing deadlines pertaining to the filing of annual financial statements under subsection (b), provided that audited financial statements are to be filed if and when they are otherwise prepared and available to the City.

(ii) Timely notice (not in excess of 10 business days after the occurrence of the event) of the occurrence of any of the following events with respect to the Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notice of Proposed Issue (IRS Form 5701 – TEB) or other material notices

1 or determinations with respect to the tax status of the Bonds, or other material events affecting the tax  
2 status of the Bonds; (7) modifications to rights of holders of the Bonds, if material; (8) Bond calls  
3 (other than scheduled mandatory redemptions of Term Bonds), if material, and tender offers;  
4 (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if  
5 material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the City, as  
6 such “Bankruptcy Events” are defined in the Rule; (13) the consummation of a merger, consolidation,  
7 or acquisition involving the City or the sale of all or substantially all of the assets of the City other than  
8 in the ordinary course of business, the entry into a definitive agreement to undertake such an action or  
9 the termination of a definitive agreement relating to any such actions, other than pursuant to its terms,  
10 if material; (14) appointment of a successor or additional trustee or the change of name of a trustee, if  
11 material; (15) incurrence of a financial obligation of the City, if material, or agreement to covenants,  
12 events of default, remedies, priority rights, or other similar terms of a financial obligation of the City,  
13 any of which affect holders of the Bonds, if material; and (16) any default, event of acceleration,  
14 termination event, modification of terms, or other similar event under the terms of a financial obligation  
15 of the City, any of which reflect financial difficulties.

16 For purposes of this Undertaking, the term “financial obligation” shall mean a debt  
17 obligation; derivative instrument entered into in connection with, or pledged as security or a source of  
18 payment for, an existing or planned debt obligation; or a guarantee of either a debt obligation or a  
19 derivative instrument entered into in connection with, or pledged as security or a source of payment  
20 for, an existing or planned debt obligation. The term “financial obligation” does not include municipal  
21 securities as to which a final official statement has been provided to the MSRB consistent with the  
22 Rule.

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



1           (b)    Type of Annual Financial Information Undertaken to be Provided. The annual  
2 financial information and operating data that the City undertakes to provide in subsection (a) of this  
3 section:

4                   (i)       Shall consist of (1) annual financial statements of the Light System prepared in  
5 accordance with applicable generally accepted accounting principles applicable to governmental units  
6 (except as otherwise noted therein), as such principles may be changed from time to time and as  
7 permitted by applicable state law; (2) a statement of outstanding Parity Bonds, Junior Lien Bonds (if  
8 any), and any other bonded indebtedness secured by Net Revenue of the Light System; (3) debt service  
9 coverage ratios for the then-Outstanding Parity Bonds, Junior Lien Bonds (if any) and any other bonded  
10 indebtedness secured by Net Revenue of the Light System; (4) sources of Light System power and the  
11 MWh produced by those sources; and (5) the average number of customers, revenues, and energy sales  
12 by customer class;

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

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

20           (c)    Amendment of Undertaking. This Undertaking is subject to amendment after the  
21 primary offering of the Bonds without the consent of any Owner or holder of any Bond, or of any  
22 broker, dealer, municipal securities dealer, participating underwriter, rating agency or the MSRB,  
23 under the circumstances and in the manner permitted by the Rule, including:

1 (i) The amendment may only be made in connection with a change in  
2 circumstances that arises from a change in legal requirements, change in law, or change in the identity,  
3 nature, or status of the City, or type of business conducted by the City;

4 (ii) The Undertaking, as amended, would have complied with the requirements of  
5 the Rule at the time of the primary offering, after taking into account any amendments or interpretations  
6 of the Rule, as well as any change in circumstances; and

7 (iii) The amendment does not materially impair the interests of holders, as  
8 determined either by parties unaffiliated with the City (e.g., bond counsel or other counsel familiar  
9 with federal securities laws), or by an approving vote of bondholders pursuant to the terms of the Bond  
10 Ordinance at the time of the amendment.

11 The City will give notice to the MSRB of the substance (or provide a copy) of any amendment  
12 to this Undertaking and a brief statement of the reasons for the amendment. If the amendment changes  
13 the type of annual financial information to be provided, the annual financial information containing  
14 the amended financial information will include a narrative explanation of the effect of that change on  
15 the type of information to be provided.

16 (d) Beneficiaries. This Undertaking shall inure to the benefit of the City and any Owner  
17 of Bonds, and shall not inure to the benefit of or create any rights in any other person.

18 (e) Termination of Undertaking. The City's obligations under this Undertaking shall  
19 terminate upon the legal defeasance, prior redemption, or payment in full of all of the Bonds. In  
20 addition, the City's obligations under this Undertaking shall terminate if those provisions of the Rule  
21 that require the City to comply with this Undertaking become legally inapplicable in respect of the  
22 Bonds for any reason, as confirmed by an opinion of nationally recognized bond counsel or other  
23 counsel familiar with federal securities laws delivered to the City, and the City provides timely notice  
24 of such termination to the MSRB.

1           (f)     Remedy for Failure to Comply with Undertaking. As soon as practicable after the City  
2 learns of any material failure to comply with this Undertaking, the City will proceed with due diligence  
3 to cause such noncompliance to be corrected. No failure by the City or other obligated person to comply  
4 with this Undertaking shall constitute a default in respect of the Bonds. The sole remedy of any Owner  
5 of a Bond shall be to take such actions as that Owner deems necessary, including seeking an order of  
6 specific performance from an appropriate court, to compel the City or other obligated person to comply  
7 with this Undertaking.

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

13                   (i)     Preparing and filing the annual financial information undertaken to be  
14 provided;

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

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

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

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



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

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Date of Approving Opinion

The City of Seattle, Washington

Re: The City of Seattle, Washington  
\$\_\_\_\_\_ Municipal Light and Power Improvement and Refunding Revenue  
Bonds, 2021, Series A

We have served as bond counsel to The City of Seattle, Washington (the “City”), in connection with the issuance of the above referenced bonds (the “2021A Bonds”), and in that capacity have examined such law and such certified proceedings and other documents as we have deemed necessary to render this opinion. As to matters of fact material to this opinion and of which attorneys within the firm involved with the issuance of the 2021A Bonds have no independent knowledge, we have relied upon representations contained in the certified proceedings and other certifications of public officials furnished to us.

The 2021A Bonds are issued pursuant to the laws of the State of Washington and Ordinance 126221 (the “New Money Ordinance”), and Ordinance 125460, as amended by Ordinance 125987 (as amended, the “Refunding Ordinance, and together with the New Money Ordinance, the “Bond Ordinances”) to provide the funds (i) to finance certain capital improvements to and conservation programs for the Light System; (ii) to provide for the Reserve Fund Requirement, (iii) to refund, on a current basis, a portion of the City’s outstanding municipal light and power improvement and refunding revenue bonds, and (iv) to pay the costs of issuing the Bonds and administering the Refunding Plan, all as set forth in the Bond Ordinances.

Reference is made to the Bond Ordinances for the definitions of capitalized terms used and not otherwise defined herein.

The Bonds are special limited obligations of the City payable from and secured solely by the Net Revenue of the Light System, by money in the Seattle Municipal Light Revenue Parity Bond Fund (the “Parity Bond Fund”) and by the Municipal Light and Power Bond Reserve Fund (the “Reserve Fund”). The Net Revenue has been pledged to make the required payments into the Parity Bond Fund and the Reserve Fund, which pledge constitutes a charge on the Net Revenue prior and superior to all other charges whatsoever, except reasonable charges for maintenance and operation of the Light System, and except that the Bonds shall have a lien and charge upon such Net Revenue on a parity with the lien and charge of the Outstanding Parity Bonds and any Future Parity Bonds.

Under the Internal Revenue Code of 1986, as amended (the “Code”), the City is required to comply with certain requirements after the date of issuance of the Bonds in order to maintain the exclusion of the interest on the Bonds from gross income for federal income tax purposes, including, without limitation, requirements concerning the qualified use of Bond proceeds and the facilities financed or refinanced with Bond proceeds, limitations on investing gross proceeds of the Bonds in higher yielding investments in certain circumstances and the arbitrage rebate requirement to the extent applicable to the Bonds. The City



has covenanted in the Bond Ordinances to comply with those requirements, but if the City fails to comply with those requirements, interest on the Bonds could become taxable retroactive to the date of issuance of the Bonds. We have not undertaken and do not undertake to monitor the City's compliance with such requirements.

As of the date of initial delivery of the Bonds to the purchaser thereof and full payment therefor, it is our opinion that under existing law:

1. The City is a duly organized and legally existing first class city under the laws of the State of Washington;
2. The City has duly authorized and approved the Bond Ordinances and the Bonds have been duly authorized and executed by the City and are issued in full compliance with the provisions of the Constitution and laws of the State of Washington, the Bond Ordinances and other ordinances and resolutions of the City relating thereto;
3. The Bonds constitute valid and binding obligations of the City payable solely out of the Gross Revenues of the Light System (after reasonable charges for maintenance and operation) and money in the Parity Bond Fund and the Reserve Fund, enforceable in accordance with their terms, except only to the extent that enforcement of payment may be limited by bankruptcy, insolvency or other laws affecting creditors' rights and principles of equity if equitable remedies are sought;
4. The Bonds are not general obligations of the City; and
5. Assuming compliance by the City after the date of issuance of the Bonds with applicable requirements of the Code, under existing statutes, regulations, rulings and judicial decisions, the interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals.

This opinion is given as of the date hereof, and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention, or any changes in law that may hereafter occur.

We express no opinion herein concerning the completeness or accuracy of any official statement, offering circular or other sales or disclosure material relating to the issuance of the Bonds or otherwise used in connection with the Bonds. We bring to your attention the fact that the foregoing opinions are expressions of our professional judgment on the matters expressly addressed and do not constitute guarantees of result.

Respectfully submitted

**APPENDIX C**

**2020 AUDITED FINANCIAL STATEMENTS OF THE DEPARTMENT**

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

*Enterprise Fund of The City of Seattle*

*Financial Statements as of and for the  
Years Ended December 31, 2020 and 2019,  
Required Supplementary Information,  
Other Information, and  
Independent Auditors' Report*

## THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

### ENTERPRISE FUND OF THE CITY OF SEATTLE TABLE OF CONTENTS

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## INDEPENDENT AUDITORS' REPORT

To the Transportation and Utilities Committee  
The City of Seattle – City Light Department

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

We have audited the accompanying financial statements of The City of Seattle – City Light Department (the “Department”), an enterprise fund of The City of Seattle, Washington, as of and for the years ended December 31, 2020 and 2019, and the related notes to the financial statements, as listed in the table of contents.

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

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

### ***Auditors’ Responsibility***

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

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

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

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Department as of December 31, 2020 and 2019, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matter***

As discussed in Note 1, the financial statements present only the Department and do not purport to, and do not, present fairly the financial position of The City of Seattle, Washington, as of December 31, 2020 and 2019 and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

### ***Other Matters***

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

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

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated May 27, 2021 on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is 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 Department'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 Department's internal control over financial reporting and compliance.



Madison, Wisconsin  
May 27, 2021

# THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2020 and 2019

---

The following discussion and analysis of the financial performance of The City of Seattle—City Light Department (the Department) provides a summary of the financial activities for the years ended December 31, 2020, and 2019. This discussion and analysis should be read in combination with the Department's financial statements, which immediately follow this section.

### ORGANIZATION

The Department is the public electric utility of The City of Seattle (the City). As an enterprise fund of the City, the Department owns and operates generating, transmission, and distribution facilities and delivers electricity to approximately 478,000 customers in Seattle and certain surrounding communities, and other City agencies.

### OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

### COVID-19

COVID-19 had a significant effect on the Department's operations, operating results, and financial statements. Additional details are noted within the specific areas impacted in the following discussion.



# THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2020 and 2019

### CONDENSED BALANCE SHEETS

(\$ in millions)	December 31		
	2020	2019	2018
Assets:			
Utility plant—net	\$ 4,207.1	\$ 4,041.5	\$ 3,820.8
Restricted assets	324.8	276.5	263.7
Current assets	373.1	449.9	374.0
Other assets	<u>427.1</u>	<u>432.0</u>	<u>432.0</u>
Total assets	<u>5,332.1</u>	<u>5,199.9</u>	<u>4,890.5</u>
Total deferred outflows of resources	<u>65.0</u>	<u>102.7</u>	<u>57.9</u>
Total assets and deferred outflows of resources	<u>\$ 5,397.1</u>	<u>\$ 5,302.6</u>	<u>\$ 4,948.4</u>
Liabilities:			
Long-term debt	\$ 2,694.8	\$ 2,682.5	\$ 2,564.9
Noncurrent liabilities	407.9	459.8	365.8
Current liabilities	271.1	306.8	316.6
Other liabilities	<u>38.0</u>	<u>35.2</u>	<u>37.8</u>
Total liabilities	<u>3,411.8</u>	<u>3,484.3</u>	<u>3,285.1</u>
Total deferred inflows of resources	<u>160.9</u>	<u>116.1</u>	<u>163.9</u>
Net position:			
Net investment in capital assets	1,822.8	1,653.7	1,523.8
Restricted:			
Rate stabilization account	<u>25.0</u>	<u>25.0</u>	<u>25.0</u>
Total restricted	<u>25.0</u>	<u>25.0</u>	<u>25.0</u>
Unrestricted—net	<u>(23.4)</u>	<u>23.5</u>	<u>(49.4)</u>
Total net position	<u>1,824.4</u>	<u>1,702.2</u>	<u>1,499.4</u>
Total liabilities, deferred inflows, and net position	<u>\$ 5,397.1</u>	<u>\$ 5,302.6</u>	<u>\$ 4,948.4</u>

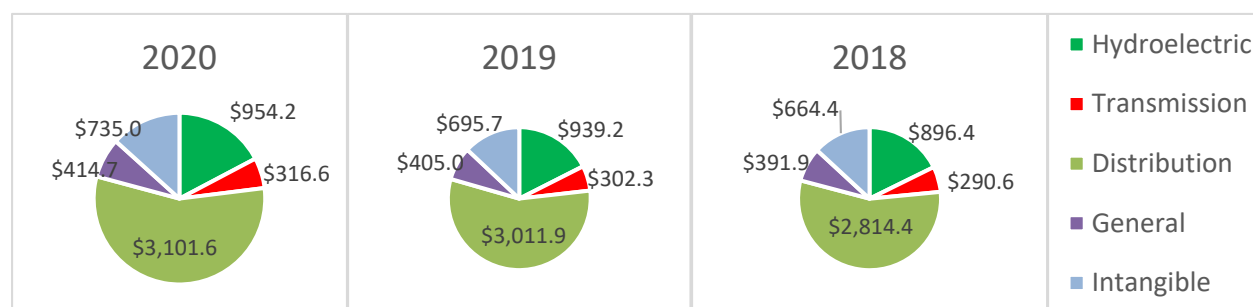
# THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2020 and 2019

### ASSETS

#### *Utility Plant—Net*

**2020 Compared to 2019** Utility plant assets net of accumulated depreciation and amortization increased \$165.6 million to \$4,207.1 million in 2020. Utility plant assets are composed of hydroelectric production plant, \$954.2 million, which increased \$15.0 million, transmission plant, \$316.6 million, which increased \$14.3 million, distribution plant, \$3,101.6 million, which increased \$89.7 million, general plant, \$414.7 million, which increased \$9.7 million, and intangible assets, \$735.0 million, which increased \$39.3 million. The net increase in utility plant assets was partially offset by a \$123.6 million net increase in accumulated depreciation and amortization to \$2,103.0 million.



The \$89.7 million increase in distribution plant is primarily due to overhead and underground systems, \$48.9 million, network systems, \$23.5 million, poles, streetlights, and meters, \$17.3 million. An increase of \$39.3 million in intangibles is primarily due to licensing costs. An increase of \$15.0 million in hydro assets is primarily due to Ross water pipe replacement, \$5.6 million and Diablo units 31 and 32 rebuild, \$3.1 million.

Other components of utility plant include construction work-in-progress, \$612.6 million, which increased \$119.2 million, land and land rights, \$153.9 million, which increased \$1.3 million. The increase in construction work-in-progress is primarily due to \$321.8 million in additions, partially offset by capitalization of \$202.7 million. The additions in construction work-in-progress consist mainly of \$110.7 million in underground and overhead systems, primarily due to Denny network, \$52.4 million in billable service connections, \$44.2 million in generation projects primarily due to Boundary units 51, 52 and 54 rebuild, \$29.8 million in intangibles, \$25.8 million in general plant, \$18.1 million in data processing systems, \$13.8 million in transmission, and \$13.7 million in street lighting.

See Note 3 Utility Plant of the accompanying financial statements.

## THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

### MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2020 and 2019

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**2019 Compared to 2018** Utility plant assets net of accumulated depreciation and amortization increased \$220.7 million to \$4,041.5 million in 2019. Utility plant assets were comprised of hydroelectric production plant, \$939.2 million, which increased \$42.8 million, transmission plant, \$302.3 million, which increased \$11.7 million, distribution plant, \$3,011.9 million, which increased \$197.5 million, general plant, \$405.0 million, which increased \$13.1 million, and intangible assets, \$695.7 million, which increased \$31.3 million. The net increase in utility plant assets were partially offset by an \$85.6 million net increase in accumulated depreciation and amortization to \$1,979.4 million.

The \$197.5 million increase in distribution plant is primarily due to service installations, \$89.2 million, meters, \$50.6 million. An increase of \$42.8 million in Hydro assets is primarily due to Diablo Unit 32 rebuild and Boundary improvements, \$28.1 million. An increase of \$31.3 million in Intangibles is primarily due to Boundary licensing, \$18.2 million. Other components of utility plant include Construction work-in-progress, \$493.4 million, which increased \$7.2 million, land and land rights, \$152.6 million, which increased \$2.4 million, nonoperating property, \$16.8 million, which increased \$0.3 million. The increase in construction work-in-progress is primarily due to \$373.6 million in additions, partially offset by capitalization of \$366.4 million. The additions in Construction work-in-progress consist mainly of \$122.0 million in underground and overhead systems, primarily due to Denny network system, \$55.6 million in billable service connections; \$40.6 million in generation projects primarily due to Boundary units 51 and 54, and Diablo unit 32 rebuild; \$35.0 million in intangibles mainly due to Boundary licensing; \$32.0 million in stations; \$25.3 million in transmission; \$23.9 million in general plant; and \$13.7 million in street lighting.

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

**2020 Compared to 2019** Restricted assets consisting of restricted cash increased by \$48.3 million to \$324.8 million.

Construction funds increased by \$16.1 million to \$38.3 million. The ending balance was for unspent proceeds from the 2020A bonds that will continue to be used in 2021 to fund a portion of the ongoing capital improvement program. Also, within the ending balance was a positive fair value adjustment for the Department's share of City pooled cash investments attributed to remaining bond proceeds.

The Rate Stabilization Account (RSA) increased by a net \$22.7 million to \$96.8 million. A surcharge on electric rates of 3.0% in 2020 reflects the original 1.5% surcharge in effect since August 2016 plus an additional 1.5% surcharge imposed in November 2019. Additions to the RSA came from rate surcharge revenues of \$23.5 million plus interest earnings of \$1.5 million. These were offset by transfers of funds to operating cash of \$2.3 million due to the difference between actual and budgeted net wholesale revenues. See Note 4 Rate Stabilization Account of the accompanying financial statements.

Other restricted assets increased by \$9.5 million to \$189.7 million. The Bond reserve account increased by \$7.3 million primarily from the additional deposit of the 2020A bonds. The debt service account increased by \$2.2 million.

**2019 Compared to 2018** Restricted assets consisting of restricted cash increased by \$12.8 million to \$276.5 million.

## THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

### MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2020 and 2019

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Construction funds increased by \$21.6 million to \$22.2 million. At the end of 2019, the balance was primarily from unspent proceeds from the 2019A bonds that will continue to be used in early 2020 to fund a portion of the ongoing capital improvement program.

Bond reserve account increased by \$18.4 million to \$146.5 million from 2018. Increases were from 2019 bond proceeds, interest earnings, and ongoing funding from operating cash to replace the existing surety bond expiring in 2029. The respective additions were \$5.5 million, \$2.9 million and \$10.0 million.

The Rate Stabilization Account (RSA) decreased by a net \$22.8 million to \$74.1 million. A surcharge on electric rates of 1.5% remained in effect since August 2016 and an additional 1.5% surcharge was imposed in November 2019 because the RSA balance fell below the next trigger level of \$80.0 million at the end of the 3<sup>rd</sup> quarter. The total 3.0% surcharge is expected to remain in effect through 2020. Additions to the RSA came from rate surcharge of \$14.2 million and interest earnings of \$2.0 million. These were offset by transfers of funds to operating cash of \$39.0 million due to the difference between actual and budgeted net wholesale revenues. See Note 4 Rate Stabilization Account of the accompanying financial statements.

Other restricted assets decreased by \$4.4 million to \$33.7 million. Restricted cash for ongoing pole attachment projects with communications customers was nearly 100% drawn at the end of the year for a decrease of \$4.7 million. Sundry prepayments were lower by \$1.6 million as a result of higher completed service connections compared to 2018. These were offset by \$1.9 million net increases in other and mostly for a favorable unrealized gain adjustment from the Department's share of investments in the City's cash pool.

#### *Current Assets*

**2020 Compared to 2019** Current assets decreased by \$76.8 million to \$373.1 million at the end of 2020.

Operating cash decreased by \$87.8 million to \$102.4 million. Increased inflows to cash were from the 5.5% system average rate increase effective January 1, 2020, RSA surcharges, net wholesale revenues, capital contributions, interest earnings, and reimbursement from the Construction account for capital expenditures. Substantial capital expenditure reimbursements were made from the Construction account during the 4<sup>th</sup> quarter from the 2020A bonds. These were offset by payments for higher debt service including advance repayments of \$88.6 million of certain prior lien bonds, as well as transfers to RSA, capital construction projects, purchased power contracts, and ongoing operations.

Accounts receivable, net, increased by \$12.3 million to \$144.8 million. The highest increase in the amount of \$6.4 million, net, was for retail electric accounts, which were greatly impacted by pandemic response efforts. Retail electric receivables increased by \$21.4 million, offset by an increase in the allowance of \$12.8 million and decrease of \$2.3 million from increased customer participation in the Utility Discount Program and deferred payment plans. The rate increase in 2020 and the impact of collections forbearance also contributed to the net increase in retail electric accounts.

Sundry receivables increased a net \$1.6 million consisting mainly of higher large project service connections of \$6.9 million offset by an increase in the allowance of \$1.5 million, and payment of \$3.8 million in Sound Transit electrical work, some of which pertained to prior years. COVID-19 also affected the higher allowance as collection efforts were suspended for sundry billings.

## THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

### MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2020 and 2019

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The remaining increase in accounts receivable of \$4.4 million is for power related receivables for short-term wholesale energy. This increase is attributable to higher power market prices, \$2.0 million, wind generation stored power, \$1.4 million, and receivable from the Federal Energy Regulatory Commission related to current year land use fees, \$1.0 million.

Unbilled revenues decreased by \$5.1 million due to lower consumption by commercial and industrial customers, responding to pandemic stay at home orders. Materials and supplies increased by \$3.8 million for projects in progress.

**2019 Compared to 2018** Current assets increased by \$75.9 million to \$449.9 million at the end of 2019.

Operating cash increased by \$55.1 million to \$190.2 million. Increased inflows to cash were from the 5.8% system average rate increase effective since January, RSA surcharges, capital contributions, interest earnings, and reimbursement from the Construction account for capital expenditures. Significant capital expenditures reimbursements were made from the Construction account during the 4<sup>th</sup> quarter from the 2019A bonds. These were offset by lower net wholesale energy sales and payments for higher debt service, transfers to RSA, capital construction projects, and ongoing operations.

Accounts receivable, net, increased by \$3.9 million to \$132.5 million. The highest increase was for completion of large service connections in progress of \$12.4 million due in part to the ongoing strong local economy.

Retail electric receivables decreased a net \$1.3 million from a year ago. Collection efforts on these receivables resumed to normal activities in late 2018 and continued throughout 2019 as the Department's response to customer's concerns on charges from the new billing system and AMI installations were stabilized. The result was lower retail electric receivables of \$7.3 million. A result of renewed collection efforts was that the allowance for bad debt decreased by \$6.0 million from 2018 that also contributed to the decline in net retail electric receivables.

Other decreases in accounts receivable were \$4.6 million for interdepartmental receivables as a result of higher emphasis for settlement of these receivables by the end of the year. Remaining net decrease of \$2.6 million was due to normal operations.

Unbilled revenues increased by \$18.0 million to \$92.6 million. The increase was mainly attributable to the higher retail electric rates in 2019 and higher unbilled consumption due to colder weather for the last two months of 2019 compared to 2018.

Other current assets decreased by \$1.1 million to \$34.6 million as a result of lower materials and supplies inventory at year end used for ongoing projects.

#### ***Other Assets***

**2020 Compared to 2019** Total Other assets of \$427.1 million decreased by \$4.9 million from 2019. Conservation costs decreased by \$2.9 million for amortization and by \$1.8 million for ongoing payment of loans from local jurisdictions for underground infrastructure improvements. This decrease was partially offset by an increase of \$1.6 million for environmental cleanup costs estimated for several Duwamish River Superfund sites for which the Department has been named a responsible party. Environmental cleanup costs are recovered through rates over a 25-year period. See Note 15 Environmental Liabilities of the accompanying financial statements.

See Note 7 Other Assets of the accompanying financial statements.

## THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

### MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2020 and 2019

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**2019 Compared to 2018** Total Other assets at \$432.0 million did not change from 2018. The regulatory asset for environmental cleanup costs increased by \$2.3 million, due to the estimated costs to clean up several Superfund sites along the Duwamish River that the Department has been designated a responsible party. Environmental cleanup costs are being recovered through rates over a 25-year period. See Note 15 Environmental Liabilities of the accompanying financial statements.

An offsetting decrease of \$2.3 million was primarily for ongoing payment of loans from local jurisdictions for underground infrastructure improvements. Conservation costs, net, decreased by \$0.1 million.

#### ***Deferred Outflows of Resources***

**2020 Compared to 2019** Deferred outflows of resources decreased by \$37.7 million to \$65.0 million.

Pension related deferred outflows decreased net \$33.8 million primarily because of a year over year decrease in the actuarially determined net difference between projected and actual investment earnings of \$33.9 million. This results from strong equity market performance in 2019, the year used as the measurement for actuarial expectations. The most recent actuarial experience study was used to update assumptions including for salary increase, mortality, and retirement rates. See Note 13 Seattle City Employees' Retirement System of the accompanying financial statements.

Deferred outflow of resources pertaining to GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions* (OPEB) increased by \$0.6 million from 2019 for actuarial differences between expected and actual experience, based on the most recent actuarial experience study.

Charges on advance refunding decreased a net \$4.5 million to \$20.1 million. Activity for 2020 consisted of amortization and adjustment for advanced refunding of certain bonds.

**2019 Compared to 2018** Deferred outflows of resources increased by \$44.8 million to \$102.7 million.

In 2019, pension related deferred outflows increased net \$51.2 million because of year over year increase in actuarially determined net difference between projected and actual investment earnings of \$33.9 million. This is the result of lower equity market performance in 2018 used as the measurement date as compared to actuarial expectations. Additionally, an increase of \$17.4 million is generally attributable to changes in actuarial assumptions. The most recent actuarial experience study was used to update assumptions including for salary increase, mortality, and retirement rates.

Deferred outflow of resources pertaining to GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions* (OPEB) had an inconsequential change from 2018.

Charges on advance refunding decreased a net \$6.4 million to \$24.6 million. Activity for 2019 consisted of amortization and adjustment for advanced refunding of certain bonds.

## THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

### MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2020 and 2019

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#### LIABILITIES

##### *Long-Term Debt*

**2020 Compared to 2019** Long-term debt increased a net \$12.3 million to \$2,694.8 million during 2020.

The Department issued new debt in the amount of \$198.3 million revenue bonds to fund a portion of the ongoing capital improvement program. The 2020 bond issue was fixed rate in nature. \$39.4 million of the 2012A revenue bonds and \$49.9 million of the 2013 revenue bonds were advance refunded.

Debt to capitalization ratio was 58.3% at the end of 2020, a decrease from the 60.1% ratio of 2019.

Net revenues available to pay debt service were equal to 1.73 times principal and interest on all bonds for 2020. COVID-19 and associated pandemic response efforts had a significant effect on financial results, as noted in results of operations, and therefore, the lower coverage ratio for 2020.

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

**2019 Compared to 2018** Long-term debt increased a net \$117.6 million to \$2,682.5 million during 2019.

The Department issued new debt in the amount of \$210.5 million revenue bonds and \$140.3 million refunding revenue bonds to fund a portion of the ongoing capital improvement program and to advance refund certain bonds. The 2019 bond issues were fixed rate in nature. \$155.8 million of the 2010B revenue bonds were refunded with lower interest rate debt over the life of the new bonds.

Debt to capitalization ratio was 60.1% at the end of 2019, a decrease from the 62.4% ratio of 2018.

Net revenues available to pay debt service were equal to 2.10 times principal and interest on all bonds for 2019.

##### *Noncurrent Liabilities*

**2020 Compared to 2019** Total non-current liabilities decreased by \$51.9 million to \$407.9 million at the end of 2020.

Net Pension Liability decreased by a net \$56.4 million based on the most recent actuarial report, this decrease was due largely to strong investment returns from the preceding year. See Note 13 Seattle City Employees' Retirement System of the accompanying financial statements.

Environmental Liability decreased by a net \$0.8 million to \$104.3 million. Environmental liabilities are principally attributable to the estimated cost of remediating contaminated sediments in the lower Duwamish Waterway, a designated federal Superfund site. The Department is considered a responsible party for contamination in the Duwamish River due to land ownership and use of property located along the river. See Note 15 Environmental Liabilities of the accompanying financial statements.

Liabilities for damage claims/lawsuits and worker's compensation increased by \$1.6 million based on most recent estimates.

The remaining net increase of \$3.7 million was primarily for an increase in the estimate for compensated absences which reflected staff reducing their vacation use during the pandemic.

## THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

### MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2020 and 2019

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**2019 Compared to 2018** Total non-current liabilities increased by \$94.0 million to \$459.8 million at the end of 2019.

Net Pension Liability increased by a net \$89.1 million based on the most recent actuarial report and due largely to the negative investment returns during 2018, the measurement year. See Note 13 Seattle City Employees' Retirement System of the accompanying financial statements.

Environmental Liability increased by a net \$3.0 million to \$105.1 million. Environmental liabilities are principally attributable to the estimated cost of remediating contaminated sediments in the lower Duwamish Waterway, a designated federal Superfund site. The Department is considered a potentially responsible party for contamination in the Duwamish River due to land ownership or use of property located along the river.

Liabilities for damage claims/lawsuits and worker's compensation remained virtually unchanged at \$6.8 million.

The balance net increase of \$1.9 million was for nominal changes for compensated absences, post-employment benefits, estimated arbitrage liability for certain bonds, and other.

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

**2020 Compared to 2019** Current liabilities decreased by a net of \$35.7 million for a total of \$271.1 million at the end of 2020.

Current liability increases totaled \$12.9 million. The increase includes \$9.5 million for pole attachment projects in progress with telecommunication companies, \$1.2 million for retail electric customer prepayments, and \$2.2 million for higher interest payable as a result of greater bonds outstanding at the end of the year.

Current liability decreases totaled \$48.6 million. \$15.4 million was for lower vouchers payable as invoices were processed more timely than the prior year, \$13.1 million for lower payroll accrual, a large portion of which was due to no COLA accrual for 2020, \$6.7 million for payment of call center services payable to Seattle Public Utilities, \$4.8 million for lower debt due within one year, \$3.2 million for lower retainage payable, \$2.5 million for lower state taxes payable, and \$2.9 million for other payables.

**2019 Compared to 2018** Current liabilities decreased by a net of \$9.8 million for a total of \$306.8 million at the end of 2019.

Current liability increases totaled \$31.9 million. The increases included \$13.5 million additional general vouchers payable, \$5.7 million in salary COLA accrual, \$6.2 million primarily for Call Center services, \$3.2 million for current portion of bonds, \$2.3 million for taxes, and other payables of \$1.0 million.

Current liability decreases totaled \$41.7 million. \$33.4 million was for lower interdepartmental payables due to a change to settle these payables at year end, \$2.3 million for lower debt interest payable, \$2.0 million for lower short-term environmental liabilities, \$2.0 million for customer prepayments, and other payables of \$2.0 million.



## THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

### MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2020 and 2019

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#### *Other Liabilities*

**2020 Compared to 2019** Other liabilities increased by \$2.8 million to \$38.0 million, which reflects a net increase in capital contributions for projects in progress. Increases of \$2.9 million for higher unearned capital contributions for large service connections and \$1.3 million primarily for smaller service connections were partially offset by \$1.4 million in higher actual billings issued against prepayments received for estimated larger service connections.

**2019 Compared to 2018** Other liabilities decreased by \$2.6 million to \$35.2 million in 2019. The decrease was due to \$2.0 million greater realization of capital contributions revenue for larger service connection projects in progress and higher actual billings issued against prepayments received for completed service connection work.

#### *Deferred Inflows of Resources*

**2020 Compared to 2019** Deferred inflows of resources increased by \$44.8 million for a total of \$160.9 million at the end of 2020.

Deferred inflows related primarily to pension liability increased by \$18.5 million to \$44.7 million. \$23.0 million was due to higher actuarially determined net difference between projected and actual investment earnings and \$1.8 million related to differences between expected and actual experience. These were offset by \$6.3 million for lower changes between employer contributions and proportionate share of contributions.

Deferred inflows of resources pertaining to OPEB increased by \$0.3 million from 2019 for actuarial changes of assumptions, based on the most recent actuarial experience study.

The rate stabilization unearned revenue account increased a net \$22.7 million from 2019. The 1.5% surcharge on electric rates in effect since August 2016 and the additional 1.5% surcharge in effect since November 2019 contributed \$23.5 million, with an offset of \$2.3 million transferred to operating revenues for actual net wholesale revenues being less than budget. \$1.5 million in interest income was transferred to the unearned revenue account resulting in an ending balance of \$71.8 million. See Note 4 Rate Stabilization Account of the accompanying financial statements.

Other deferred inflows of resources increased by \$3.3 million to \$40.9 million mostly due to net payments received from Bonneville in accordance with the Department's Energy Conservation Agreement.

**2019 Compared to 2018** Deferred inflows of resources decreased by \$47.8 million for a total of \$116.1 million at the end of 2019.

Deferred inflows related primarily to pension liability decreased by \$28.9 million to \$26.2 million. \$20.5 million is due to lower actuarially determined net difference between projected and actual investment earnings and reduced changes in employer proportion and differences between employer contributions and proportionate share of contributions totaling \$9.2 million. The \$0.8 million increase in deferred pension inflows of resources was the result of differences between expected and actual experience.

In 2018, the Department implemented GASB Statement No. 75 and initially recorded deferred inflows of \$2.9 million with a minimal change of \$0.3 million increase in 2019.

## THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

### MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2020 and 2019

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The rate stabilization unearned revenue account decreased a net \$22.8 million from 2018. The 1.5% surcharge on electric rates in effect since August 2016 and the additional 1.5% surcharge since November contributed \$14.2 million, with an offset of \$39.0 million transferred to operating revenues for actual net wholesale revenues being less than budget. \$2.0 million in interest income was transferred to the unearned revenue account resulting in an ending balance of \$49.1 million. See Note 4 Rate Stabilization Account of the accompanying financial statements.

Other deferred inflows of resources increased by \$3.6 million to \$37.6 million. \$1.9 million was because of recognition of an accounting gain on advance refunding of the 2010B bonds. Remaining balance of \$1.7 million increase was mostly due to net payments received from Bonneville in accordance with the Department's Energy Conservation Agreement.

## RESULTS OF OPERATIONS

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

(\$ in millions)	Year Ended December 31		
	2020	2019	2018
Operating revenues	\$ 1,015.7	\$ 1,079.5	\$ 991.6
Nonoperating revenues	26.7	25.8	17.6
Total revenues	<u>1,042.4</u>	<u>1,105.3</u>	<u>1,009.2</u>
Operating expenses	880.3	873.3	823.2
Nonoperating expenses	93.7	93.0	83.4
Total expenses	<u>974.0</u>	<u>966.3</u>	<u>906.6</u>
Income before capital contributions and grants	<u>68.4</u>	<u>139.0</u>	<u>102.6</u>
Capital contributions	53.3	63.4	59.6
Capital grants	0.5	0.4	-
Total capital contributions and grants	<u>53.8</u>	<u>63.8</u>	<u>59.6</u>
Change in net position	<u>\$ 122.2</u>	<u>\$ 202.8</u>	<u>\$ 162.2</u>

## THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

### MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2020 and 2019

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#### SUMMARY

**2020 Compared to 2019** Change in net position for 2020 was \$122.2 million, a significant decrease of \$80.6 million or 39.7% from 2019 Change in net position of \$202.8 million. The COVID-19 pandemic had a substantial negative effect on the Department's operations. Operating revenues were considerably lower due largely to a significant reduction in non-residential retail sales. RSA transfers were also lower in 2020 primarily from significantly higher net wholesale revenues. Lower operating revenues were further exacerbated by higher expenses for bad debt, as the pandemic caused many customers to fall behind on their bills and City Light reduced its collection operations in response. Administrative and general, net were higher in large part due to COVID-19 administrative response expenses, including a shift away from CIP-related work. As mentioned above, net wholesale revenues were up compared to 2019, primarily on account of strong hydro conditions leading to lower short-term power purchases. Capital contributions were also lower and along with higher generation, depreciation, taxes, interest expense, and other expenses were contributors to the lower Change in net position.

**2019 Compared to 2018** Change in net position for 2019 was \$202.8 million, an increase of \$40.6 million or 25.0% from 2018 Change in net position of \$162.2 million. Higher retail electric sales due to rate increases, including for the 3.0% RSA surcharge, unbilled revenue, transfers from RSA, interest earnings, capital contributions, and other combined with lower bad debt expense were the major reasons for the higher revenues. Offsetting the higher revenues were lower net Short-term wholesale power revenues and higher expenses for administrative & general, interest, depreciation, and taxes.

#### REVENUES

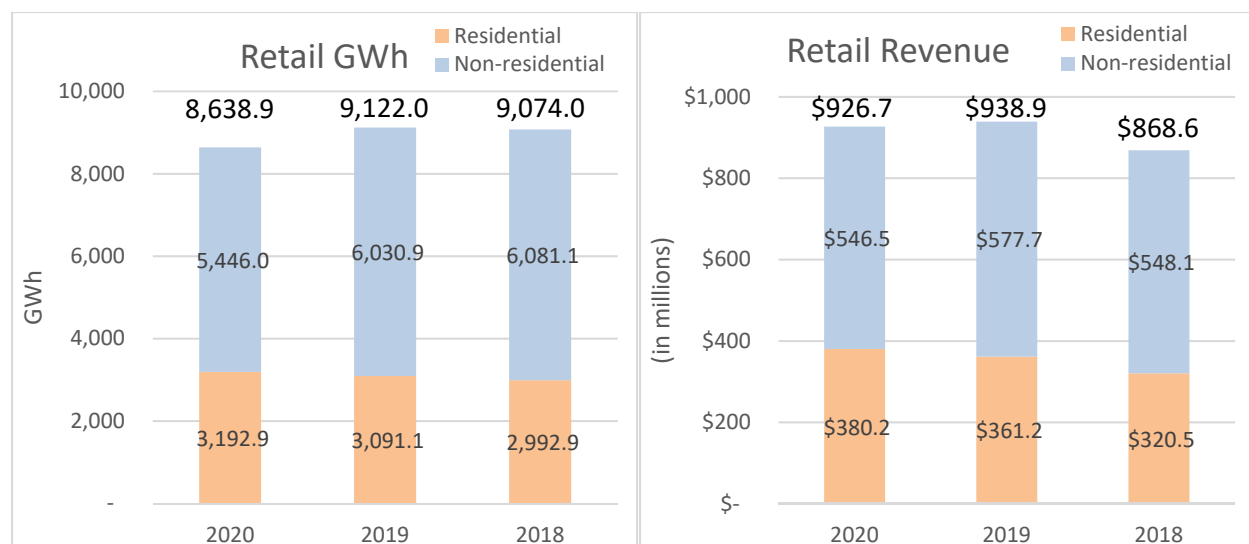
**2020 Compared to 2019** Total operating revenues were \$1,015.7 million, a decrease of \$63.8 million or 5.9% from 2019. Retail power revenues at \$926.7 million decreased \$12.2 million, Short-term wholesale power revenues at \$51.3 million increased \$8.1 million, Other power-related revenues at \$40.8 million decreased \$11.4 million, Transfers from/(to) RSA at (\$22.7) million were reduced by \$45.5 million, and Other operating revenues at \$19.6 million decreased \$2.8 million.

Lower Retail power revenues of \$12.2 million were the net result of higher billed residential revenues of \$30.3 million, offset by lower nonresidential revenues of \$19.5million, and lower unbilled revenue of \$23.0 million. The effect of the COVID-19 pandemic, specifically remote work and schooling, caused residential customers to spend more time in their homes, increasing delivered consumption by 3.3% compared to 2019. Conversely, many nonresidential customers reduced normal operations in response to public health measures, resulting in 9.7% lower delivered consumption. In total retail delivered consumption decreased by 5.3%. The BPA rate pass-through negative adjustment of 1.9% effective November 2019 also contributed to lower retail revenue. Partially offsetting the lower retail consumption was the 5.5% average rate increase in January 2020 and an additional 1.5% RSA surcharge which was effective November 2019. The pandemic also contributed to increased Utility Discount Program participation resulting in higher rate discounts, partially offsetting the higher residential consumption. Lower unbilled revenue followed the same general trend as billed revenue at the end of the year.

## THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

### MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2020 and 2019

Transfers from/(to) rate stabilization account are affected by actual net wholesale power revenues compared to budget. In 2020, \$22.7 million was transferred from operating cash to the RSA. Actual net wholesale power revenues for 2020 were closer to budget than 2019 by \$36.7 million and RSA surcharge revenues were \$9.3 million higher in 2020 than 2019. Interest earned on the RSA was \$0.5 million lower in 2020 than 2019. In 2019, \$22.8 million was transferred from the RSA to operating cash largely as a result of wholesale power revenues being lower than budget along with the effect of surcharge revenues and interest earnings. The net effect between years was a reduction of \$45.5 million to revenues.



Short-term wholesale power revenues represent revenue received from the sale of power generated in excess of system sales and other obligations and were \$51.3 million, an increase of \$8.1 million than the \$43.2 million recorded in 2019. Short-term wholesale power revenues fluctuate with changes in water conditions, retail sales and economic factors such as the price of natural gas. The considerable increase in short-term wholesale power revenues was in large part due to lower retail electricity demand due to COVID-19, more favorable hydro conditions and the Department's entrance in the western Energy Imbalance Market (EIM) with California System Operator (CAISO) in April.

City Light is active in the wholesale power market both buying and selling energy. For a more comprehensive overview of wholesale transactions City Light management often reviews net wholesale revenue, where wholesale purchases are deducted from wholesale sales and adjusted for book-outs. Net wholesale revenues were \$47.7 million in 2020, \$32.2 million higher than the \$15.5 million recorded in 2019. Wholesale Power Purchases are discussed below.

#### Net Wholesale Revenue, \$ Million

	2020	2019	2018
Wholesale Power Revenue	\$ 51.3	\$ 43.2	\$ 61.0
Wholesale Power Purchases	(10.0)	(34.3)	(18.5)
Booked out Long-Term Sales	6.4	6.5	7.4
<b>Net Wholesale Revenue</b>	<b>\$ 47.7</b>	<b>\$ 15.5</b>	<b>\$ 49.9</b>

## THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

### MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2020 and 2019

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**2019 Compared to 2018** Total operating revenues were \$1,079.5 million, an increase of \$87.9 million or 8.9% from 2018. Retail power revenues at \$938.9 million increased \$70.3 million, Short-term wholesale power revenues of \$43.2 million decreased \$17.8 million, Other power-related revenues at \$52.2 million increased \$6.3 million, Transfers from/(to) RSA at \$22.8 million increased \$26.3 million, and Other operating revenues at \$22.4 million increased \$2.8 million.

Retail power revenues were higher mainly because of the 5.8% system rate increase implemented in January along with the 1.5% rate surcharge in effect since August 1, 2016 and the additional 1.5% surcharge billed since November 2019 as a result of the RSA being lower than the next trigger level of \$80.0 million. A BPA 1.9% passthrough credit to customers effective November 1<sup>st</sup> translated into a 0.4% system rate decrease and including the surcharge. Consumption among customers was mixed with residential customers experiencing an increase of 3.3% and non-residential customers experiencing a decrease of 0.8% decrease. Energy conservation and newly constructed energy efficient buildings continued influencing overall lower consumption for the year, which was offset in part with a spike in consumption in February, October, and November due to colder temperatures than in 2018. Certain large industrial customers also operated at lower production during the year, thus, also contributing to lower consumption. Unbilled revenue increased by \$32.7 million from 2018 and elements noted above also contributed to the higher unbilled revenue.

Transactions within Transfers from/(to) rate stabilization account are affected in part by actual net wholesale power revenues compared to budget. In 2019, actual net wholesale power revenues were lower than budget by \$39.0 million and this amount was transferred from the rate stabilization unearned revenue account. This was partially offset by the RSA rate surcharge revenues of \$14.2 million and interest earnings of \$2.0 million for a net \$22.8 million transferred to the rate stabilization unearned revenue account in 2019. In 2018, net transfers to the rate stabilization unearned revenue account were (\$3.5) for an overall increase of \$26.3 million.

Short-term wholesale power revenues were \$43.2 million, a decrease of \$17.8 million from short-term wholesale power revenues of \$61.0 million in 2018. The decrease in short-term wholesale power revenues was due to below normal water conditions experienced in the Pacific Northwest region during 2019 that negatively affected hydro run-off and generation. Other net power-related revenues increased by \$5.0 million. Higher revenues of \$8.4 million from marketing ancillary services were offset by lower valuation of energy exchange contracts of \$2.1 million. Other net power-related revenues were further offset by net power related expenses.

### EXPENSES

**2020 Compared to 2019** Operating expenses totaled \$880.3 million, an increase of \$7.0 million or 0.8% from \$873.3 million in 2019.

Power-related operating expenses at \$353.8 million were lower by \$23.2 million or 6.2%. These expenses were comprised of Long-term purchased power - Bonneville and other of \$216.6 million, which increased \$0.7 million, Short-term wholesale power purchases of \$10.0 million, which decreased \$24.3 million, Other power expenses of \$72.6 million, which decreased \$1.8 million, and Transmission of \$54.6 million, which increased \$2.2 million.

## THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

### MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2020 and 2019

Short-term wholesale power purchases were lower by \$24.3 million predominantly because of lower commercial and industrial retail demand combined with lower wholesale power prices during 2020. Other power expenses increased for Generation by \$3.1 million due to higher administration expenses in the areas of safety, asset management support, reporting, and other. These were offset by lower other power related expenses of \$6.7 million because of lower volumes and market prices for exchange contracts and ancillary purchase contracts. Index prices during 1<sup>st</sup> quarter 2019 was unusually high causing a \$10.0 million increase in power expenses that did not recur in 2020. Remaining balance net increase of \$4.7 million was for normal operations and including for BPA, other long-term purchased power, and Transmission.

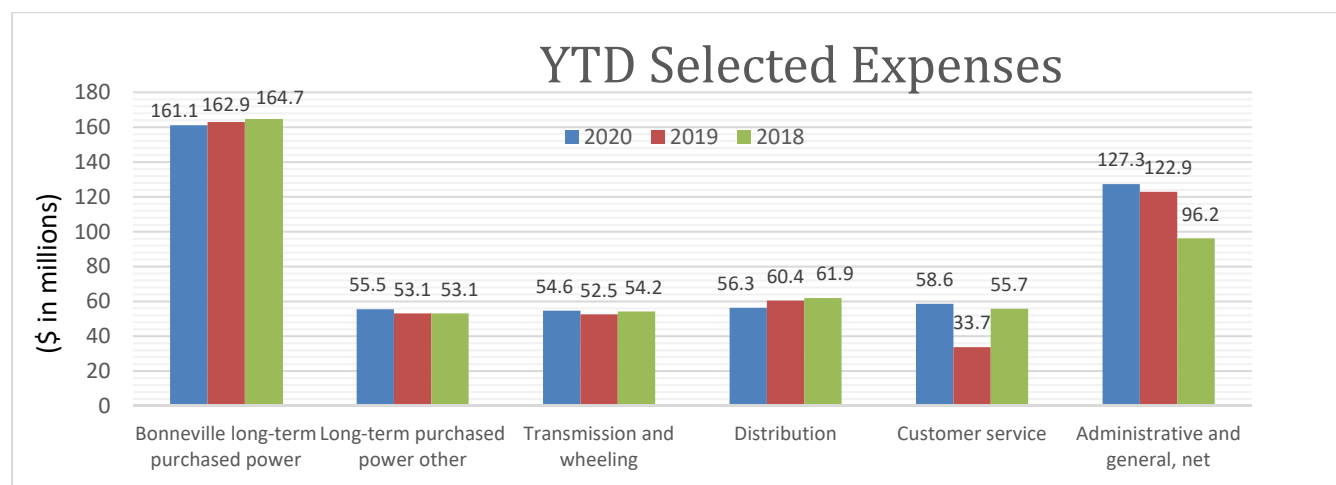
Non-power operating expenses increased significantly by \$25.1 million to \$275.5 million or 10.0% from \$250.4 million in 2019. These expenses included Distribution expenses of \$56.3 million, which decreased \$4.1 million, Customer service of \$58.6 million, which increased \$24.9 million, Conservation of \$33.3 million, which decreased \$0.1 million, and Administrative and general (A&G), net, of \$127.3 million which increased \$4.4 million.

Higher bad debt expense increased customer service expenses by \$19.0 million and \$1.7 million for retail electric sales and sundry accounts receivable, respectively. Since March 2020, collection efforts have been suspended for most accounts in arrears to assist customers confronting COVID-related financial hardships. Other Customer services expenses increased \$4.2 million mostly as a result of pandemic response.

Net changes for Distribution and Conservation expenses were relatively minimal as part of normal operations.

Administrative and General Expenses (A&G) costs, offset by general overhead allocation, increased a net \$4.4 million. Labor, related overhead, and other expenses increased by \$8.4 million for emergency management and administrative-related work as a result of adherence to necessary COVID-19 adjustments to operations. Higher expenses of \$3.4 million were incurred for estimated injury claims and damages based on most recent studies. Employment benefits expenses decreased by \$11.0 million, due to lower pension expenses based on the most recent actuarial study, and the allocation of employment benefits from A&G increased by \$10.1 million. Other costs for normal operations increased \$1.1 million. The pandemic interrupted work on capital projects, and the general overhead allocation from A&G was \$12.6 million lower. Taxes of \$101.2 million increased by \$1.1 million.

Depreciation and amortization at \$149.8 million increased by \$4.0 million as a result of recent additions to plant in service for distribution, generation, and general plant.



## THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

### MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2020 and 2019

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**2019 Compared to 2018** Operating expenses totaled \$873.3 million, an increase of \$50.1 million or 6.1% from \$823.2 million in 2018.

Power-related operating expenses at \$377.0 million were higher by \$16.3 million or 4.5%. These expenses were comprised of Long-term purchased power - Bonneville and other of \$215.9 million, which decreased \$1.9 million, Short-term wholesale power purchases of \$34.3 million, which increased \$15.8 million, Other power expenses of \$74.4 million, which increased \$4.2 million, and Transmission of \$52.4 million, which decreased \$1.8 million.

Higher Short-term wholesale power purchases of \$15.8 million were necessary for managing load and the result of lower generation from below normal hydro conditions in 2019. Increased volume purchases and higher average prices because of demand also added to the higher Short-term wholesale power purchases. Remaining net \$0.5 million increase of power related expenses were incurred in normal operations including for Bonneville power, valuation of energy exchange contracts, ancillary power transactions, and other.

Non-power operating expenses increased by \$3.6 million to \$250.4 million or 1.5% from \$246.8 million in 2018. These expenses included Distribution expenses of \$60.4 million, which decreased \$1.5 million, Customer service of \$33.7 million, which decreased \$22.0 million, Conservation of \$33.4 million, which increased \$0.4 million, and Administrative and general (A&G), net, of \$122.9 million which increased \$26.7 million.

Customer service expenses were lower by \$15.8 million and \$4.2 million because of lower bad debt expense for retail electric sales and sundry billings respectively. Customary collection activities and late fees billed resumed in late 2018 after being suspended for most of 2018 in response to billing concerns from retail electric customers that were since addressed. Sundry billings bad debt expense was also lower because of related decrease in allowance for bad debt as there was no significant change during 2019 for older aged billings, and generally for time and material billings and pole attachment billings. Collection for sundry billings have also been steady during 2019. Balance of increase of \$2.0 million for Customer service was for normal operations.

Net changes for Distribution and Conservation expenses were nominal and part of normal operations.

Administrative and general (A&G), net increased by \$26.7 million due to higher pension, employee benefits, industrial insurance, and injuries & damages expenses combined with lower A&G applied to capital projects were the major components comprising the higher A&G expenses, net.

Pension costs were \$11.6 million higher based on the most recent actuarial study and accrued to comply with GASB Statement No. 68. The cost of employee medical related benefits increased by \$4.6 million, trending in part with the general national direction of rising health related costs. Injuries and damages expenses were higher by \$6.3 million for general claims and industrial insurance, also based on recent actuarial studies. These were offset by lower \$1.7 million reduction in applied A&G overhead to capital projects. The balance net \$5.9 million increase was for normal operations such as salaries, COLA salary adjustments, city cost allocations, year-end accruals, and other administrative.

Taxes at \$100.1 million increased by \$8.3 million and were the result of higher retail electric revenue.

Depreciation and amortization at \$145.8 million increased by \$21.9 million. \$10.5 million of the increase was due to recent new software implemented such as for the new financial system, automated metering, utility design, and other. Remaining balance increase of \$11.4 million was primarily for recent additions to distribution assets.

## THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

### MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2020 and 2019

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

**2020 Compared to 2019** Nonoperating revenues increased by \$0.9 million to \$26.7 million in 2020. The largest increase of \$0.8 million was attributable to release of easements to the city of Bellevue in connection with the construction of the regional light rail system in progress. Remaining net balance increase was for normal operations and including investment income.

Nonoperating expenses at \$93.7 million were higher by \$0.7 million. Net interest expense for bonds was higher by \$3.4 million on account of additional bonds outstanding in 2020. This was offset by \$2.7 million of net amortization of bond costs mostly for bond premium amortization.

Capital contributions and grants decreased by \$10.0 million to \$53.8 million primarily due to pandemic response causing an interruption in service connection projects.

**2019 Compared to 2018** Nonoperating revenues increased by \$8.2 million to \$25.8 million in 2019. The largest increase was for higher interest earnings totaling \$7.8 million and specifically, the unrealized gain on investments for the Department's share of the City's cash pooled investments. Remaining balance decrease was for normal operations.

Nonoperating expenses at \$93.0 million were higher by \$9.6 million, of which \$12.1 million was due to no interest applied to capital projects in progress. The Department elected not to apply interest during construction to capital projects in progress during 2019 in accordance with GASB Statement No. 89 *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The balance net decrease was for normal operations.

Capital contributions and grants increased by \$4.2 million to \$63.8 million in 2019. The increase was primarily due to continued large service connections and related completed work on larger projects due in part to the prolonged strong local economy.



## THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

### MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2020 and 2019

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#### RISK MANAGEMENT

The Department evaluates and monitors all strategic risks at the enterprise level, including emergency response, cybersecurity, physical plant security and seismic risks.

In addition, the Department's wholesale energy marketing activities are managed by the Power Management Division, and the Department's risk management activities are carried out by the Risk Oversight Division. Risk Oversight Council (ROC) oversees wholesale power marketing activities. It is comprised of the Facilities and Oversight Services Officer (Chair/Voting), Chief Financial Officer (Voting), Energy Innovation and Resources Officer (Voting), Director of Risk Oversight (Voting), as well as non-voting members including the Director of Power Management, Manager of Power Marketing, and Risk Oversight Strategic Advisor. ROC meets at least twice per month to review recent events in the wholesale power markets and the Department's market positions, exposures, Wholesale Energy Risk Management (WERM) policy compliance, and portfolio-balancing strategies and plans.

The Risk Oversight Division manages the market and credit risk related to all wholesale marketing activities and carries out the middle office functions of the Department. This includes risk control, deal review & valuations, independent reporting of market positions and portfolio performance, counterparty credit risk, risk modeling, model validations, settlements, and ensuring adherence to WERM policy and procedures.

#### Hydro Risk

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

#### Energy Market Risk

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

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

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

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

### **MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2020 and 2019**

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

#### **Credit Risk**

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

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

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

#### **REQUESTS FOR INFORMATION**

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

# THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

## BALANCE SHEETS - ASSETS AND DEFERRED OUTFLOWS OF RESOURCES AS OF DECEMBER 31, 2020 AND 2019

(\$ in millions)	2020	2019
<b>ASSETS</b>		
UTILITY PLANT—At original cost:		
Plant -in-service—excluding land	\$ 5,522.1	\$ 5,354.1
Less accumulated depreciation and amortization	<u>(2,103.0)</u>	<u>(1,979.4)</u>
Total plant-in-service—net	3,419.1	3,374.7
Construction work-in-progress	612.6	493.4
Nonoperating property—net of accumulated depreciation	17.5	16.8
Assets held for future use	4.0	4.0
Land and land rights	<u>153.9</u>	<u>152.6</u>
Total utility plant—net	<u>4,207.1</u>	<u>4,041.5</u>
RESTRICTED ASSETS:		
Rate stabilization account	96.8	74.1
Municipal light and power bond reserve account	153.8	146.5
Construction account	38.3	22.2
Special deposits and other restricted assets	<u>35.9</u>	<u>33.7</u>
Total restricted assets	<u>324.8</u>	<u>276.5</u>
CURRENT ASSETS:		
Cash and equity in pooled investments	102.4	190.2
Accounts receivable, net of allowance of \$41.8 and \$27.4	144.2	131.1
Interfund receivables	0.6	1.4
Unbilled revenues	87.5	92.6
Materials and supplies at average cost	38.1	34.3
Prepayments and other current assets	<u>0.3</u>	<u>0.3</u>
Total current assets	<u>373.1</u>	<u>449.9</u>
OTHER ASSETS:		
Conservation costs—net	256.7	261.4
Environmental costs—net	117.1	116.0
Other charges and assets—net	<u>53.3</u>	<u>54.6</u>
Total other assets	<u>427.1</u>	<u>432.0</u>
TOTAL ASSETS	<u>5,332.1</u>	<u>5,199.9</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows related to Pension and OPEB	44.9	78.1
Charges on advance refunding	<u>20.1</u>	<u>24.6</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>65.0</u>	<u>102.7</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 5,397.1</u>	<u>\$ 5,302.6</u>

See notes to financial statements.

# THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

## BALANCE SHEETS - LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION AS OF DECEMBER 31, 2020 AND 2019

(\$ in millions)	2020	2019
<b>LIABILITIES</b>		
LONG-TERM DEBT:		
Revenue bonds	\$ 2,553.5	\$ 2,567.1
Plus bond premium—net	259.0	238.0
Less revenue bonds—current portion	(117.7)	(122.6)
Total long-term debt	<u>2,694.8</u>	<u>2,682.5</u>
NONCURRENT LIABILITIES:		
Net pension liability	265.2	321.6
Accumulated provision for injuries and damages	112.7	112.0
Compensated absences	20.3	16.7
Other noncurrent liabilities	9.7	9.5
Total noncurrent liabilities	<u>407.9</u>	<u>459.8</u>
CURRENT LIABILITIES:		
Accounts payable and other current liabilities	109.4	129.3
Accrued payroll and related taxes	6.3	19.5
Compensated absences	1.4	1.3
Accrued interest	36.3	34.1
Long-term debt—current portion	117.7	122.6
Total current liabilities	<u>271.1</u>	<u>306.8</u>
OTHER LIABILITIES	<u>38.0</u>	<u>35.2</u>
TOTAL LIABILITIES	<u>3,411.8</u>	<u>3,484.3</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Rate stabilization unearned revenue	71.8	49.1
Deferred inflows related to pension and OPEB	48.2	29.4
Other deferred inflows of resources	40.9	37.6
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>160.9</u>	<u>116.1</u>
<b>NET POSITION</b>		
Net investment in capital assets	1,822.8	1,653.7
Restricted:		
Rate stabilization account	25.0	25.0
Total restricted	<u>25.0</u>	<u>25.0</u>
Unrestricted—net	(23.4)	23.5
Total net position	<u>1,824.4</u>	<u>1,702.2</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	<u>\$ 5,397.1</u>	<u>\$ 5,302.6</u>

See notes to financial statements.

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# THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

## STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

(\$ in millions)	2020	2019
OPERATING REVENUES:		
Retail power revenues	\$ 926.7	\$ 938.9
Short-term wholesale power revenues	51.3	43.2
Other power-related revenues	40.8	52.2
Transfers from/(to) rate stabilization account	(22.7)	22.8
Other operating revenues	19.6	22.4
Total operating revenues	<u>1,015.7</u>	<u>1,079.5</u>
OPERATING EXPENSES:		
Long-term purchased power—Bonneville and other	216.6	215.9
Short-term wholesale power purchases	10.0	34.3
Other power expenses	72.6	74.4
Transmission	54.6	52.4
Distribution	56.3	60.4
Customer service	58.6	33.7
Conservation	33.3	33.4
Administrative and general	127.3	122.9
Taxes	101.2	100.1
Depreciation and amortization	149.8	145.8
Total operating expenses	<u>880.3</u>	<u>873.3</u>
OPERATING INCOME	<u>135.4</u>	<u>206.2</u>
NONOPERATING REVENUES AND (EXPENSES):		
Other revenues and (expenses)—net	26.7	25.8
Interest expense		
Interest expense—net	(111.0)	(107.6)
Amortization of bond costs—net	17.3	14.6
Total interest expense	<u>(93.7)</u>	<u>(93.0)</u>
Total nonoperating expenses	<u>(67.0)</u>	<u>(67.2)</u>
INCOME BEFORE CAPITAL CONTRIBUTIONS AND GRANTS	<u>68.4</u>	<u>139.0</u>
CAPITAL CONTRIBUTIONS AND GRANTS:		
Capital contributions	53.3	63.4
Capital grants	0.5	0.4
Total capital contributions and grants	<u>53.8</u>	<u>63.8</u>
CHANGE IN NET POSITION	122.2	202.8
NET POSITION:		
Beginning of year	1,702.2	1,499.4
End of year	<u>\$ 1,824.4</u>	<u>\$ 1,702.2</u>

See notes to financial statements.

# THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

## STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

(\$ in millions)

	2020	2019
OPERATING ACTIVITIES:		
Cash received from customers and counterparties	\$ 996.4	\$ 1,027.0
Cash paid to suppliers and counterparties	(365.7)	(365.8)
Cash paid to employees	(173.2)	(159.9)
Taxes paid	(103.3)	(103.4)
Net cash provided by operating activities	<u>354.2</u>	<u>397.9</u>
NONCAPITAL FINANCING ACTIVITIES:		
Interfund operating cash received	1.3	1.3
Interfund operating cash paid	(47.0)	(47.7)
Principal paid on long-term debt	(12.7)	(11.3)
Interest paid on long-term debt	(11.0)	(10.2)
Noncapital grants received	0.9	0.6
Bonneville receipts for conservation	6.1	3.7
Payment to vendors on behalf of customers for conservation	(21.0)	(26.2)
Net cash used in noncapital financing activities	<u>(83.4)</u>	<u>(89.8)</u>
CAPITAL AND RELATED FINANCING ACTIVITIES:		
Proceeds from long-term debt	198.3	350.8
Proceeds from long-term debt premiums	50.4	69.4
Payment to trustee for defeased bonds	(93.3)	(154.5)
Bond issue costs paid	(0.4)	(0.5)
Principal paid on long-term debt	(109.8)	(108.1)
Interest paid on long-term debt	(94.9)	(97.3)
Acquisition and construction of capital assets	(315.6)	(346.9)
Interfund payments for acquisition and construction of capital assets	(20.9)	(20.7)
Capital contributions	52.6	44.9
Interfund receipts for capital contributions	1.7	0.7
Capital grants received/(paid)	0.2	1.1
Interest received for suburban infrastructure improvements	2.5	2.6
Proceeds on sale of property	1.6	1.7
Decrease in other assets	1.8	1.7
Net cash used in capital and related financing activities	<u>(325.8)</u>	<u>(255.1)</u>
INVESTING ACTIVITIES:		
Interest received on cash and equity in pooled investments	<u>15.5</u>	<u>14.9</u>
Net cash provided by investing activities	<u>15.5</u>	<u>14.9</u>
NET INCREASE (DECREASE) IN CASH AND EQUITY IN POOLED INVESTMENTS	(39.5)	67.9
CASH AND EQUITY IN POOLED INVESTMENTS:		
Beginning of year	<u>466.7</u>	<u>398.8</u>
End of year	<u>\$ 427.2</u>	<u>\$ 466.7</u>

See notes to financial statements.

# THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

## STATEMENTS OF CASH FLOWS - RECONCILIATION FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

(\$ in millions)	2020	2019
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	\$ 135.4	\$ 206.2
Adjustments to reconcile operating income to net cash provided by operating activities:		
Non-cash items included in operating income:		
Depreciation	149.8	145.8
Amortization of other assets	32.0	29.9
Bad debt expense	20.7	0.3
Power revenues	(27.1)	(35.8)
Power expenses	26.1	37.6
Provision for injuries and damages	2.6	(0.4)
Other non-cash items	(7.1)	11.1
Change in:		
Accounts receivable	15.4	55.4
Unbilled revenues	5.1	(18.0)
Materials and supplies	(4.6)	1.0
Prepayments, interest receivable, and other receivables	-	(2.7)
Other assets	(3.3)	(4.7)
Provision for injuries and damages and claims payable	(0.7)	5.9
Accounts payable and other payables	(10.6)	(8.8)
Deferred inflows	(2.2)	(2.1)
Rate stabilization unearned revenue	22.7	(22.8)
Total adjustments	218.8	191.7
Net cash provided by operating activities	\$ 354.2	\$ 397.9
SUPPLEMENTAL DISCLOSURES OF NONCASH ACTIVITIES:		
In-kind capital contributions	\$ 1.8	\$ 0.7
Amortization of debt related costs—net	17.3	14.7
Power exchange revenues	11.4	15.4
Power exchange expenses	(11.4)	(15.4)
Power revenue netted against power expenses	5.4	9.0
Power expense netted against power revenues	(9.0)	(12.9)

See notes to financial statements.



## THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

### NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

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

The City Light Department (the Department) is the public electric utility of The City of Seattle (the City). The Department is an enterprise fund of the City. The Department owns and operates certain generating, transmission, and distribution facilities and supplies electricity to approximately 478,000 residential, commercial, and public customers in the city of Seattle. The Department also supplies electrical energy to other City agencies at rates prescribed by City ordinances, and to certain neighboring communities under franchise agreements. The establishment of the Department's rates is within the exclusive jurisdiction of the Seattle City Council. A requirement of Washington State law provides that rates must be fair, nondiscriminatory, and fixed to produce revenue adequate to pay for operation and maintenance expenses and to meet all debt service requirements payable from such revenue. The Department pays occupation taxes to the City based on total revenues.

The Department's revenues for services provided to other City departments were \$27.5 million and \$22.3 million in 2020 and 2019, respectively, and \$2.2 million and \$2.1 million for non-energy services, respectively.

The Department receives certain services from other City departments and paid \$111.7 million in 2020 and \$107.4 million in 2019, for such services. Amounts paid include central cost allocations from the City for services received including treasury services, risk financing, purchasing, data processing systems, vehicle maintenance, personnel, payroll, legal, administrative, information technology and building rentals, including for the Department's administrative offices.

The Department's receivables from other City departments totaled \$0.6 million and \$1.4 million at December 31, 2020, and 2019, respectively. The Department's payables to other City departments were \$0.0 million on December 31, for 2020 and 2019, respectively. The balances receivable and payable are the result of transactions incurred in the normal course of operations.

***Basis of Presentation and Accounting Standards***—The financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America as applied to governmental units. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Department has applied and is current through 2020 with all applicable GASB pronouncements.

## THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

### NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

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**GASB Statement No. 87** - GASB Statement No. 87, *Leases*, requires the recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. The standard establishes a single model for lease accounting based on the foundational principle that leases are financings of the right-to-use an underlying asset. Under the Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, which enhances the relevance and consistency of information about leasing activities. In 2020, due to the ongoing impacts of COVID-19, GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*. Statement No. 87 will now be effective for the Department in 2022. The Department is currently evaluating the impact the adoption of this statement will have on its financial statements.

**GASB Statement No. 91** - GASB Statement No. 91, *Conduit Debt Obligations*, clarifies the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. This statement will be effective for the Department in 2022. GASB Statement No. 95 delayed implementation of this statement by one year. However, because the Department's debt instruments do not include conduit debt obligations, implementation of this statement is not expected to have an impact on the financial statements.

**GASB Statement No. 92** - GASB Statement No. 92, *Omnibus 2020*, addresses several topics and issues that have been identified during implementation of various GASB Statements. This statement clarifies issues related to intra-entity transfers of assets, pension and postemployment benefits, asset retirement obligations, risk pools, and fair value measurements. This statement will be effective for the Department in 2022. GASB Statement No. 95 delayed implementation of this statement by one year. The Department is currently evaluating the impact of implementation on the financial statements.

**GASB Statement No. 93** - GASB Statement No. 93, *Replacement of Interbank Offered Rates*, establishes accounting and financial reporting requirements related to the replacement of Interbank offered rates such as the London Interbank Offered Rate (LIBOR), which is expected to cease to exist in its current form at the end of 2021. This statement is effective for the Department in 2022. GASB Statement No. 95 delayed implementation of this statement by one year. The Department is evaluating the impact this implementation will have on the financial statements.

**GASB Statement No. 94** - GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, addresses issues related to public-private and public-public partnership arrangements (PPPs) and provides guidance for availability payment arrangements. This statement will be effective for the Department in 2023 and the Department is currently evaluating the impact of implementation on the financial statements.

## THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

### NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

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**GASB Statement No. 96** - GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for governments. This Statement defines a SBITA; establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and requires note disclosures regarding a SBITA. This statement will be effective for the Department in 2023 and the Department is currently evaluating the impact of implementation on the financial statements.

**GASB Statement No. 97** - GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32*, increases consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; mitigates costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and enhances the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. This statement is effective for the Department in 2022 and the Department is currently evaluating the impact of implementation on the financial statements.

**Fair Value Measurements**—Descriptions of the Department’s accounting policies on fair value measurements for items reported on the balance sheets at December 31, 2020 and 2019, are as noted in Note 2 Fair Values, Note 5 Cash and Equity in Pooled Investments and Investments, Note 6 Accounts Receivable and Note 19 Long-Term Purchased Power, Exchanges, and Transmission.

**Fair Value of Financial Instruments**—The Department’s financial instruments reported on the balance sheets at December 31, 2020 and 2019, as Restricted assets and Cash and equity in pooled investments are measured at fair value. These instruments consist primarily of the Department’s share of the City-wide pool of investments (see Note 5 Cash and Equity in Pooled Investments and Investments). Gains and losses on these financial instruments are reflected in Investment income in the statements of revenues, expenses, and changes in net position. The fair value of long-term debt at December 31, 2020 and 2019 is discussed in Note 9 Long-Term Debt.

## THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

### NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

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

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

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

**Assets Held for Future Use**—These assets include property acquired but never used by the Department in electrical service and therefore, held for future service under a definitive plan. Also included is property previously used in service but retired and held pending its reuse in the future under a definitive plan. As of December 31, 2020, and 2019, assets held for future use included the following electrical plant assets: land for future substations, communication system and risk mitigation structures were unchanged totaling \$4.0 million.

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

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

The Department’s customer base accounted for electric energy sales at December 31, 2020 and 2019, as follows:

	2020	2019
Residential	41.0 %	38.5 %
Nonresidential	<u>59.0 %</u>	<u>61.5 %</u>
Total	100.0 %	100.0 %

## THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

### NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

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

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

**Administrative and General Overhead Costs Applied**—Certain administrative and general overhead costs are allocated to construction work-in-progress, major data processing systems development, programmatic conservation, relicensing mitigation projects, and billable operations and maintenance activities based on rates established by cost studies. Pension and benefit costs are allocated to capital and operations and maintenance activities based on a percentage of labor dollars. The administrative and general overhead costs applied totaled \$49.7 million and \$62.4 million in 2020 and 2019, respectively. Benefit costs applied were \$37.4 million and \$27.3 million in 2020 and 2019, respectively. Administrative and general expenses, net of total applied overhead, were \$127.3 million and \$122.9 million in 2020 and 2019, respectively.

**Interest Charged to Construction**—Interest is no longer charged for funds used during construction of plant assets. The department has implemented this change in January 2019 to comply with GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, that 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.

**Nonexchange Transactions**—Capital contributions and grants in the amount of \$53.8 million and \$63.8 million for 2020 and 2019, respectively, are reported in the statements of revenues, expenses, and changes in net position as nonoperating revenues from nonexchange transactions. Capital contributions and grants revenues are recognized based on the accrual basis of accounting. In-kind capital contributions are recognized at estimated acquisition value in the period when all eligibility requirements have been met as described in GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*. Federal and state grant revenues are recognized as earned and are subject to contract and other compliance audits.

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

## THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

### NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

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

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

**Deferred Outflows of Resources**— A deferred outflow of resources represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense) until that future time. See Note 8 for additional information.

**Deferred Inflows of Resources**— A deferred inflow of resources represents an acquisition of net position that applies to a future period and therefore will not be recognized as an inflow of resources (revenue) until that future time. See Note 17 for additional information.

## 2. FAIR VALUE MEASUREMENT

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

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

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

## THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

### NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

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

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

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

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

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

Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Department's assessment of the significance of a particular input to the fair value measurement requires judgement and may affect the valuation of fair value assets and liabilities and their place within the fair value hierarchy levels.

The Department had no assets or liabilities that met the criteria for Level 3 at December 31, 2020 and 2019. The following fair value hierarchy table presents information about the Department's assets and liabilities, reported at fair value on a recurring basis or disclosed at fair value as of December 31, 2020 and 2019:

# THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

## NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

<b>2020</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Total</b>
<b>Assets</b>			
Fair value investments			
Corporate Bonds	\$ 15.6	\$ -	\$ 15.6
International Bank for Reconstruction & Development	6.9	-	6.9
Local Government Investment Pool	-	87.2	87.2
Municipal Bonds	-	53.7	53.7
Repurchase Agreements	12.2	-	12.2
U.S. Government Agency Mortgage-Backed Securities	-	45.0	45.0
U.S. Government Agency Securities	127.7	-	127.7
U.S. Treasury and U.S. Government-Backed Securities	78.9	-	78.9
Total fair value investments	<u>241.3</u>	<u>185.9</u>	<u>427.2</u>
Total Assets at fair value	<u>\$ 241.3</u>	<u>\$ 185.9</u>	<u>\$ 427.2</u>

(\$ in millions)

<b>2019</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Total</b>
<b>Assets</b>			
Fair value investments			
Commercial Paper	\$ -	\$ 14.5	\$ 14.5
Local Government Investment Pool	-	87.1	87.1
Municipal Bonds	-	60.5	60.5
Repurchase Agreements	20.2	-	20.2
US Government Agency Mortgage Backed Securities	-	49.7	49.7
US Government Agency Securities	118.7	-	118.7
Corporate Bonds	8.6	-	8.6
International Bank for Reconstruction & Development	7.6	-	7.6
U.S. Treasury and U.S. Government-Backed Securities T	99.8	-	99.8
Total fair value investments	<u>254.9</u>	<u>211.8</u>	<u>466.7</u>
Total Assets at fair value	<u>\$ 254.9</u>	<u>\$ 211.8</u>	<u>\$ 466.7</u>



## THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

### NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

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#### 3. UTILITY PLANT

**Utility Plant**—Utility plant is recorded at original cost, which includes both direct costs of construction or acquisition and indirect costs.

The capitalization threshold for tangible assets was \$5,000, and for intangible assets, \$500,000 in 2020 and 2019. Plant constructed with capital contributions or contributions in-aid-of construction received from customers is included in Utility plant. Capital contributions and grants totaled \$53.8 million in 2020 and \$63.8 million in 2019. The Department uses a straight-line composite method of depreciation and amortization and, therefore, groups assets into composite groups for purposes of depreciation. Estimated economic lives range from 4 to 50 years. Effective January 1, 2017, the Department changed from a half-year convention method of depreciation to an actual month method. Depreciation and amortization expense as a percentage of depreciable utility plant-in-service was approximately 2.7% in 2020 and 2.7% in 2019. When operating plant assets are retired, their original cost together with retirement costs and removal costs, less salvage, is charged to accumulated depreciation or amortization, if applicable. The cost of maintenance and repairs is charged to expense as incurred, while the cost of replacements and betterments are capitalized. The Department periodically reviews long-lived assets for impairment to determine whether any events or circumstances indicate the carrying value of the assets may not be recoverable over their economic lives. There were no impairments in 2020 and 2019.

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

# THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

## NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

Utility plant-in-service at original cost, including land on December 31, 2020, and 2019, was:

	Hydroelectric Production	Transmission	Distribution	General	Intangibles	Total
<b>2020</b>						
<i>(\$ in millions)</i>						
<b>Utility Plant-in-service - At original cost:</b>						
<b>Plant-in-service, excluding Land:</b>						
1/1/2020 Balance	\$ 939.2	\$ 302.3	\$ 3,011.9	\$ 405.0	\$ 695.7	\$ 5,354.1
Acquisitions	18.4	20.2	106.6	9.7	39.3	194.2
Dispositions	(3.4)	(5.9)	(16.9)	-	-	(26.2)
Transfers and adjustments	-	-	-	-	-	-
12/31/2020 Balance	<u>954.2</u>	<u>316.6</u>	<u>3,101.6</u>	<u>414.7</u>	<u>735.0</u>	<u>5,522.1</u>
<b>Accumulated depreciation and amortization:</b>						
1/1/2020 Balance	\$ 384.9	\$ 92.6	\$ 999.3	\$ 251.1	\$ 251.5	\$ 1,979.4
Increase in accumulated depreciation and amortization	17.2	6.7	85.4	13.9	34.7	157.9
Retirements	(3.3)	(5.4)	(18.7)	-	-	(27.4)
Gain/Loss on Retirements	(1.2)	(2.6)	(3.1)	-	-	(6.9)
12/31/2020 Balance	<u>397.6</u>	<u>91.3</u>	<u>1,062.9</u>	<u>265.0</u>	<u>286.2</u>	<u>2,103.0</u>
<b>Sub Total Plant-in-service - Net, excluding Land:</b>	<u>\$ 556.6</u>	<u>\$ 225.3</u>	<u>\$ 2,038.7</u>	<u>\$ 149.7</u>	<u>\$ 448.8</u>	<u>\$ 3,419.1</u>
<b>Land and land rights:</b>						
1/1/2020 Balance	\$ 56.5	\$ 3.0	\$ 86.5	\$ 6.6	\$ -	\$ 152.6
Acquisitions	1.3	-	-	-	-	1.3
Dispositions	-	-	-	-	-	-
Transfers and adjustments	-	-	-	-	-	-
12/31/2020 Balance	<u>57.8</u>	<u>3.0</u>	<u>86.5</u>	<u>6.6</u>	<u>-</u>	<u>153.9</u>
<b>Construction work-in-process:</b>						
1/1/2020 Balance	\$ 56.8	\$ 50.0	\$ 335.9	\$ 39.9	\$ 10.8	\$ 493.4
Additions	43.9	14.0	190.2	25.2	47.9	321.2
Closings	(21.9)	(22.1)	(110.1)	(9.5)	(39.1)	(202.7)
12/31/2020 Balance	<u>78.8</u>	<u>41.9</u>	<u>416.0</u>	<u>55.6</u>	<u>19.6</u>	<u>611.9</u>
<b>* Total Plant-in-service - Net, including Land and CWIP:</b>	<u>\$ 693.2</u>	<u>\$ 270.2</u>	<u>\$ 2,541.2</u>	<u>\$ 211.9</u>	<u>\$ 468.4</u>	<u>\$ 4,184.9</u>

\* Excludes Nonoperating property and Assets held for future use.

# THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

## NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

	Hydroelectric Production	Transmission	Distribution	General	Intangible	Total
<b>2019</b>						
<i>(\$ in millions)</i>						
<b>Utility Plant-in-service - At original cost:</b>						
<b>Plant-in-service, excluding Land:</b>						
1/1/2019 Balance	\$ 896.4	\$ 290.6	\$ 2,814.4	\$ 391.9	\$ 664.4	\$ 5,057.7
Acquisitions	50.3	13.5	238.8	14.6	40.6	357.8
Dispositions	(7.5)	(1.8)	(41.3)	(1.5)	(9.3)	(61.4)
Transfers and adjustments	-	-	-	-	-	-
12/31/2019 Balance	<u>939.2</u>	<u>302.3</u>	<u>3,011.9</u>	<u>405.0</u>	<u>695.7</u>	<u>5,354.1</u>
<b>Accumulated depreciation and amortization:</b>						
1/1/2019 Balance	\$ 377.8	\$ 88.5	\$ 960.9	\$ 240.7	\$ 225.9	1,893.8
Increase in accumulated depreciation and amortization	16.4	6.5	81.7	13.2	34.9	152.7
Retirements	(9.3)	(2.4)	(43.2)	(2.8)	(9.3)	(67.0)
Transfers and adjustments	-	-	(0.1)	-	-	(0.1)
12/31/2019 Balance	<u>384.9</u>	<u>92.6</u>	<u>999.3</u>	<u>251.1</u>	<u>251.5</u>	<u>1,979.4</u>
<b>Sub Total Plant-in-service - Net: excluding Land:</b>	<u>\$ 554.3</u>	<u>\$ 209.7</u>	<u>\$ 2,012.6</u>	<u>\$ 153.9</u>	<u>\$ 444.2</u>	<u>\$ 3,374.7</u>
<b>Land and land rights:</b>						
1/1/2019 Balance	\$ 54.5	\$ 3.0	\$ 86.1	\$ 6.6	\$ -	\$ 150.2
Acquisitions	2.0	-	0.4	-	-	2.4
Dispositions	-	-	-	-	-	-
Transfers and adjustments	-	-	-	-	-	-
12/31/2019 Balance	<u>56.5</u>	<u>3.0</u>	<u>86.5</u>	<u>6.6</u>	<u>-</u>	<u>152.6</u>
<b>Construction work-in-process:</b>						
1/1/2019 Balance	\$ 67.1	\$ 37.6	\$ 343.1	\$ 32.8	\$ 5.6	\$ 486.2
Additions	45.4	26.3	234.8	27.0	40.1	373.6
Closings	(55.7)	(13.9)	(242.0)	(19.9)	(34.9)	(366.4)
12/31/2019 Balance	<u>56.8</u>	<u>50.0</u>	<u>335.9</u>	<u>39.9</u>	<u>10.8</u>	<u>493.4</u>
<b>*Total Plant-in-service - Net: including Land and CWIP:</b>	<u>\$ 667.6</u>	<u>\$ 262.7</u>	<u>\$ 2,435.0</u>	<u>\$ 200.4</u>	<u>\$ 455.0</u>	<u>\$ 4,020.7</u>

\* Excludes Nonoperating property and Assets held for future use.

# THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

## NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

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### 4. RATE STABILIZATION ACCOUNT

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

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

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

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

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

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

In 2020, actual net wholesale revenue was \$2.3 million less than budgeted. Hence, net transfers of \$2.3 million were made from the RSA to the operating cash account during the year. The 1.5% surcharge enacted August 2016 and the 1.5% surcharge enacted November 2019 remained in effect throughout 2020, for a total of 3.0%. Transfers from the RSA were offset by \$23.5 million revenue resulting from the surcharge. Interest of \$1.5 million was earned on the RSA in 2020. The RSA ending balance was \$96.8 million at December 31, 2020.

# THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

## NOTES TO FINANCIAL STATEMENTS

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In 2019, actual net wholesale revenue was \$39.0 million less than budgeted. Hence, net transfers of \$39.0 million were made from the RSA to the operating cash account during the year. The 1.5% surcharge enacted August 2016 remained in effect throughout 2019. An additional 1.5% surcharge, for a total of 3.0%, was enacted in November 2019 due to the RSA ending the third quarter of 2019 with a balance of less than \$80 million, but greater than \$70 million. Transfers from the RSA were partially offset by \$14.2 million revenue resulting from the surcharge. Interest of \$2.0 million was earned on the RSA in 2019. The RSA ending balance was \$74.1 million at December 31, 2019.

The RSA at December 31, 2020, and 2019, consisted of cash from the following sources:

(\$ in millions)	2020	2019
Rate Stabilization Account		
Beginning balance	\$ 74.1	\$ 96.9
Surcharge revenue	23.5	14.2
RSA interest income	1.5	2.0
Operating revenue	<u>(2.3)</u>	<u>(39.0)</u>
Ending balance	<u>\$ 96.8</u>	<u>\$ 74.1</u>

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

The regulatory deferred inflow of resources rate stabilization unearned revenue account at December 31, 2020, and 2019, consisted of the following:

(\$ in millions)	2020	2019
Unearned revenue - Rate Stabilization Account		
Beginning balance	\$ 49.1	\$ 71.9
Surcharge revenue	23.5	14.2
RSA interest income	1.5	2.0
Operating revenue	<u>(2.3)</u>	<u>(39.0)</u>
Ending balance	<u>\$ 71.8</u>	<u>\$ 49.1</u>

The RSA includes \$25.0 million from the Contingency Reserve Account. This amount is not included in unearned revenue and is not available to be transferred to operating cash. The Contingency Reserve Account was established in 2005 with proceeds that had been deposited in the Bond Reserve Fund, which was replaced with a surety bond.

Net transfers from/(to) the RSA in the statements of revenues, expenses and net position for the periods ended December 31, 2020, and 2019 were as follows:

(\$ in millions)	2020	2019
Transfers from/(to) Rate Stabilization Account	<u>\$ (22.7)</u>	<u>\$ 22.8</u>

## THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

### NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

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

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

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

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

**Investments**—The Department's cash resources may be invested by FAS separate from the cash and investments pool. Investments are managed in accordance with the City's Statement of Investment Policy, with limits and restrictions applied at the City-wide level rather than to specific investments of the Department. As of December 31, 2020, and 2019, the Department 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 and includes, but is not limited to, the topics of Standards of Care, Objectives, Strategy, Eligible Investments and Investment Parameters.

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.

## THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

### NOTES TO FINANCIAL STATEMENTS

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

The three objectives in managing the City of Seattle’s investments 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.

Eligible investments for the City are those securities and deposits authorized by statute (RCW 39.59.040) and include, but are not limited to:

- A. Bonds of the state of Washington and any local government in the state of Washington;
- B. General obligation bonds of a state and general obligation bonds of a local government of a state, which bonds have at the time of investment one of the three highest credit ratings of a nationally recognized rating agency;
- C. Subject to compliance with RCW 39.56.030, registered warrants of a local government in the same county as the government making the investment;
- D. Certificates, notes, or bonds of the United States, or other obligations of the United States or its agencies, or of any corporation wholly owned by the government of the United States;
- E. United States dollar denominated bonds, notes, or other obligations that are issued or guaranteed by supranational institutions, provided that at the time of investment, the institution has the United States government as its largest shareholder;
- F. Federal home loan bank notes and bonds, federal land bank bonds and federal national mortgage association notes, debentures, and guaranteed certificates of participation, or the obligations of any other government sponsored corporation whose obligations are or may become eligible as collateral for advances to member banks as determined by the board of governors of the federal reserve system;
- G. Bankers’ acceptances purchased in the secondary market;
- H. Commercial paper purchased in the secondary market;
- I. Corporate notes purchased in the secondary market.

## THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

### NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

State statute also permits investment in the following types of securities:

- A. Certificates of deposit or demand deposits with financial institutions made in accordance with the provisions of Chapter 39.58 RCW;
- B. Washington State Local Government Investment Pool (LGIP), Chapter 43.250 RCW;
- C. Repurchase agreements collateralized by the above eligible securities issued by the U.S. Government and its sponsored entities.

As of December 31, 2020, and 2019, the City's pooled investments were as follows:

	2020		2019	
	Fair Value of City Pooled Investments	Weighted-Average Maturity (Days)	Fair Value of City Pooled Investments	Weighted-Average Maturity (Days)*
<i>(\$ in millions)</i>				
Corporate Bonds	\$ 92.7	508	\$ 50.2	545
International Bank for Reconstruction & Development	41.1	853	44.7	1060
Local Government Investment Pool	519.7	1	509.6	2
Municipal Bonds	319.7	702	354.0	781
Repurchase Agreements	72.6	4	118.2	2
U.S. Government Agency Mortgage-Backed Securities	268.7	1608	290.9	1811
U.S. Government Agency Securities	760.6	1018	693.8	1246
U.S. Treasury and U.S. Government-Backed Securities	470	732	583.5	902
Commercial Paper	0	0	84.9	22
Total	<u>\$ 2,545.1</u>		<u>\$ 2,729.8</u>	
Portfolio Weighted Average Maturity		731		689

\*2019 Weighted-Average Maturity (Days) - updated

As of December 31, 2020, and 2019, the Department's share of the City pool was as follows:

<i>(\$ in millions)</i>	2020	2019
Operating cash and equity in pooled investments	\$ 102.4	\$ 190.2
Restricted cash and equity in pooled investments	<u>324.8</u>	<u>276.5</u>
Total	<u>\$ 427.2</u>	<u>\$ 466.7</u>
Balance as a percentage of City pool cash and investments	16.7%	17.1%



## THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

### NOTES TO FINANCIAL STATEMENTS

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***Fair Value of Pooled Investments***—The City reports investments at fair value and categorizes its fair value measurements within the fair value hierarchy established by GASB Statement No. 72, *Fair Value Measurement and Application*. See Note 2 Fair Value Measurement. Fair value of the City's pooled investments fluctuates with changes in interest rates and the underlying size of the pooled investment portfolio. To mitigate interest rate risk in the City's pooled investment portfolio, the City typically holds its investments to maturity and manages its maturities to ensure sufficient monthly cash flow to meet its liquidity requirements. On March 11, 2021, President Biden signed into law the \$1.9 trillion "American Rescue Plan of 2021" to combat economic fallout from the Covid-19 pandemic that began during the first quarter of 2020. The Fed has communicated its ongoing support to maintain short-term historically low interest rates until the US economy can reach and sustain 2% inflation and unemployment return to pre-pandemic levels. Yields for longer term US treasuries have risen over 1Q21 in response to the unprecedented coordination of fiscal and monetary policy. By the end of March 2021, yields for Treasury Bills held close to zero while the yield for the U.S. 10-year Treasury rose to 1.74%, the highest it has been since December 2019 before Covid-19 broke out, and 81 basis point higher than the close on Dec. 31, 2020.

The City held \$519.7 million 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.

To provide for the City's investment objectives, parameters have been established that guide the investment officers. Management of the Pool is subject to the restrictions outlined in the following sections.

***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 percent and 125 percent 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, commercial paper and Banker's Acceptances.

## THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

### NOTES TO FINANCIAL STATEMENTS

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**Credit Risk**—Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

To mitigate credit risk, municipal bonds must have one of the three highest credit ratings of a Nationally Recognized Statistical Rating Agency (NRSRO) at the time of purchase. The Office of the State Treasurer interprets the three highest credit ratings to include AAA, AA and A including gradations within each category. For example, the lowest credit rating allowable is A3 by Moody's and A- by S&P and Fitch.

Commercial paper and corporate note investments must adhere to the Washington State Investment Board Policy Number 2.05.500, and together are defined as the "credit portfolio" with the following constraints in place to mitigate credit risk:

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 be rated at least weak single-A or better by all the major rating agencies that rate the note at the time of purchase. Corporate notes rated in the broad single-A category with a negative outlook may not be purchased. Portfolio holdings of corporate notes downgraded to below single A and portfolio holdings of securities rated single A with their outlooks changed to negative may continue to be held. No additional purchases are permitted.

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 fair value.

**Concentration Risk**—Concentration Risk is the risk of loss attributed to the magnitude of investments in a single issuer. The City manages concentration risk by limiting its investments in any one issuer in accordance with the City's investment policy and state statutes. The policy limits vary for each investment category.

The maturity of a corporate note shall be 5.5 years or less at the time of purchase. The maximum duration of aggregate corporate note investments shall not exceed 3 years. No corporate note issuer may exceed 3 percent of the fair value of the assets of the total portfolio. The percentage of corporate notes that may be purchased from any single issuer rated AA or better by all major rating agencies that rate the note is 3 percent of assets of the total portfolio. The percentage of corporate notes that may be purchased from any single issuer in the broad single-A category from all the major rating agencies that rate the security is 2 percent of the total portfolio.

The credit portfolio may not exceed 25 percent of the Pool's fair value. Credit investments must be diversified by sector and industry. Commercial paper and corporate notes must be purchased in the secondary market and directly from an issuer. No single issuer shall exceed 3 percent of the total portfolio's fair value.

The individual country limit of non-U.S. and non-Canadian exposure is 2 percent of the total portfolio. The exposure is determined by the country of domicile of the issuer.

# THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

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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. There is a maximum of 5 percent of the Pool in any municipal issuer. The City's investments in which 5% or more is invested in any single issuer as of December 31, 2020 and 2019 are as follows:

(\$ in millions)		2020	
Issuer	Fair Value	Percent of Total Investments	
Local Government Investment Pool	\$ 519.7	20%	
Federal Farm Credit Bank	519.5	20%	
U.S. Treasury and Government-Backed Securities	470.0	18%	
Municipal Bonds	319.7	13%	
Federal National Mortgage Association	267.5	11%	
Federal Home Loan Mortgage Corporation	242.3	10%	
	<u>\$ 2,338.7</u>	<u>92%</u>	
(\$ in millions)		2019	
Issuer	Fair Value	Percent of Total Investments	
US Treasury (HUD Debenture, US Treasury Bonds)	\$ 583.5	21%	
Washington State Treasurer's Investment Pool	509.6	19%	
Federal Farm Credit Bank, Federal Home Loan Bank	406.9	15%	
Municipal Bonds	354.0	13%	
Federal Home Loan Mortgage Corporation (Freddie Mac) and FHMS K Series	293.8	11%	
Federal National Mortgage Association (Fannie Mae), FNA, and FNMA DUS ACES, FN DUS POOL	284.0	10%	
SWEEP-REPO	118.2	4%	
	<u>\$ 2,550.0</u>	<u>93%</u>	

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

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

# THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

## NOTES TO FINANCIAL STATEMENTS

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

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

## 6. ACCOUNTS RECEIVABLE

Accounts receivable at December 31, 2020 and 2019, consist of:

(\$ in millions)	Retail Electric	Wholesale Power	Other Operating	Operating Subtotal	Nonoperating Subtotal	Total
<b>2020</b>						
Accounts receivable	\$ 95.6	\$ 8.7	\$ 18.6	\$ 122.9	\$ 63.1	\$ 186.0
Less allowance for doubtful accounts	(27.6)	-	(14.2)	(41.8)	-	(41.8)
	<u>\$ 68.0</u>	<u>\$ 8.7</u>	<u>\$ 4.4</u>	<u>\$ 81.1</u>	<u>\$ 63.1</u>	<u>\$ 144.2</u>
<b>2019</b>						
Accounts receivable	\$ 76.3	\$ 5.4	\$ 16.1	\$ 97.8	\$ 60.7	\$ 158.5
Less allowance for doubtful accounts	(14.8)	-	(12.6)	(27.4)	-	(27.4)
	<u>\$ 61.5</u>	<u>\$ 5.4</u>	<u>\$ 3.5</u>	<u>\$ 70.4</u>	<u>\$ 60.7</u>	<u>\$ 131.1</u>

There was no exchange energy at fair value under long-term contracts within Wholesale power receivables at December 31, 2020 and 2019. (see Note 19 Long-Term Purchased Power, Exchanges, and Transmission).

## 7. OTHER ASSETS

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

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

- Suburban infrastructure long-term receivables are underground electrical infrastructure costs for suburban jurisdictions, which are recovered through rates from customers within the respective jurisdictions for a period of approximately 25 years, as approved by the Seattle City Council.

## THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

### NOTES TO FINANCIAL STATEMENTS

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- Long-term interfund receivable for expected recoveries related to environmental costs covered under GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* (see Note 15 Environmental Liabilities).
- Puget Sound Energy interconnection and substation costs are being amortized to expense over 25 years.
- Studies, surveys, and investigations are reported as other assets until such time they result in active projects, or when it is determined no assets will result, at which time they are expensed.
- Long-term customer loans receivable and the remaining components of other assets, are not amortized.

Regulatory assets and other assets, net, at December 31, 2020 and 2019, consisted of the following:

(\$ in millions)	2020	2019
Regulatory assets:		
Conservation costs—net	\$ 256.7	\$ 261.4
Endangered Species Act costs—net	1.4	1.5
Environmental costs	<u>117.1</u>	<u>116.0</u>
	<u>375.2</u>	<u>378.9</u>
Other charges and assets—net:		
Suburban infrastructure long-term receivables	47.3	49.1
Long-term interfund receivable for environmental costs	0.6	0.6
Long-term customer notes receivable	1.1	-
Puget Sound Energy interconnection and substation	-	0.1
Studies, surveys, and investigations	2.8	2.8
Other	<u>0.1</u>	<u>0.5</u>
	<u>51.9</u>	<u>53.1</u>
Total Other Assets	<u>\$ 427.1</u>	<u>\$ 432.0</u>

## 8. DEFERRED OUTFLOWS OF RESOURCES

In accordance with the requirements of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*, the Department recognizes pension contributions made between the pension plan measurement date and the Department's fiscal year end as deferred outflows of resources. Also recognized as deferred outflows of resources are losses resulting from differences between projected and actual earnings on plan investments, which are amortized over a closed five-year period, and losses related to differences between expected and actual experience with regard to economic or demographic factors in the measurement of total pension liability, which are amortized to pension expense over a period equal to the expected remaining service life of employees receiving pension benefits. See Note 13 Seattle City Employees' Retirement System.

## THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

### NOTES TO FINANCIAL STATEMENTS

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In accordance with the requirements of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB)*, the Department records the contributions subsequent to the net OPEB liability measurement date, but before the end of the reporting period, as deferred outflows of resources. Also, the deferred outflows of resources result from (1) differences between expected and actual experience, (2) changes in assumptions, and (3) differences between projected and actual investment earnings. Deferred outflows of resources from assumption changes and experience differences are amortized using a systematic and rational method over a closed period equal to the average remaining service lives of all plan participants. Deferred outflows from investment earnings differences are amortized over a closed five-year period. See Note 14 Other Postemployment Benefits.

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

Deferred outflows of resources at December 31, 2020 and 2019 consisted of the following:

<i>(\$ in millions)</i>	<b>2020</b>	<b>2019</b>
Deferred outflows of resources:		
Unrealized contributions and losses related to pension	\$ 42.3	\$ 76.2
Unrealized contributions and losses related to OPEB	2.6	1.9
Charges on advance refunding	<u>20.1</u>	<u>24.6</u>
Total	<u>\$ 65.0</u>	<u>\$ 102.7</u>

### 9. LONG-TERM DEBT

At December 31, 2020 and 2019, the Department's long-term debt consisted of the following prior lien or parity bonds:

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## NOTES TO FINANCIAL STATEMENTS

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LONG-TERM (\$ in millions)		Rate	Maturity Year	Original Issuance	2020	2019
Prior Lien Bonds:						
2020A	ML&P Improvement Revenue Bonds	4.000%–5.000%	2050	\$ 198.3	\$ 198.3	\$ -
2019A	ML&P Improvement Revenue Bonds	5.000%–5.000%	2049	210.5	207.0	210.5
2019B	ML&P Refunding Revenue Bonds	5.000%–5.000%	2026	140.3	140.3	140.3
2018C2	ML&P Refunding Revenue Bonds	variable rates	2046	49.2	45.9	47.2
2018C1	ML&P Refunding Revenue Bonds	variable rates	2046	49.2	45.9	47.2
2018B2	ML&P Refunding Revenue Bonds	variable rates	2045	50.1	50.1	50.1
2018B1	ML&P Refunding Revenue Bonds	variable rates	2045	50.1	50.1	50.1
2018A	ML&P Improvement Revenue Bonds	4.000%–5.000%	2048	263.8	255.5	259.9
2017C	ML&P Improvement and Refunding Revenue Bonds	4.000%–5.000%	2047	385.5	372.0	376.3
2016A	ML&P Revenue Bonds	4.050% fixed	2041	31.9	31.9	31.9
2016B	ML&P Refunding Revenue Bonds	4.000%–5.000%	2029	116.9	105.1	115.3
2016C	ML&P Improvement and Refunding Revenue Bonds	4.000%–5.000%	2046	160.8	151.6	154.1
2015A	ML&P Revenue Bonds	4.000%–5.000%	2045	171.9	143.2	149.0
2014	ML&P Improvement and Refunding Revenue Bonds	4.000%–5.000%	2044	265.2	185.0	198.4
2013	ML&P Improvement and Refunding Revenue Bonds	2.000%–5.000%	2043	190.8	118.3	171.9
2012A	ML&P Improvement and Refunding Revenue Bonds	2.000%–5.000%	2041	293.3	159.3	212.6
2012C	ML&P Clean Renewable Energy Bonds	3.400%–3.750%	2033	43.0	43.0	43.0
2011A	ML&P Improvement and Refunding Revenue Bonds	1.000%–5.500%	2036	296.3	46.1	58.0
2011B	ML&P Clean Renewable Energy Bonds	5.750%–5.750%	2027	10.0	10.0	10.0
2010A	ML&P Build America Bonds	4.447%–5.570%	2040	181.6	181.6	181.6
2010B	ML&P Improvement and Refunding Revenue Bonds	2.000%–5.000%	2026	596.9	-	46.4
2010C	ML&P Recovery Zone Economic Development Bonds	5.590%–5.590%	2040	13.3	13.3	13.3
Total prior lien bonds				\$ 3,768.9	\$ 2,553.5	\$ 2,567.1

The Department had the following activity in long-term debt during 2020 and 2019:

(\$ in millions)	Balance at 1/1/20	Additions	Reductions	Balance at 12/31/20	Current Portion
<b>2020</b>					
Prior Lien Bonds - fixed rate	\$ 2,372.5	\$ 198.3	\$ (209.4)	\$ 2,361.4	\$ 115.6
Prior Lien Bonds - variable rate	194.6	-	(2.5)	192.1	2.1
	\$ 2,567.1	\$ 198.3	\$ (211.9)	\$ 2,553.5	\$ 117.7
(\$ in millions)	Balance at 1/1/19	Additions	Reductions	Balance at 12/31/19	Current Portion
<b>2019</b>					
Prior Lien Bonds - fixed rate	\$ 2,294.1	\$ 350.8	\$ (272.4)	\$ 2,372.5	\$ 120.1
Prior Lien Bonds - variable rate	197.5	-	(2.9)	194.6	2.5
	\$ 2,491.6	\$ 350.8	\$ (275.3)	\$ 2,567.1	\$ 122.6

**Prior Lien Bonds**—In August 2020, the Department issued \$198.3 million of tax exempt Municipal Light and Power (ML&P) Improvement Revenue Bonds (2020A Bonds) and in November 2020 advance refunded or defeased \$39.4 million of tax exempt Municipal Light and Power (ML&P) Improvement and Refunding Revenue Bonds (2012A Bonds) and \$49.9 million of (2013 Bonds). The 2020A Bonds had coupon interest rates ranging from 4.00% of 5.00% and mature serially from July 1, 2021 through July 1, 2050. The arbitrage yield was 1.19% for the 2020A Bonds. Arbitrage yield, when used in computing the present worth of all payments of principal and interest on the Bonds in the manner prescribed by the Internal Revenue Code, produces an amount equal to the issue price of the Bonds. Proceeds from the 2020A Bonds were used to finance certain capital improvement and conservation programs and to make a deposit to the reserve fund.

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The debt service on the 2020A Bonds requires a cash flow over the life of the bonds of \$320.1 million, including \$121.8 million in interest. Bonds defeased in November 2020 partially refunded certain 2012A Bonds and 2013 Bonds on an advanced refunding basis. Advance refunding is a refunding in which the refunded issue(s) remains outstanding for a period of more than 90 days after a bond defeasance transaction, the proceeds of which are held in escrow invested in securities and used to pay principal and interest on the refunded issue(s). The source of refunding for the 2012A and 2013 bonds was from operating cash whereby \$99.9 million of open market securities were purchased and placed in escrow to pay principal and interest on the refunded bonds. The accounting loss on refunding for 2020 was \$2.8 million.

**Prior Lien Bonds**— In October 2019, the Department issued \$210.5 million of tax exempt Municipal Light and Power (ML&P) Improvement Revenue Bonds (2019A Bonds) and in November 2019 issued \$140.3 million of tax exempt Municipal Light and Power (ML&P) Refunding Revenue Bonds (2019B Bonds). The 2019A Bonds had a coupon interest rate of 5.00% and mature serially from April 1, 2020 through April 1, 2049. The 2019B serial Bonds also had a coupon interest rate of 5.00% and mature serially from February 2021 through February 2026. The arbitrage yield was 1.82% for both the 2019A and 2019B Bonds. Arbitrage yield, when used in computing the present worth of all payments of principal and interest on the Bonds in the manner prescribed by the Internal Revenue Code, produces an amount equal to the issue price of the Bonds. Proceeds from the 2019A Bonds were used to finance certain capital improvement and conservation programs and to make a deposit to the reserve fund. Proceeds from the 2019B Bonds were used to refund \$155.8 million of the 2010B Bonds.

The debt service on the 2019A Bonds requires a cash flow over the life of the bonds of \$405.7 million, including \$195.1 million in interest, the debt service on the 2019B Bonds requires a cash flow over the life of the bonds of \$166.5 million, including \$26.3 million in interest. The 2019B Bonds refunded the 2010B Bonds on an advanced refunding basis. The difference between the cash flows required to service the old and new debt and to complete the refunding for the 2019B Bonds totaled \$20.6 million and the aggregate economic gain on refunding totaled \$19.4 million at present value. The accounting gain on refunding for the 2019B Bonds was \$2.0 million.

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

**Federal Sequestration**—The sequestration provisions of the Budget Control Act of 2011 went into effect on March 1, 2013. The only direct impact of sequestration on the Department for 2020 was a 5.9% reduction through the end of the federal fiscal year (FFY) ending September 30, 2020 at which time the automatic reductions were adjusted to 5.7% in the amount the Department expects to receive from the federal government in connection with its Municipal Light and Power Revenue Bonds, 2010A (Taxable Build America Bonds—Direct Payment); Municipal Light and Power Revenue Bonds, 2010C (Taxable Recovery Zone Economic Development Bonds—Direct Payment); Municipal Light and Power Improvement Revenue Bonds, 2011B (Taxable New Clean Renewable Energy Bonds—Direct Payment); Municipal Light and Power Improvement Revenue Bonds, 2012C (Taxable New Clean Renewable Energy Bonds—Direct Payment); and Municipal Light and Power Revenue Bonds, 2016A (Taxable New Clean Renewable Energy



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Bonds—Direct Payment). Because of this reduction, the Department received \$0.4 million less in interest subsidies than originally anticipated for 2020. The Department has sufficient revenues to pay the interest without these subsidies. The effect for the accrual of federal subsidies as of December 31, 2020 was inconsequential. The effect during 2021 is estimated to be lower federal subsidies by approximately \$0.4 million. The effect thereafter for federal subsidies is indeterminable. Sequestration was originally in effect through FFY 2021 and has subsequently been extended through approximately FFY 2029.

Debt service requirements for prior lien bonds, excluding federal subsidies for the 2016, 2012, 2011 and 2010 bonds are shown in the table below. Future debt service requirements on the variable 2018B and 2018C Bonds are estimated based on actual interest rates in effect as of December 31, 2020.

(\$ in millions)

Years Ending December 31	Fixed Rate Bonds		Variable Rate Bonds		Total
	Principal Redemptions	Interest Requirements	Principal Redemptions	Interest Requirements	
2021	\$ 115.6	\$ 105.1	\$ 2.1	\$ 0.9	\$ 223.7
2022	118.8	100.3	2.2	0.9	222.2
2023	121.3	94.2	2.3	0.9	218.7
2024	125.0	88.1	2.3	0.9	216.3
2025	115.0	81.7	2.4	0.9	200.0
2026 – 2030	432.6	338.8	31.7	3.9	807.0
2031 – 2035	386.2	249.9	38.7	3.1	677.9
2036 – 2040	443.3	158.8	47.2	2.1	651.4
2041 – 2045	345.4	71.6	57.7	0.9	475.6
2046 – 2050	158.2	13.5	5.5	-	177.2
Total	<u>\$ 2,361.4</u>	<u>\$ 1,302.0</u>	<u>\$ 192.1</u>	<u>\$ 14.5</u>	<u>\$ 3,870.0</u>

*Reserve Fund*—The Department has created and is required under Ordinance No. 125459 (Bond Ordinance) to maintain a Reserve Fund for the purpose of securing the payment of the principal of and interest on all Parity Bonds outstanding and all amounts due under Parity Payment Agreements. The Reserve Fund is a pooled reserve and is an account within the books of the Department.

*Reserve Fund Requirement*—Under the Bond Ordinance, the aggregate Reserve Fund Requirement for all Parity Bonds is equal to the sum of the Reserve Fund Requirements established for each issue of Parity Bonds outstanding. The Bond Ordinance permits the City to establish the Reserve Fund Requirement (if any) for each issue of the Bonds or of Future Parity Bonds in connection with approving the sale of each such issue. Solely for purposes of setting the Reserve Fund Requirement, all series issued together under a single bond sale resolution are treated as a single “issue”. Upon issuance of the 2020A Bonds, the aggregate Reserve Fund Requirement for all Parity Bonds outstanding was \$163.1 million. The Reserve Fund Requirement is satisfied by cash held in the Reserve Fund and the current value of the surety bond (see below). The reserve fund balance of \$153.8 million at December 31, 2020 consisted of \$107.9 million in cash which included a \$4.4 million deposit from the 2020A bond proceeds, and \$45.9 million in surety bond replacement funds. The reserve fund balance at December 31, 2019 of \$146.5 million consisted of \$100.6 million in cash which included a \$5.5 million deposit from the 2019A bond proceeds, and \$45.9 million in surety bond replacement funds.

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***Surety Bond***—Under the Bond Legislation, the City is permitted to provide for the Reserve Fund Requirement with an Alternate Reserve Security consistent with the Bond Legislation requirements. Under the Bond Legislation, a surety bond qualifies as Qualified Insurance for purposes of satisfying the Reserve Fund Requirement if the provider's ratings are in one of the top two rating categories at the time the policy is issued. The Bond Legislation does not require that the Reserve Fund be funded with cash or an Alternate Reserve Security if the provider of qualified insurance is subsequently downgraded. The City currently has a surety bond (the "Surety Bond") purchased from Assured Guaranty Municipal Corporation (AGM), with a policy limit that is equal to \$71.5 million. This amount is used to satisfy a large proportion of the aggregate Reserve Fund Requirement.

AGM is currently rated A2 and AA by Moody's Investors Service and Standard & Poor's Ratings Services, respectively.

***Irrevocable Trust Accounts***—\$100.0 million from operating cash was placed in a separate irrevocable trust account to partially defease the 2012A and 2013 Bonds on an advanced refunding basis. There were balances outstanding in the irrevocable trust account during 2020 for prior lien bonds advance refunded or defeased in 2020 with balances outstanding for prior lien bonds advance refunded prior to 2019. The ending balance of irrevocable trust accounts for the defeased bonds outstanding was \$234.5 million and \$333.0 million as of December 31, 2020 and 2019 respectively. During 2020, \$187.9 million of the defeased bonds were called and paid from the 2020 irrevocable trust account. Neither the assets of the trust accounts nor the liabilities for the defeased bonds are reflected in the Department's financial statements. Funds held in the irrevocable trust accounts at December 31, 2020 are sufficient to service and redeem the defeased bonds outstanding.

***Bond Ratings***—The 2020 and 2019 Bonds, along with other outstanding parity bonds, were rated "Aa2" and "AA"; and "Aa2" and "AA", by Moody's Investors Service, Inc. and Standard Poor's Rating Services, respectively.

***Revenue Pledged***—Revenue bonds are special limited obligations payable from and secured solely by the gross revenues of the Department, less charges for maintenance and operations, and by money in the debt service account and Reserve Fund. Principal and interest paid during 2020 and 2019 was \$228.5 million and \$226.9 million, respectively. Total revenue available for debt service as defined for the same periods was \$386.3 million and \$462.7 million, respectively. Annual interest and principal payments are expected to require 57.9% of revenues available for debt service for 2021 and required 49.4% in 2020.

***Federal Arbitrage Regulations***—Revenue bonds are subject to federal arbitrage regulations and the Department has complied with these regulations. As of December 31, 2020 and 2019, arbitrage liability existed for certain bonds outstanding totaling \$0.7 million for both years.

***Certain Disclosures Related to Debt*** – There were no direct borrowings or direct placements for the Department as of December 31, 2020 and 2019, respectively.

The Department has an arrangement with the City of Seattle Department of Finance and Administrative Services (FAS) regarding potential sources of funds that could be accessed if cash resources of the Department are insufficient for a period of less than 90 days. The Department relies on ready access to the City's consolidated cash pool via interfund loans as a source of short-term emergency liquidity. Interfund loans of longer than 90 days require review by the Debt Management Policy Advisory Committee (DMPAC) and City Council approval. As of December 31, 2020, and 2019, there were no interfund loans outstanding.

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Also, there were no financed purchases of underlying assets or accounts payable regarding capital leases as of December 31, 2020 and 2019, respectively.

**Default of Debt** – In the event of a default, Bond owners would be permitted to pursue remedies available under State law, including the right to bring action against the City to compel the setting aside and payment of the amounts pledged to be paid into the Parity Bond Fund in respect of the then-Outstanding Parity Bonds.

If any Bond of a Series is not paid when properly presented at its maturity or redemption date, the City will be obligated to pay, solely from the Seattle Municipal Light Revenue Parity Bond Fund (the “Parity Bond Fund”) and the other sources pledged in the Bond Ordinance, interest on that Bond at the same rate provided in that Bond from and after its maturity or redemption date until that Bond, principal, premium, if any, and interest, is paid in full or until sufficient money for its payment in full is on deposit in the Parity Bond Fund and that Bond has been called for payment by giving notice of that call to the Registered Owner of that Bond.

**Other**—There were no liens on property or revenue pertaining to parity bonds and all bond covenants were in compliance for the Department’s prior lien bonds as of December 31, 2020 and 2019, respectively.

**Fair Value**— Debt is recorded and presented in the financial statements at carrying value net of premiums and discounts and shown below with fair values as provided by the Department’s financial advisor, Piper Sandler Companies. The fair value for the Department’s bonds is estimated based on the quoted market prices for the same or similar issues or on the current rates offered to the Department for debt of the same remaining maturities. Carrying amounts and fair values at December 31, 2020 and 2019, were as follows:

(\$ in millions)	2020		2019	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-term debt:				
Prior lien bonds	\$ 2,812.5	\$ 2,950.9	\$ 2,805.1	\$ 2,889.0

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

The excess of costs incurred over the carrying value (refunding loss), or the excess of carrying value over costs (refunding gain) of bonds refunded on early extinguishment of debt is amortized as a component of interest expense using the effective interest method over the terms of the issues to which they pertain. Net refunding losses and gains amortized to interest expense totaled \$6.0 million in 2020 and \$5.1 million in 2019. Charges on advance refunding in the amount of \$20.1 million and \$24.6 million are included as a component of Deferred Outflows of Resources on the 2020 and 2019 balance sheets, respectively. Gains on advance refunding included as a component of Deferred Inflows of Resources were \$1.4 million in 2020 and \$1.9 million in 2019.

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#### 10. NONCURRENT LIABILITIES—The Department had the following activities during 2020 and 2019:

(\$ in millions)

	Balance at 1/1/20	Additions	Reductions	Balance at 12/31/20
<b>2020</b>				
Net pension liability	\$ 321.6	\$ -	\$ (56.4)	\$ 265.2
Accumulated provision for injuries and damages	112.0	0.7	-	112.7
Compensated absences	16.7	3.6	-	20.3
Other	9.5	0.2	-	9.7
Total	<u>\$ 459.8</u>	<u>\$ 4.5</u>	<u>\$ (56.4)</u>	<u>\$ 407.9</u>
	Balance at 1/1/19	Additions	Reductions	Balance at 12/31/19
<b>2019</b>				
Net pension liability	\$ 232.5	\$ 89.1	\$ -	\$ 321.6
Accumulated provision for injuries and damages	108.9	3.1	-	112.0
Compensated absences	15.0	1.7	-	16.7
Other	9.4	0.3	(0.2)	9.5
Total	<u>\$ 365.8</u>	<u>\$ 94.2</u>	<u>\$ (0.2)</u>	<u>\$ 459.8</u>

Additional information on the Net pension liability can be found in Note 13 Seattle City Employees' Retirement System. Information about the provision for injuries and damages can be found in Note 11 Provision for Injuries and Damages and Note 15 Environmental Liabilities. Other includes primarily a liability for Other Postemployment Benefits; see Note 14 Other Postemployment Benefits.

#### 11. PROVISION FOR INJURIES AND DAMAGES

The Department establishes liabilities for claims based on estimates of the ultimate projected cost of claims. Environmental related expenses are discussed in Note 15 Environmental Liabilities. The length of time for which such costs must be estimated varies depending on the nature of the claim. Actual claims costs depend on such factors as inflation, changes in doctrines of legal liability, damage awards, and specific incremental claim adjustment expenses. Claims liabilities are recomputed periodically using actuarial and statistical techniques to produce current estimates, which reflect recent settlements, claim frequency, industry averages, City-wide cost allocations, and economic and social factors. For 2020 and 2019, liabilities for lawsuits, claims, and workers' compensation were discounted over a period of 28 to 33 years at the City's average annual rate of return on investments, which was 2.36% and 2.00%, respectively.

To address the risk for certain losses arising from personal and property damage claims by third parties and for job-related illnesses and injuries to employees, the Department as part of the City of Seattle, has been self-insured for most of its general liability risks, for workers' compensation, and for employees' health care benefits. Effective June 1, 2020, the City had general liability insurance coverage for losses over a \$6.5 million self-insured retention per occurrence with a \$35 million limit per occurrence in the aggregate. Prior to June 1, 2020, the City had general liability insurance coverage for losses over a \$6.5 million self-insured retention per occurrence with a \$100 million limit per occurrence in the aggregate. The Department had no settled claims exceeding coverage in the last three years.

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

The changes in the provision for injuries and damages at December 31, 2020 and 2019 are as follows:

(\$ in millions)	2020	2019
Beginning unpaid claims liability	\$ 10.3	\$ 10.1
Payments	(3.8)	(4.1)
Incurred claims	<u>6.1</u>	<u>4.3</u>
Ending unpaid claims liability	<u>\$ 12.6</u>	<u>\$ 10.3</u>

The provision for injuries and damages included in current and noncurrent liabilities at December 31, 2020 and 2019 is as follows:

(\$ in millions)	2020	2019
Noncurrent liabilities	\$ 8.4	\$ 6.9
Accounts payable and other current liabilities	<u>4.2</u>	<u>3.4</u>
Total liability	<u>\$ 12.6</u>	<u>\$ 10.3</u>

## 12. ACCOUNTS PAYABLE

**Accounts Payable and Other Current Liabilities**—The composition of accounts payable and other current liabilities at December 31, 2020 and 2019, is as follows:

(\$ in millions)	2020	2019
Vouchers payable	\$ 33.7	\$ 49.1
Power accounts payable	23.5	24.8
Taxes payable	8.1	10.6
Claims payable	6.4	6.9
Guarantee deposit and contract retainer	34.1	26.6
Other accounts payable	<u>3.6</u>	<u>11.3</u>
Total	<u>\$ 109.4</u>	<u>\$ 129.3</u>

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#### 13. SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM

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

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

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

Following is membership data for employees covered by the benefit terms as of the reporting date, December 31, 2020, and the measurement date, December 31, 2019 and the reporting date December 31, 2019, and the measurement date December 31, 2018:

	2020	2019
Active members	9,410	9,440
Retired members and beneficiaries receiving benefits	7,138	7,029
Vested terminated employees entitled to benefits	1,366	1,371
Terminated employees not entitled to benefits beyond contributions and accumulated interest, non-vested	1,442	1,401

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

The NPL was measured as of December 31, 2019 and December 31, 2018, and the total pension liability used to calculate the NPL was based on an actuarial valuation as of January 1, 2019 and January 1, 2018, respectively.

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

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

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

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

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

***Contributions***—Member and employer contributions rates are established by Seattle Municipal Code Chapter 4.436. The overall contribution rate is determined by the actuarial formula identified as the Entry Age Cost Method. Member contribution rates are also set via collective bargaining contracts. The overall formula determines the amount of contributions necessary to fund the current service cost, representing the estimated amount necessary to pay for benefits earned by the employees during the current service year and the amount of contributions necessary to pay for prior service costs. Total required contributions, including amounts necessary to pay administrative costs, are determined through annual actuarial valuations. Contribution rates and amounts were as follows as of the reporting dates, December 31, 2020 and December 31, 2019, and the measurement dates, December 31, 2019 and December 31, 2018:

# THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

## NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

	Contributions					
	Rates				Amounts	
	SCERS I Employer	SCERS I Employee	SCERS II Employer	SCERS II Employee	City	Department
<b>2020</b>	16.20%	10.03%	14.42%	7.00%	\$141.0	\$28.7
<b>2019</b>	15.23%	10.03%	14.42%	7.00%	\$118.4	\$24.8

**Net Pension Liability**—The Department reported a liability of \$265.2 million and \$321.6 million for its proportionate share of net pension liability as of December 31, 2020 and December 31, 2019, respectively. The Department's proportion of the NPL as of December 31, 2020 and December 31, 2019 was based on contributions to SCERS during the fiscal year ended December 31, 2019 and December 31, 2018, respectively. The Department's proportionate share was 21.10% and 21.17% for the years ended December 31, 2019 and December 31, 2018, respectively. The net pension liability was measured as of December 31, 2019 and December 31, 2018, and the total pension liability used to calculate the net pension liability was based on an actuarial valuation as of January 1, 2019 and January 1, 2018, respectively.



# THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

## NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

Changes in Net Pension Liability		
(\$ In millions)		
	Fiscal Year Ended December 31	
	2020	2019
<u>Total Pension Liability</u>		
Service cost	\$ 22.5	\$ 22.5
Interest on total pension liability	64.0	62.1
Effect of economic/demographic gains or losses	(4.5)	(2.6)
Effect of assumptions changes or inputs	-	21.2
Benefit payments	(42.9)	(40.3)
Refund of contributions	(3.2)	(4.3)
Net change in total pension liability	35.9	58.6
Total pension liability, beginning of period	896.9	831.6
Effect of change in proportionate share	(3.0)	6.7
Adjusted total pension liability, beginning of period	893.9	838.3
Total pension liability, end of period	929.8	896.9
<u>Plan fiduciary net position</u>		
Benefit payments	(42.9)	(40.3)
Refunds of contributions	(3.2)	(4.3)
Administrative expenses	(2.0)	(2.6)
Member contributions	15.9	16.2
Employer contributions	25.1	24.9
Net investment income	98.3	(22.6)
Net change in Plan fiduciary net position	91.2	(28.7)
Plan fiduciary net position, beginning of period	575.3	599.1
Effect of change in proportionate share	(1.9)	4.9
Adjusted fiduciary net position, beginning of period	573.4	604.0
Plan fiduciary net position, end of period	664.6	575.3
Net pension liability, end of period	\$ 265.2	\$ 321.6

The Department incurred pension expense of \$24.7 million and \$33.6 million for the years ended December 31, 2020, and 2019, respectively.

**Actuarial assumptions**—The total pension liability at December 31, 2020 and 2019 was based on actuarial valuations as of December 31, 2019 and 2018, respectively, using the following actuarial methods and assumptions:

## THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

### NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

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Actuarial Cost Method	Individual Entry Age Normal
Amortization Method	
Level percent or level dollar	Level percent
Closed, open, or layered periods	Closed
Amortization period and start date	30 years as of January 1, 2013 Valuation
Amortization growth rate	3.50%
Asset Valuation Method	
Smoothing period	5 years
Recognition method	Non-asymptotic
Corridor	None
Inflation	2.75%
Investment Rate of Return	7.25%
Cost of Living Adjustments	Annual compounding COLA of 1.5% assumed. Additional restoration of purchasing power benefits available based on an assumed 3.25% if purchasing level decreases to 65%.
Mortality	Various rates based on RP-2014 mortality tables and using generational projection of improvement using MP-2014 Ultimate projection scale.

All other actuarial assumptions used in the December 31, 2019 and December 31, 2018 valuations were based on the results of an actuarial experience study for the period January 1, 2014 through December 31, 2017.

**Discount Rate**—The discount rate used to measure the total pension liability for FY 2020 and FY 2019 was 7.25%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and the participating governmental entity contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods on projected benefit payment to determine the total pension liability.

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

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The following table reflects long-term expected (30 year) real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. The expected inflation rate for FY 2020 and 2019 is projected at 2.75% for the same periods.

Asset Category	Target Allocation	Long-Term Expected Real Rate of Return
Equity		
Public Equity	48%	4.77%
Private Equity	9%	7.96%
Fixed Income		
Core Fixed Income	16%	0.67%
Credit Fixed Income	7%	3.66%
Real Assets		
Real Estate	12%	3.76%
Infrastructure	3%	3.95%
Diversifying Strategies	5%	N/A

**Sensitivity of the Net Pension Liability to Changes in the Discount Rate**—The following presents the Department's proportionate share of the net pension liability of SCERS, calculated using a discount rate of 7.25% for FY 2020 and FY 2019, as well as what the Department's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher:

Discount Rate Sensitivity (In millions)		
	Net Pension Liability at December 31,	
	2020	2019
<u>Discount Rate</u>		
1% decrease - 6.25%	\$ 379.6	\$ 430.5
Current discount Rate - 7.25%	265.2	321.6
1% increase - 8.25%	169.5	226.7

**Plan Fiduciary Net Position**—Detailed information about the SCERS's fiduciary net position is available in the separately issued, audited financial statements as of December 31, 2020, which are publicly available at <http://www.seattle.gov/retirement/about-us/board-of-administration>.

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## NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

***Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension***—The following table presents information about the pension-related deferred outflows of resources and deferred inflows of resources for the Department at December 31, 2020, and December 31, 2019:

(\$ in millions)

	December 31,	
	2020	2019
<u>Deferred outflows of resources</u>		
Differences between expected and actual experience	\$ -	\$ 0.1
Changes of assumptions	13.6	17.4
Net difference between projected and actual earnings	-	33.9
Contributions made subsequent to measurement date	28.7	24.8
Total deferred outflows of resources	<u>\$ 42.3</u>	<u>\$ 76.2</u>
<u>Deferred inflows of resources</u>		
Differences between expected and actual experience	\$ 8.6	\$ 6.8
Net difference between projected and actual earnings	23.0	-
Changes in employer proportion and differences between employer contributions and proportionate share of contributions	13.0	19.4
Total deferred inflows of resources	<u>\$ 44.6</u>	<u>\$ 26.2</u>

Department contributions made in 2020 in the amount of \$28.7 million are reported as deferred outflows of resources and will be recognized as a reduction of the net pension liability in the year ended December 31, 2021. These contributions along with the net difference between projected and actual earnings reported as deferred outflows of resources will be recognized as pension expense in the future as shown in the following table.

Year Ending December 31	Amortization
(\$ in millions)	
2021	(13.3)
2022	(10.0)
2023	3.0
2024	(10.2)
2025	(0.5)
Total	<u>\$ (31.0)</u>

## THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

### NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

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#### 14. 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 rate subsidy of the post-retirement health insurance costs and funds the subsidy on a pay-as-you-go basis. The City of Seattle covers 11,853 active employee plan participants and 466 retiree, disabled, and survivor plan participants as of the January 1, 2020 valuation date.

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

**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	FY 2020: 2.74%
	FY 2019: 4.10%
Participation	25% of Active Employees who retire participate

**Health care cost trend rates** - The health care cost trend assumptions shown below were based on national average information from a variety of sources, including S&P Healthcare Economic Index, NHCE data, plan renewal data, and vendor Rx reports, with adjustments based on the provisions of the benefits sponsored by City of Seattle.

## THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

### NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

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<u>Year</u>	<u>Pre 65</u>		
	<u>Medical</u>	<u>Rx</u>	<u>Composite</u>
2020 to 2021	6.55%	9.00%	7.15%
2021 to 2022	6.32%	8.50%	6.86%
2022 to 2023	6.09%	8.00%	6.57%
2023 to 2024	5.86%	7.50%	6.28%
2024 to 2025	5.64%	7.00%	5.99%
2025 to 2026	5.41%	6.50%	5.69%
2026 to 2027	5.18%	6.00%	5.40%
2027 to 2028	4.95%	5.50%	5.10%
2028 to 2029	4.73%	5.00%	4.80%
2029 to 2030	4.50%	4.50%	4.50%

#### **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

**Dependent Coverage** – 25% of members electing coverage are assumed to be married or have a registered domestic partner. Male spouses are assumed to be two years older than their female spouses. It is assumed that children will have aged off of coverage.

**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.

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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.

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

Age Band	Medical	Rx	Composite
40-44	3.00%	4.80%	3.3%
45-49	3.70%	4.70%	3.8%
50-54	4.20%	4.70%	4.3%
55-59	4.40%	4.60%	4.4%
60-64	3.70%	4.60%	3.8%

**Net OPEB Liability** – The department reported an OPEB liability of \$9.0 million and \$8.7 million for the years ended December 31, 2020 and 2019, respectively. The Department's proportionate share of the OPEB liability was 14.14% and 14.34% for the years ended December 31, 2020 and 2019, respectively. Based on the actuarial valuation date of January 1, 2020 and measurement dates January 1, 2019 and January 1, 2020, details regarding the Department's Total OPEB Liability, Plan Fiduciary Net Position, and Net OPEB Liability as of December 31, 2020 and 2019 are shown below.

# THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

## NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

(\$ in millions)	Changes in Net OPEB Liability	
	Fiscal Year Ended December 31,	
	2020	2019
<u>Total OPEB Liability</u>		
Service cost	\$ 0.5	\$ 0.6
Interest on the total OPEB liability	0.4	0.3
Differences between expected and actual experience	1.0	-
Changes of assumptions	(1.1)	(0.6)
Benefit payments	(0.4)	(0.3)
Net Changes	0.4	0.0
Total OPEB liability, beginning of period	8.7	8.9
Effect of change in proportionate share	(0.1)	(0.2)
Adjusted total OPEB liability, beginning of period	8.6	8.7
Total OPEB liability, end of period	9.0	8.7
<u>Plan fiduciary net position</u>		
Benefit payments	(0.4)	(0.3)
Employer contributions	0.4	0.3
Net change in Plan fiduciary net position	-	-
Plan fiduciary net position, beginning of period	-	-
Effect of change in proportionate share	-	-
Adjusted fiduciary net position, beginning of period	-	-
Plan fiduciary net position, end of period	-	-
Net OPEB liability, end of period	\$ 9.0	\$ 8.7

The Department recorded an expense for OPEB of \$0.3 million and \$0.7 million in 2020 and 2019, respectively. The Health Care Subfund of the General Fund is reported in The City of Seattle's Annual Report.

**Discount Rate and Healthcare Cost Trend Rates** – The discount rate used to measure the total OPEB liability is 2.74% and 4.10% for the years ended December 31, 2020 and 2019, respectively. The following tables present the sensitivity of net OPEB liability calculation to a 1% increase and a 1% decrease in the discount rate used to measure the total OPEB liability:

(In millions)	Discount Rate Sensitivity	
	Net OPEB Liability at December 31,	
	2020	2019
<u>Discount Rate</u>		
1% decrease - 1.74%	\$ 9.8	
Current discount Rate - 2.74%	9.0	
1% increase - 3.74%	8.2	
1% decrease - 3.10%		\$ 9.6
Current discount Rate - 4.10%		8.7
1% increase - 5.10%		8.0



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

Healthcare Cost Trend Rate Sensitivity			
(In millions)			
	Net OPEB Liability at December 31,		
	2020	2019	
<u>Discount Rate</u>			
1% decrease	\$ 8.0	\$ 7.7	
Trend rate	9.0	8.7	
1% increase	10.2	10.0	

**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 Department at December 31, 2020 and December 31, 2019.

(\$ in millions)		
	December 31,	
	2020	2019
<u>Deferred outflows of resources</u>		
Difference between actual and expected experience	\$ 2.2	\$ 1.5
Contributions made after measurement date	0.4	0.4
Total deferred outflows of resources	<u>\$ 2.6</u>	<u>\$ 1.9</u>
<u>Deferred inflows of resources</u>		
Assumption changes	\$ 3.5	\$ 3.0
Changes in proportionate share	-	0.2
Total deferred inflows of resources	<u>\$ 3.5</u>	<u>\$ 3.2</u>

Department contributions made in 2020 in the amount of \$0.4 million 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.

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### NOTES TO FINANCIAL STATEMENTS

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Year Ending December 31 (\$ in millions)	Amortization
2021	\$ (0.2)
2022	(0.2)
2023	(0.2)
2024	(0.2)
2025	(0.2)
Total Thereafter	<u>(0.3)</u>
Total	<u>\$ (1.3)</u>

## 15. ENVIRONMENTAL LIABILITIES

Environmental liabilities were \$106.6 million and \$108.6 million, at December 31, 2020, and 2019, respectively

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

- *The Harbor Island Superfund Site*—In 1983, the U.S. Environmental Protection Agency (EPA or Agency) designated this site as a federal Superfund site. The Department and other entities are sharing costs equally for investigating contamination in the East Waterway (EWW) alongside Harbor Island. The City's share is split between the Department 45% and Seattle Public Utilities (SPU) 55%. The Department's involvement stems from its sale of transformers to a company on Harbor Island. The City is one of four parties who are conducting remedial investigation and feasibility study that will delineate cleanup actions. A draft final feasibility study was submitted to EPA in October 2016. Nine alternative actions were presented with costs ranging from \$256.0 million to \$411.0 million with an estimated time to complete construction on active cleanup components ranging from 9 to 13 years. The Feasibility Study (FS) was completed in 2017. The EPA comments were received in 2017 and the final FS was approved by the EPA in June 2019. The proposed plan is expected to be released in May 2021. The clean-up construction timing and cost estimates will not be known until the Agency identifies a preferred remedy; the final FS has identified a range of costs on which the clean-up estimate is based. The Department does not own East Waterway.

The City anticipates that EPA will issue a notification letter to Potential Liable Parties (PLP) informing them of their potential liability for the East Waterway Cleanup. The timing of this notification is unknown. The current East Waterway Group is working to define an allocation process that will commence once additional PLPs are identified. The Department owns property adjacent to the East Waterway but does not own any of the waterway channel or sediments. The Department recorded a liability of \$52.8 Million as of December 31, 2020 and the ultimate liability is indeterminate.

- *The Lower Duwamish Waterway Superfund Site*—In 2001, the EPA designated this site as a federal Superfund site for contaminated sediments. The Department's involvement is attributable to its land ownership or use of property along the river. The City is one of four parties who signed an Administrative Order on Consent (AOC) with the EPA and Washington State Department of Ecology (DOE) to conduct a remedial investigation and feasibility study to prepare a site remedy. The EPA

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approved the feasibility study in November 2012. In February 2013, the EPA issued the Proposed Plan for cleanup of the Lower Duwamish Waterway. In December 2014, the EPA issued its final Record of Decision (ROD) indicating its preferred alternative clean-up with a discounted estimated cost of \$342.0 million, from the total estimated cost of \$394.0 million. This estimate was recalculated to its 2018 current value using a starting point of the undiscounted estimated cost of \$394.0 million plus an average Marine Construction Inflation Factor of 1.038 annually. This recalculation resulted in an increase in estimated environmental liability of \$12.3 million for the Department for a revised estimated total project cost of \$504.2 million for the project in 2018. The same inflation factor was applied in 2020 with a revised estimated total project cost of \$568.4 million at the end of 2020.

There have been four amendments to the AOC. The first amendment required Lower Duwamish Waterway Group (LDWG) to complete the Fisher Study which was completed in 2016; the second amendment required the completion of carbon study which was constructed in the first quarter of 2017 and will continue through 2020. Year 1 and year 2 monitoring of the carbon plots were completed in 2018 and 2019. The third amendment required additional pre-design activities. The workplan for pre-design work was approved by EPA in August 2017. The field work was completed in 2018 and the draft final reports were submitted in the same year. The EPA approval of all pre-design reports except the Data Evaluation Report was received in 2019. Approval of the Data Evaluation Report was received in 2020. In July 2018, EPA issued a 4<sup>th</sup> amendment to the AOC that requires LDWG to (1) Design the remedy for river mile 3.0 to river mile 5 of Lower Duwamish Waterway Site (the "LDW Upper Reach"), consistent with the Lower Duwamish Waterway ROD and CERCLA; (2) incorporate the work being carried out under the Third Amendment to this AOC in support of the development of seafood consumption institutional controls for the Site; and (3) provide for timely periodic monitoring of selected site conditions, as necessary. The final amendment (AOC4), consultant selection and initial work were completed in 2019. The workplan for the design of LDW Upper Reach was approved by EPA in 2019. The Quality Assurance Project Plan and Phase 1 of design sampling were completed in 2020. Compiling and evaluating Phase 1 data and submittal of the draft Phase 1 Data Evaluation Report were completed in Q1, 2021. Activities planned for 2021 include, preparing the Survey and QAPP Addendums for the Phase 2 design sampling. Phase 2 design sampling is anticipated to begin in Q3, 2021. The cost is currently split equally between the four LDWG parties. The Department recorded a liability of \$45.1 Million as of December 31, 2020. The Department's ultimate liability is indeterminate.

In November 2012, the EPA issued general notification letters to parties informing them of their potential liability for the Lower Duwamish Waterway cleanup. The City and other three parties who signed the AOC with the EPA agreed to invite some of those parties to participate in an alternative dispute resolution process (the "allocation process") to resolve their respective shares of past and future costs. There are 45 parties participating in allocation. The City hired an allocator and the allocation process began in April 2014. The Department agreed to administer the allocator's contract, estimated to cost about \$4.0 million over a four-year period. Parties participating in the allocation process will share the cost of the allocator and the process.

The City is also responsible for investigation and cleanup at the Port of Seattle Terminal 117 Streets, Uplands and Sediments sites, which is an Early Action Area of the Lower Duwamish Waterway (LDW). The South Park Street is not owned by the Department, but the City has jurisdiction over the streets and rights-of-way. Remediation activities for streets were completed in August 2016. The City's share for the uplands and sediments site is paid 100% by the Department. The City's share for the adjacent streets is split between the Department and SPU according to a Memorandum of Agreement (MOA) signed in

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August 2014. According to this MOA, SPU will pay 2.5% for some portions of the construction and up to 100% for other parts of the cleanup and restoration. The final construction closeout and project closeout was approved by EPA in July 2018. In September 2018, the Long-term Monitoring and Maintenance Plan (LTMMP) was approved by EPA. Activities and costs related to the ongoing monitoring of the drainage infrastructure will be completed by SPU. Annual reports are submitted in March of each year. The first report was submitted in March 2019 with subsequent reports submitted in March 2020 and to be submitted in March 2021. Department recorded a liability of \$2.0 Million as of December 31, 2020 and the ultimate liability is indeterminate.

- *South Park Marina*—The Washington Department of Ecology has notified the City that it is a Potentially Liable Party for contamination at South Park Marina, which is adjacent to Terminal 117. The Department is the lead for the City at this site. Negotiations for an Agreed Order between Ecology and Potential Liable Parties (PLP) have resulted in an Agreed Order to conduct a Remedial Investigation (RI). The Agreed Order was finalized in April 2019. The Common Interest for Cost Sharing agreement between PLPs was signed in 2019. The City, the Port of Seattle and South Park Marina have agreed to share costs equally with the City administering the contract with a common consultant. City share is split between the Department 97.5% and SPU 2.5%. In 2019, the City contracted with a consultant to conduct the RI. A draft workplan was submitted to Ecology in May 2020 and comments were received. A revised draft workplan was submitted in December 2020. Phase 1 field activities and some data analysis is anticipated to be conducted in 2021. The Department recorded a liability of \$0.2 Million as of December 31, 2020 and the ultimate liability is indeterminate.
- *North Boeing Field/Georgetown Steam Plant*—The City, King County, and Boeing signed an Administrative Order issued by the Washington State Department of Ecology (Ecology) requiring them to investigate and possibly remove contamination in an area that encompasses North Boeing Field, the Department's Georgetown Steam Plant (GTSP), and the King County Airport. This site was also the subject of the lawsuit brought by the City against Boeing. Boeing agreed to pay 67% of the costs for Ecology's implementation of the current order. The order requires completion and then implementation of a Remedial Investigation (RI) and feasibility study. The final RI work plan was issued in November 2013. In January 2015, all parties executed the First Amendment to the North Boeing Field/Georgetown Steam Plant Agreed Order, making the PRPs responsible for conducting and completing remedial action at the site. The City is responsible for one third of the costs, with the Department's share at 90% and SPU's share at 10%. The draft RI was submitted in June 2016. Ecology directed additional investigation in offsite areas following the submittal of RI. The additional investigation and negotiation on RI comments has delayed the submittal of the revised draft RI until 2020. Furthermore, conditions related to COVID-19 pandemic further delayed the Ecology engagement during 2020. The draft RI is now anticipated to be submitted in 2021. The FS process will begin following approval of RI. The timing of the approval is currently unknown. Boeing and the City will each pay 100% of costs for remedial action at their own facilities. Storm drain sampling conducted during the RI revealed presence of chemicals in the storm lines that drain the GTSP roof. City light agreed with Department of Ecology that it will replace the GTSP roof as an interim action prior to finalization of the RI/FS. Roof replacement began in December 2020 and is anticipated to be completed in early 2021. The Department recorded a liability of \$1.7 Million as of December 31, 2020 and the ultimate liability is indeterminate.

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- *Newhalem* – this project is comprised of three sites. The Ladder Creek Settling Tank – this project is one of three sites within City Light’s Skagit River Hydroelectric Project being conducted under a 2019 Settlement Agreement with the National Park Service (NPS). The project is located near Newhalem, WA and is a cleanup of contaminated debris and soil resulting from the incineration of a building structure that covered a large water settling tank during the 2015 Goodell Creek Forest Fire. The removal work was completed in 2018 to comply with CERCLA requirements under a Time Critical Removal Action (TCRA) administered by NPS. The final TCRA Completion Report has been approved, and a final reporting of two years of post-TCRA vegetative restoration monitoring has been approved. NPS will keep the project open while conducting periodic vegetative restoration monitoring through approximately 2023. NPS owns the land.

Newhalem Penstock – this project is the second of three sites within City Light’s Skagit River Hydroelectric Project being conducted under the 2019 Settlement Agreement with NPS. The project is also located near Newhalem and currently includes preparation of an Engineering Evaluation and Cost Analysis (EE/CA) to comply with CERCLA requirements under a Non-time Critical Removal Action administered by NPS. The draft EE/CA was started in 2020 and the final is anticipated to be approved in Q1 or Q2 2022. Floyd|SnideNr (F|S) is under contract to provide City Light with consulting services related to the EE/CA, and cleanup planning if necessary. NPS owns the land.

Diablo Dry Dock – this project is the third of three sites within City Light’s Skagit River Hydroelectric Project being conducted under the 2019 Settlement Agreement with NPS. The project is located near Diablo, WA and includes preparation of an EE/CA to comply with CERCLA requirements under a Non-time Critical Removal Action administered by the NPS. GeoSyntec is under contract to provide City Light with consulting services related to the EE/CA. The EE/CA field investigation is planned for 2021, and the draft and final EE/CA Reports are planned for 2021-2023. NPS owns the land

The Department recorded a liability of \$2.7 Million as of December 31, 2020 for all three Skagit sites and the ultimate liability is indeterminate.

The Department has included in the estimated environmental liability those portions of the environmental remediation work that are currently deemed to be reasonably estimable.

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

The Department is aggressively pursuing other third parties that may have contributed to the contamination of Superfund sites for appropriate cost sharing. The Department’s estimate for realized recoveries was \$0.03 million and \$0.4 million at December 31, 2020, and 2019, respectively, primarily representing an interfund receivable from SPU for recovery of remediation costs incurred related to the lower Duwamish Waterway site. The Department’s estimate for not yet realized recoveries from other parties for their share

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of remediation work performed that partially offset the Department's estimated environmental liabilities was zero at December 31, 2020. As of December 31, 2020, and 2019, environmental costs of \$117.1 million and \$116.0 million were deferred primarily for cleanup estimates of the Department's responsibility for the LDW and EWW Superfund Sites; and these costs are being amortized and will be recovered through future rates in accordance with GASB Statement No. 62.

The changes to the deferred environmental costs at December 31, 2020 and 2019 were as follows:

<i>(\$ in millions)</i>	<b>2020</b>	<b>2019</b>
Beginning Deferred Environmental Costs	\$ 116.0	\$ 113.7
Incurred	1.5	2.9
True-up of Realizable Recoveries from SPU and Other Parties	-	(0.4)
Amortization	(0.4)	(0.2)
Ending Deferred Environmental Costs net of Recoveries	<u>\$ 117.1</u>	<u>\$ 116.0</u>

The changes in the provision for environmental liabilities at December 31, 2020, and 2019 were as follows:

<i>(\$ in millions)</i>	<b>2020</b>	<b>2019</b>
Beginning Environmental Liability, Net of Recoveries	\$ 108.6	\$ 107.7
Payments	(3.5)	(2.0)
Incurred Environmental Liability	1.5	2.9
Ending Environmental Liability, Net of Recoveries	<u>\$ 106.6</u>	<u>\$ 108.6</u>

The provision for environmental liabilities included in current and noncurrent liabilities at December 31, 2020 and 2019, was as follows:

<i>(\$ in millions)</i>	<b>2020</b>	<b>2019</b>
Noncurrent Liabilities	\$ 104.3	\$ 105.1
Accounts Payable and Other Current Liabilities	2.3	3.5
Ending Non-Current Liabilities	<u>\$ 106.6</u>	<u>\$ 108.6</u>

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#### 16. OTHER LIABILITIES

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

Other liabilities at December 31, 2020 and 2019 consisted of the following:

(\$ in millions)	2020	2019
Other liabilities:		
Unearned capital fees	\$ 26.5	\$ 22.4
Customer deposits—sundry sales	10.6	12.1
Unearned revenues—other	<u>0.9</u>	<u>0.7</u>
Total	<u>\$ 38.0</u>	<u>\$ 35.2</u>

#### 17. DEFERRED INFLOWS OF RESOURCES

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

The unearned revenue for the Rate Stabilization Account for 2020 and 2019 is the result of spreading retail electric revenues and related activity over multiple periods to reduce the need for rapid and substantial rate increases (see Note 4 Rate Stabilization Account). Payments received from Bonneville's Energy Conservation Agreement are amortized to revenues over 20 years.

In accordance with the requirements of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, decreases in Net Pension Liability resulting from changes in employer proportion and differences between contributions and proportionate share of pension expense are recognized as deferred inflows of resources. These deferred inflows are amortized over a closed five-year period. See Note 13 Seattle City Employees' Retirement System for more information.

In accordance with the requirements of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB)*, amounts related to assumption changes are recognized as deferred inflows of resources, which are amortized over a closed five-year period. See Note 14 Other Postemployment Benefits for more information.

The Department purchases electric energy from the U.S. Department of Energy, Bonneville Power Administration under the Block and Slice Power Sales Agreement, exclusively purchasing Block. Seattle City Council affirmed the Department's practice of recognizing the effects of reporting the fair value of exchange contracts in future periods for rate making purposes and maintaining regulatory accounts to spread the accounting impact of these accounting adjustments, in Resolution No. 30942 adopted January 16, 2007. See Note 19 Long-Term Purchased Power, Exchanges, and Transmission for more information.

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Deferred inflows of resources at December 31, 2020 and 2019 consisted of the following:

(\$ in millions)	2020	2019
Deferred inflows of resources:		
Unearned revenue—rate stabilization account	\$ 71.8	\$ 49.1
Changes in Net Pension Liability	44.7	26.2
Changes in OPEB Liability	3.5	3.2
Gains on advanced refunding	1.4	1.9
Bonneville energy conservation agreement	<u>39.5</u>	<u>35.7</u>
Total	<u>\$ 160.9</u>	<u>\$ 116.1</u>

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

The Department engages in an ongoing process of resource optimization, which involves the economic selection from available energy resources to serve the Department's load obligations and using these resources to capture available economic value. The Department makes frequent projections of electric loads at various points in time based on, among other things, estimates of factors such as customer usage and weather, as well as historical data and contract terms. The Department also makes recurring projections of resource availability at these points in time based on variables such as estimates of stream flows, availability of generating units, historic and forward market information, contract terms, and experience. Based on these projections, the Department purchases and sells wholesale electric capacity and energy to match expected resources to expected electric load requirements, and to realize earnings from surplus energy resources. These transactions can be up to 60 months forward. Under these forward contracts, the Department commits to purchase or sell a specified amount of energy at a specified time, or during a specified time in the future.

Except for limited intraday and interday trading to take advantage of owned hydro storage, the Department does not take market positions in anticipation of generating profit. Energy transactions in response to forecasted seasonal resource and demand variations require approval by the Department's Risk Oversight Council. In April 2020 the Department entered the California ISO Energy Imbalance Market (EIM) which is an energy market system that balances fluctuations in supply and demand by automatically finding lower cost resources to meet real-time power needs and serve consumer demand across the western region. The EIM manages congestion on transmission lines to maintain grid reliability and supports integrating renewable resources. In addition, the EIM makes excess renewable energy available to participating utilities at low cost.

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



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The undiscounted aggregate contract amounts, fair value, and unrealized gain or (loss) of the Department's commodity derivative instruments qualifying as normal purchases and normal sales at December 31, 2020 and 2019 consisted of the following:

(\$ in millions)	Aggregate Contract Amount	Aggregate Fair Value	Unrealized Gain (Loss)
<b>2020</b>			
Sales	\$ 13.0	\$ 12.5	\$ 0.5
Purchases	-	-	-
Total	<u>\$ 13.0</u>	<u>\$ 12.5</u>	<u>\$ 0.5</u>
	Aggregate Contract Amount	Aggregate Fair Value	Unrealized Gain (Loss)
<b>2019</b>			
Sales	\$ 8.3	\$ 8.6	\$ (0.3)
Purchases	0.7	0.7	-
Total	<u>\$ 9.0</u>	<u>\$ 9.3</u>	<u>\$ (0.3)</u>

All derivative instruments not considered as normal purchases and normal sales are to be recorded within the financial statements using derivative accounting according to GASB Statement No. 53. In 2010, the Seattle City Council adopted a resolution granting the Department authority to enter into certain physical put and call options that would not be considered normal purchases and normal sales under GASB Statement No. 53. The Department did not have any such activity for 2020 and 2019. In addition, the Seattle City Council has deferred recognition of the effects of reporting the fair value of derivative financial instruments for rate-making purposes, and the Department maintains regulatory accounts to defer the accounting impact of these accounting adjustments in accordance with GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* (see Note 7 Other Assets and Note 17 Deferred Inflows of Resources).

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

**Credit Risk**—Credit risk relates to the potential losses that the Department would incur as a result of nonperformance by counterparties of their contractual obligations to deliver energy or make financial settlements. Changes in market prices may dramatically alter the size of credit risk with counterparties, even when conservative credit limits are established. The Department seeks to mitigate credit risk by entering into bilateral contracts that specify credit terms and protections against default; applying credit limits and duration criteria to existing and prospective counterparties; and actively monitoring current credit exposures. The Department also seeks assurances of performance through collateral requirements in the form of letters of credit, parent company guarantees, or prepayment.

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

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

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

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

Bonneville's Residential Exchange Program (REP) was established as a mechanism to distribute financial benefits of the Federal Columbia River Power System to residential customers of the region's investor owned utilities (IOUs). In May 2007, the Ninth Circuit Court (the Court) rulings found the 2000 REP Settlement Agreements with IOUs inconsistent with the Northwest Power Act. To remedy this inconsistency, the Court ruled that refunds be issued to non-IOUs through September 2019. The Department received the final billing credit of \$4.3 million in 2019 related to the Block and Slice agreement.

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

The Department incurred \$6.7 million and \$8.4 million in 2020 and 2019, respectively, including operations costs and royalty payments to the irrigation districts. The Department provided and billed Lucky Peak \$0.3 million for operational and administrative services in both 2020 and 2019. These amounts are recorded as offsets to purchased power expense.

The Department's receivables from Lucky Peak were less than \$0.1 million on December 31, for 2020 and 2019, respectively. The Department's payables to Lucky Peak were \$0.8 million and \$1.2 million at December 31, for 2020 and 2019, respectively.

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

Expenses incurred, and energy received under these and other long-term purchased power agreements at December 31, 2020 and 2019 were as follows:

(\$ in millions)	Expense		Average Megawatts	
	2020	2019	2020	2019
Long-term purchased power-Bonneville	\$ 161.1	\$ 162.9	489.4	501.0
Lucky Peak	6.7	8.4	29.0	41.6
British Columbia - High Ross Agreement	13.4	13.5	35.3	35.1
Grant County Public Utility District	1.2	1.8	2.9	2.3
Columbia Basin Hydropower	7.9	6.0	29.4	25.0
Bonneville South Fork Tolt billing credit	(3.4)	(3.4)	-	-
Renewable energy - State Line Wind	26.3	22.6	43.4	38.6
Renewable energy - Other	7.9	7.9	13.2	13.3
Exchanges and loss returns energy at fair value	1.9	2.7	48.8	46.8
Long-term purchased power booked out	(6.4)	(6.5)	(35.6)	(19.8)
Long-term purchase power-other	55.5	53.0	166.4	182.9
Total	\$ 216.6	\$ 215.9	655.8	683.9

**Renewable Energy Purchase and/or Exchanges**—The Energy Independence Act, Chapter 19.285 Revised Code of Washington, requires all qualifying utilities in Washington State with more than 25,000 customers to meet certain annual targets of eligible new renewable resources and/or equivalent renewable energy credits (RECs) as a percentage of total energy delivered to retail customers. The annual target is at least 15% for 2020 and 9% for 2019. The law also has a compliance option for utilities with declining load to spend 1% of revenue requirements on eligible RECs and/or resources. The Department met the requirements of the compliance option in both 2020 and 2019.

**Fair Value of Exchange Energy**—During 2020 and 2019, exchange energy settled deliveries were valued using Dow Jones U.S Daily Electricity Price Indices.

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*Estimated Future Payments Under Purchased Power, Transmission and Related Contracts*—The Department’s estimated payments for purchased power and transmission, RECs, and other contracts for the period from 2021 through 2065, undiscounted, are as follows:

<i>\$ in millions</i>	
<b>Years Ending</b>	<b>Estimated</b>
<b>December 31</b>	<b>Payments</b>
2021 <sup>(a)</sup>	\$ 260.8
2022	236.4
2023	237.8
2024	246.0
2025 <sup>(b)</sup>	216.9
2026-2030 <sup>(c)</sup>	600.8
Thereafter (through 2065)	<u>161.3</u>
Total	<u>\$ 1,960.0</u>

(a) Stateline wind agreement expires December 31, 2021.

(b) Bonneville transmission agreement expires July 31, 2025.

(c) Bonneville Block & Slice agreement expires September 30, 2028.

## 20. COMMITMENTS AND CONTINGENCIES

*Operating Leases*—While the Department owns several buildings including those at the Skagit and Boundary hydroelectric projects, service centers, and the System Control Center, the Department leases some administrative office space from the City. Such lease payments to the City are made through a central cost allocation process, similar to all other payments for tenancy of City property. These payments are not included in the operating leases table below. The Department also leases certain office equipment and smaller facilities for various purposes through long-term operating lease agreements. Expenses for all operating leases totaled \$1.4 million in 2020 and \$1.3 million in 2019.

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Minimum payments under the operating leases are:

<b>Year Ending December 31 (\$ in millions)</b>	<b>Minimum Payments</b>
2021	\$ 1.6
2022	1.5
2023	1.5
2024	1.4
2025	-
Thereafter	-
Total	<u>\$ 6.0</u>

**2021 Capital Program**—The budget for the Department’s 2021 program for capital improvement, conservation, and deferred operations and maintenance including required expenditures on assets owned by others is \$361.8 million. At December 31, 2020, the Department had approximately \$155.5 million in commitments relating thereto. Department overhead costs and other allocations associated with the capital program are not included in the budget amount.

**2021 Operations and Maintenance Budget**—The Department’s 2021 Operating and Maintenance budget is \$995.9 million for labor and related benefits, purchased power, outside services, supplies, taxes, injuries and damages, interest, debt-related costs, maintenance of Department assets, and other non-capital expenditures incurred in the normal course of operations.

**Federal Energy Regulatory Commission Fees**—Estimated Federal land use and administrative fees related to hydroelectric licenses total \$166.0 million through 2055; these estimates are subject to change. The estimated portion of fees attributed to the Skagit and Tolt licenses are excluded after 2025, when their existing FERC licenses expire. The estimated portion of Boundary fees is included through 2055, the year the current license issued by FERC expires. The Boundary FERC license and related issues are discussed below.

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

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

The cost projections for such mitigation over the expected 42-year life of the license, included in the Department’s license application, were estimated to be \$356.8 million adjusted to 2020 dollars, of which \$101.6 million were expended through 2020. Projected mitigation cost estimates are subject to revision as more information becomes available.

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

Total Skagit license mitigation costs from the effective date until expiration of the federal operating license were estimated at December 31, 2020, to be \$147.1 million, of which \$138.2 million had been expended. Total South Fork Tolt license mitigation costs were estimated at \$2.1 million, of which \$1.9 million were expended through 2020. In addition to the costs listed for South Fork Tolt mitigation, the license and associated settlement agreements required certain other actions related to wildlife studies and wetland mitigation for which no set dollar amount was listed. Requirements for these actions have been met, and no further expenditures need to be incurred for these items.

Capital improvement, other deferred costs, and operations and maintenance costs are included in the estimates related to the settlement agreements for both licenses. Amounts estimated are adjusted to 2020 dollars. Department labor and other overhead costs associated with the activities required by the settlement agreements for the licenses are not included in the estimates.

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

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

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

The Department, with the support of City Council, elected to take a proactive approach to address issues identified within the ESA. The Department is carrying out an ESA Early Action program in cooperation with agencies, tribes, local governments, and watershed groups for bull trout, Chinook salmon, and steelhead in the South Fork Tolt and Skagit Watersheds. The ESA Early Action program is authorized by City Council but is separate from any current FERC license requirements. The program includes habitat acquisition, management and restoration. The ESA Early Action has been successful in protecting listed species. Total costs for the Department's share of the Early Action program from inception in 1999 through December 31, 2020, are estimated to be \$17.2 million, and \$1.8 million has been allocated for the program in the 2021 budget.

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***Project Impact Payments***—Effective August 2010, the Department renewed its contract with Pend Oreille County and committed to pay a total of \$19.0 million over 10 years ending in 2019 to Pend Oreille County for impacts on county governments from the operations of the Department’s hydroelectric projects. This contract was renewed in May 2020 with the Department agreeing to pay \$29.8 million over 10 years ending in 2029. Effective February 2009, the Department renewed its contract with Whatcom County committing to pay a total of \$15.8 million over 15 years ending in 2023. The payments compensate the counties, and certain school districts and towns located in these counties, for loss of revenues and additional financial burdens associated with the projects. The Boundary Project, located on the Pend Oreille River, affects Pend Oreille County, and Skagit River hydroelectric projects affect Whatcom County. The impact payments totaled \$2.7 million to Pend Oreille County in 2020 and \$1.9 million in 2019, and \$1.2 million to Whatcom County in 2020 and \$1.1 million in 2019.

***Deien v. City*** – Plaintiff brings a purported class action against the Department based on the Department’s billing practices associated with the Department’s transition to advanced meters. No class has been certified and any ultimate liability is indeterminate.

***Dixon v. City and 3 “John Doe” defendants*** – Plaintiff Dixon alleges that he is a victim of discrimination and retaliation based on race, color, and engaging in protected activities. The plaintiff includes allegations under federal antidiscrimination laws, as well as under state tort law. The Department is seeking removal of the case to federal court. An adverse result could include awards of compensatory damages and attorneys’ fees. The Department’s ultimate liability is indeterminate.

The following case from 2019 was settled in 2020

***Overby v. City, Haynes, and Wilson*** – Plaintiff Overby alleged that he was a victim of age and disability discrimination and retaliation. The case arose from asserted occupational exposure to contaminants at the Department’s Skagit generation facility. The plaintiff asserted that the Department and the individual defendants mistreated him following such exposure. In January 2020, the plaintiff accepted an offer of judgment in the amount of \$100,000 plus costs and attorneys’ fees then accrued.

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

## THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

### REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

**Changes in Net Pension Liability and Related Ratios -** The Department's schedule of the employer's proportionate share of the net pension liability for the years ended December 31 (dollar amounts in millions):

	2020	2019	2018	2017	2016	2015
Employer's proportion of the net pension liability	21.10%	21.17%	21.00%	22.13%	24.46%	24.53%
Employer's proportionate share of total pension liability	\$ 929.8	\$ 896.9	\$ 831.6	\$ 839.5	\$ 883.5	\$ 841.5
Employer's proportionate share of plan fiduciary net position	\$ 664.6	\$ 575.3	\$ 599.1	\$ 550.7	\$ 565.7	\$ 569.7
Employer's proportionate share of the net pension liability	\$ 265.2	\$ 321.6	\$ 232.5	\$ 288.8	\$ 317.8	\$ 271.8
Employer's covered-employee payroll	\$ 165.3	\$ 163.7	\$ 153.6	\$ 156.5	\$ 157.0	\$ 152.3
Employer's proportionate share of net pension liability as a percentage of its covered-employee payroll	160.44%	196.42%	151.41%	184.49%	202.44%	178.48%
Plan fiduciary net position as a percentage of the total pension liability	71.48%	64.14%	72.04%	65.60%	64.03%	67.70%

#### Notes to Schedule

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

#### Actuarial Methods and Assumptions:

Actuarial cost method	Individual Entry Age Normal
Amortization method	Level percent
Amortization Growth Rate	3.50% for FY 2020 and FY 2019, 4.0% for prior years
Remaining amortization period	30 years as of January 1, 2013 Valuation
Asset valuation method	5 years, Non-asymptotic
Inflation	2.75% for FY 2020 and 2019, 3.25% for prior years
Investment rate of return	7.25% for FY 2020 and FY 2019, 7.50% for prior years
Mortality	Based on RP-2014 mortality tables using generational projection of improvement using MP-2014 Ultimate projection scale for FY 2020 and FY 2019. Prior years based on RP-2000 mortality tables using generational projection of improvement using Projection Scale AA.

There were no changes to benefit terms in 2020. See Note 13 for details regarding actuarial methods and assumptions.

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

	2020	2019	2018	2017	2016	2015
Contractually required contribution	\$ 28.7	\$ 24.8	\$ 24.7	\$ 23.7	\$ 25.3	\$ 24.9
Contributions in relation to contractually required contribution	28.7	24.8	24.7	23.7	25.3	24.9
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered-employee payroll	\$ 178.1	\$ 165.3	\$ 163.7	\$ 153.6	\$ 156.5	\$ 157.0
Contributions as a percentage of covered-employee payroll	16.11%	15.00%	15.09%	15.43%	16.17%	15.86%

#### Notes to Schedule

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



## THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

### REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

**Changes in Net OPEB Liability and Related Ratios** - The Department's schedule of the employer's proportionate share of the net OPEB liability for the years ended December 31:

(\$ in millions)

	2020	2019	2018
Employer's proportion of the net OPEB liability	14.14%	14.34%	14.61%
Employer's proportionate share of total OPEB liability	\$ 9.0	\$ 8.7	\$ 8.9
Employer's proportionate share of plan fiduciary net position	-	-	-
Employer's proportionate share of the net OPEB liability	\$ 9.0	\$ 8.7	\$ 8.9
Employer's covered-employee payroll	\$ 159.0	\$ 145.6	\$ 148.3
Employer's proportionate share of net OPEB liability as a percentage of its covered-employee payroll	5.66%	6.00%	6.02%
Plan fiduciary net position as a percentage of the total OPEB liability	-	-	-

#### Notes to Schedule

This schedule is intended to show information for 10 years. Since 2018 was the first year of this presentation, data on years preceding 2018 are not available. Additional years' data will be included as they become available.

#### Actuarial Methods and Assumptions:

Actuarial cost method	Entry Age Normal
Amortization method	Level dollar
Discount Rate	2.74% for FY 2020, 4.10% for FY 2019, and 3.44% for FY 2018
Health care cost trend rate- Medical	6.55% initial, decreasing to an ultimate rate of 4.50% for FY 2020.
	7.00% initial, decreasing to an ultimate rate of 4.50% for prior years.
Health care cost trend rate- RX	9.00% initial, decreasing to an ultimate rate of 4.50% for FY 2020.
	10.00% initial, decreasing to an ultimate rate of 4.50% for prior years.
Mortality	Based on RP-2014 mortality tables using generational projection of improvement using MP-2014 Ultimate projection scale

There were no changes to benefit terms in 2020. See Note 14 for details regarding actuarial methods and assumptions.

# THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

## OTHER INFORMATION (UNAUDITED)

### DEBT SERVICE COVERAGE

Following is a table that provides information for the Department's debt service coverage for years 2020, 2019, and 2018. The target level for debt service coverage was 1.8x on all bonds for 2020, 2019 and 2018 in accordance with current financial policies (which include a Rate Stabilization Account that will result in greater compliance of actual debt service coverage with the policy-specified level).

(\$ in millions)

#### Debt Service Coverage

	December 31		
	2020	2019	2018
OPERATING REVENUES:			
Retail power revenues	\$ 926.7	\$ 938.9	\$ 868.6
Short-term wholesale power revenues	51.3	43.2	61.0
Other power-related revenues (a)(b)(c)	40.8	52.2	45.9
Transfers from/(to) rate stabilization account (d)	(22.7)	22.8	(3.5)
Other operating revenues	19.6	22.4	19.6
Total operating revenues	<u>\$ 1,015.7</u>	<u>\$ 1,079.5</u>	<u>\$ 991.6</u>
OPERATING EXPENSES:			
Long-term purchased power—Bonneville and other (b)	\$ 216.6	\$ 215.9	\$ 217.8
Short-term wholesale power purchases	10.0	34.3	18.5
Other power expenses (b)	72.6	74.4	70.2
Transmission (e)	54.6	52.4	54.2
Distribution	56.3	60.4	61.9
Customer service	58.6	33.7	55.7
Conservation	33.3	33.4	32.9
Administrative and general	127.3	122.9	96.2
Taxes	101.2	100.1	91.8
Depreciation and amortization	149.8	145.8	124.0
Total operating expenses	<u>\$ 880.3</u>	<u>\$ 873.3</u>	<u>\$ 823.2</u>
NET OPERATING REVENUE (f)	<u>\$ 135.4</u>	<u>\$ 206.2</u>	<u>\$ 168.4</u>
Adjustments to Net Operating Revenue (g)			
City Taxes (h)	\$ 57.5	\$ 58.5	\$ 53.4
Depreciation and amortization	149.8	145.8	124.0
Depreciation & amortization included in operating & maintenance expenses (i)	32.5	30.8	33.0
Pension expense (j)	24.6	33.6	22.0
Pension contributions (j)	(28.7)	(24.8)	(24.7)
Valuation on exchange power, net (b)(c)	-	-	0.9
BPA Conservation Augmentation/Agreement revenue (k)	(2.4)	(2.1)	(1.9)
Investment income (l)	10.8	10.7	10.9
Non-cash expenses (m)	3.4	1.0	0.8
Other (n)	3.4	3.0	1.6
Total adjustments	<u>\$ 250.9</u>	<u>\$ 256.5</u>	<u>\$ 220.0</u>
Net Revenue Available for Debt Service	<u>\$ 386.3</u>	<u>\$ 462.7</u>	<u>\$ 388.4</u>
Total Debt Service (o)	<u>\$ 223.0</u>	<u>\$ 220.8</u>	<u>\$ 212.4</u>
Ratio of Available Net Revenue to Debt Service	<u>1.73x</u>	<u>2.10x</u>	<u>1.83x</u>

# THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

## OTHER INFORMATION (UNAUDITED)

### Notes

- (a) Includes conservation and renewable credits under the power sales contract with BPA, the recognition of payments from BPA for the purchase of conservation savings, revenue from deliveries of power to Pend Oreille PUD pursuant to the Boundary Project's FERC license, and other energy credits.
- (b) Effective January 1, 2016, the Department adopted GASB Statement No. 72, *Fair Value Measurement and Application*. Non-monetary transactions are measured at fair value and are valued at market. Disclosures required by GASB Statement No. 72 are available in Note 2 Fair Value Measurement.
- (c) Includes significant activity for the valuation of energy delivered under seasonal exchanges, basis sales, and other power exchange contracts. Energy exchanges have both revenue and expense components; therefore, a net revenue or expense adjustment is made for a given year.
- (d) Transfers from/(to) the RSA in accordance with Ordinance No. 123260, primarily to address fluctuations in surplus power sales.
- (e) Includes revenue from the short-term sale of excess transmission capacity.
- (f) Operating Income per audited financial statements.
- (g) Significant non-cash transactions are adjusted from Net Operating Revenue to calculate Revenue Available for Debt Service. Furthermore, some types of revenue in addition to Operating Revenue are included to calculate Revenue Available for Debt Service. These adjustments are listed in the remaining lines within the table.
- (h) City taxes are excluded because the lien on such taxes is junior to debt service in accordance with the Bond Legislation.
- (i) The majority of the depreciation and amortization (non-cash) expenses included in Operating and Maintenance Expense are for amortization of conservation expenses that are recognized over a 20-year period.
- (j) Pension expense is the amount recorded for compliance with GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, a non-cash item. Pension contributions are the Department cash contributions to the Seattle City Employee's Retirement System.
- (k) Payments received for conservation measures are initially recorded as unearned revenue. The adjustment represents the amount of revenue amortized and recognized over future periods for financial reporting, a non-cash transaction.
- (l) Investment income is not included in Total Revenue in this table; therefore, an adjustment is made to Net Operating Revenue, consisting primarily of interest earnings from City's cash pool and interest receipts from suburban underground charges. This amount excludes unrealized gains and losses, which are non-cash adjustments.
- (m) Effective 2018 includes adjustment for GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* in addition to primarily claim expenses and capital projects expenditures from prior year which were determined not to be capital expenditures.
- (n) Includes proceeds from sale of properties, principal receipts from suburban underground charges from local jurisdictions, and miscellaneous items.
- (o) Net of federal bond subsidies.

### DEBT SERVICE COVERAGE: ALL BONDS

Year Ending December 31 (\$ in millions)	Revenue Available for Debt Service	Debt Service Requirements	Debt Service Coverage
2020	\$ 386.3	\$ 223.0	1.73
2019	462.7	220.8	2.10
2018	388.4	212.4	1.83
2017	376.8	203.3	1.85
2016	331.9	196.5	1.69

# THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

## OTHER INFORMATION (UNAUDITED)

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

Year Ending December 31 (\$ in millions)	Fixed Rate Bonds			Variable Rate Bonds			Total <sup>(a)</sup>
	Principal	Interest	Subtotal	Principal	Interest	Subtotal	
2021	\$ 115.6	\$ 105.1	\$ 220.7	\$ 2.1	\$ 0.9	\$ 3.0	\$ 223.7
2022	118.8	100.3	219.1	2.2	0.9	3.1	222.2
2023	121.3	94.2	215.5	2.3	0.9	3.2	218.7
2024	125.0	88.1	213.1	2.3	0.9	3.2	216.3
2025	115.0	81.7	196.7	2.4	0.9	3.3	200.0
2026	107.2	76.6	183.8	5.9	0.8	6.7	190.5
2027	85.0	71.6	156.6	6.1	0.8	6.9	163.5
2028	88.7	67.3	156.0	6.3	0.8	7.1	163.1
2029	83.0	63.4	146.4	6.5	0.8	7.3	153.7
2030	68.7	59.8	128.5	6.9	0.7	7.6	136.1
2031	71.5	56.6	128.1	7.1	0.7	7.8	135.9
2032	74.3	53.3	127.6	7.4	0.7	8.1	135.7
2033	77.2	50.0	127.2	7.7	0.6	8.3	135.5
2034	79.2	46.8	126.0	8.0	0.6	8.6	134.6
2035	84.1	43.2	127.3	8.4	0.5	8.9	136.2
2036	92.7	39.4	132.1	8.7	0.5	9.2	141.3
2037	82.7	35.4	118.1	9.1	0.5	9.6	127.7
2038	85.9	31.8	117.7	9.5	0.4	9.9	127.6
2039	89.3	28.0	117.3	9.8	0.4	10.2	127.5
2040	92.8	24.1	116.9	10.2	0.3	10.5	127.4
2041	82.4	20.4	102.8	10.6	0.3	10.9	113.7
2042	69.1	17.2	86.3	11.1	0.2	11.3	97.6
2043	72.1	14.3	86.4	11.5	0.2	11.7	98.1
2044	64.1	11.2	75.3	12.0	0.1	12.1	87.4
2045	57.7	8.5	66.2	12.4	0.1	12.5	78.7
2046	51.7	6.3	58.0	5.6	-	5.6	63.6
2047	46.3	4.1	50.4	-	-	-	50.4
2048	33.7	2.1	35.8	-	-	-	35.8
2049	19.6	0.9	20.5	-	-	-	20.5
2050	6.7	0.3	7.0	-	-	-	7.0
Total	\$ 2,361.4	\$ 1,302.0	\$ 3,663.4	\$ 192.1	\$ 14.5	\$ 206.6	\$ 3,870.0

<sup>(a)</sup> Maximum debt service of \$223.7 million is due in 2021. See Note 9 Long-term debt.

Note: All parity bonds of the Department are fixed rate bonds except the 2018B B.1 & B.2, and 2018C C.1 & C.2 bonds which are variable rate bonds.

# THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

## OTHER INFORMATION (UNAUDITED)

### STATEMENT OF LONG-TERM DEBT

As of December 31, 2020

(\$ in millions)

Bond Series	When Due	Interest Rate (%)	Amount Issued	Amount Due		
				Amount Outstanding	Within One Year	Accrued Interest
Series 2010A	2021	4.447	4.6	4.6	4.6	0.1
Series 2010A	2022	4.597	7.2	7.2	-	0.1
Series 2010A	2023	4.747	7.5	7.5	-	0.2
Series 2010A	2024	4.947	7.7	7.7	-	0.2
Series 2010A	2025	5.047	8.0	8.0	-	0.2
Series 2010A	2026	5.147	8.2	8.2	-	0.2
Series 2010A	2027	5.247	8.5	8.5	-	0.2
Series 2010A	2028-2030	5.470	27.4	27.4	-	0.6
Series 2010A	2031-2040	5.570	102.6	102.5	-	2.3
Series 2010C	2021-2040	5.590	13.3	13.3	-	0.3
Series 2011A	2021-2026	5.250	75.8	46.0	12.5	1.0
Series 2011B	2027	5.750	10.0	10.0	-	0.2
Series 2012A	2021-2027	5.000	198.0	80.7	14.6	0.2
Series 2012A	2028	3.250	12.4	12.4	-	0.1
Series 2012A	2034-2036	4.000	25.1	17.1	-	0.1
Series 2012A	2037-2041	4.000	49.1	49.1	-	0.1
Series 2012C	2028	3.400	4.3	4.3	-	-
Series 2012C	2029	3.500	7.7	7.7	-	-
Series 2012C	2030	3.500	7.7	7.7	-	-
Series 2012C	2031-2033	3.750	23.4	23.4	-	0.1
Series 2013	2021-2033	5.000	97.4	30.9	-	0.7
Series 2013	2034-2035	4.000	14.7	14.7	-	0.3
Series 2013	2036-2038	4.125	24.4	24.4	-	0.6
Series 2013	2039-2043	4.500	48.3	48.3	-	1.1
Series 2014	2021-2029	5.000	163.2	83.0	18.3	1.2
Series 2014	2030-2038	4.000	53.9	53.9	-	0.8
Series 2014	2039-2040	4.000	14.8	14.8	-	0.2
Series 2014	2041-2044	4.000	33.3	33.3	-	0.5
Series 2015A	2021-2026	5.000	62.9	34.2	5.5	0.2
Series 2015A	2027-2045	4.000	109.0	109.0	-	0.8
Series 2016A	2036-2041	4.050	31.9	31.9	-	0.6
Series 2016B	2021-2028	5.000	103.0	91.1	10.8	1.1
Series 2016B	2029	4.000	13.9	13.9	-	0.2
Series 2016C	2021-2026	5.000	56.9	47.7	12.5	0.4
Series 2016C	2027-2046	4.000	103.9	103.9	-	1.2
Series 2017C	2021-2032	5.000	174.2	160.7	4.5	2.4
Series 2017C	2033-2047	4.000	211.3	211.3	-	3.1
Series 2018A	2021-2029	5.000	60.2	51.8	4.7	0.8
Series 2018A	2030-2048	4.000	203.6	203.6	-	4.6
Series 2018B B.1	2026-2045	.37 - 5.49 <sup>A</sup>	50.1	50.1	-	0.1
Series 2018B B.2	2026-2045	.37 - 5.49 <sup>A</sup>	50.1	50.1	-	0.1
Series 2018C C.1	2021-2046	.28 - 5.69 <sup>A</sup>	49.3	46.0	1.1	0.1
Series 2018C C.2	2021-2046	.28 - 5.69 <sup>A</sup>	49.3	46.0	1.1	0.1
Series 2019A	2021-2049	5.000	210.5	207.0	3.3	2.5
Series 2019B	2021-2026	5.000	140.3	140.3	2.18	2.9
Series 2020A	2021-2030	5.000	78.5	78.5	2.4	1.4
Series 2020A	2031-2050	4.000	119.8	119.8	-	2.1
Total			\$ 2,937.2	\$ 2,553.5	\$ 117.7	\$ 36.3

<sup>A</sup> Range of adjustable rates in effect during 2020.

Note: All parity bonds of the Department are fixed rate bonds except the 2018B B1&B2, and 2018C C1&C2 bonds, which are variable rate bonds.

# THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

## OTHER INFORMATION (UNAUDITED)

### POWER COSTS AND STATISTICS

Year ending December 31 (in millions)	2020	2019	2018	2017	2016
<b>POWER COSTS</b>					
Hydroelectric generation <sup>(a)(c)</sup>	\$ 58.2	\$ 54.4	\$ 51.7	\$ 56.8	\$ 53.0
Long-term purchased power <sup>(b)</sup>	216.6	215.9	217.8	224.8	219.8
Wholesale power purchases <sup>(c)(e)</sup>	10.0	34.3	18.5	15.2	15.1
Fair valuation & other power purchases <sup>(b)(c)</sup>	15.2	21.9	20.6	11.4	10.5
Owned transmission <sup>(a)</sup>	16.4	15.7	17.0	15.5	15.9
Wheeling expenses	44.9	43.3	43.2	42.9	42.9
Other power expenses	<u>16.3</u>	<u>14.5</u>	<u>13.1</u>	<u>13.9</u>	<u>12.8</u>
Total power costs	<u>377.6</u>	<u>400.0</u>	<u>381.9</u>	<u>380.5</u>	<u>370.0</u>
Less short-term wholesale power sales <sup>(c)</sup>	(51.3)	(43.2)	(61.0)	(60.9)	(62.9)
Less other power-related revenues	(29.3)	(36.8)	(28.5)	(20.8)	(16.7)
Less fair valuation other power-related <sup>(b)</sup>	<u>(11.4)</u>	<u>(15.4)</u>	<u>(17.4)</u>	<u>(15.0)</u>	<u>(15.9)</u>
Net power costs	<u>\$ 285.6</u>	<u>\$ 304.6</u>	<u>\$ 275.0</u>	<u>\$ 283.8</u>	<u>\$ 274.5</u>
<b>POWER STATISTICS (MWh)</b>					
Hydroelectric generation <sup>(c)</sup>	6,017,176	5,346,373	6,419,136	6,396,563	6,707,264
Long-term purchased power <sup>(b)</sup>	6,173,078	6,243,569	6,354,303	7,521,767	7,215,308
Wholesale power purchases <sup>(c)(e)</sup>	633,111	1,028,182	1,167,441	904,362	936,289
Wholesale power sales <sup>(c)(e)</sup>	(2,605,592)	(2,123,263)	(3,329,288)	(3,695,173)	(4,044,452)
Other <sup>(d)</sup>	<u>(1,003,455)</u>	<u>(958,287)</u>	<u>(938,363)</u>	<u>(1,154,419)</u>	<u>(1,117,826)</u>
Total power available	<u>9,214,318</u>	<u>9,536,574</u>	<u>9,673,229</u>	<u>9,973,100</u>	<u>9,696,583</u>
Less self consumed energy	(26,203)	(26,962)	(25,642)	(26,691)	(24,912)
Less system losses	<u>(549,228)</u>	<u>(387,653)</u>	<u>(573,525)</u>	<u>(537,750)</u>	<u>(491,233)</u>
Total power delivered to retail customers	<u>8,638,887</u>	<u>9,121,959</u>	<u>9,074,062</u>	<u>9,408,659</u>	<u>9,180,438</u>
Net power cost per MWh delivered <sup>(f)</sup>	<u>\$ 33.05</u>	<u>\$ 33.38</u>	<u>\$ 30.31</u>	<u>\$ 30.16</u>	<u>\$ 29.90</u>

(a) Including depreciation.

(b) Long-term purchased power, fair valuation & other power purchases, and fair valuation other power-related include energy exchanged under seasonal and other exchange contracts are valued at market.

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

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

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

# THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

## OTHER INFORMATION (UNAUDITED)

### HISTORICAL ENERGY RESOURCES (in MWh)

	2020	2019 <sup>(a)</sup>	2018	2017	2016
Department-Owned Generation					
Boundary Project	3,576,351	3,307,074	4,008,235	3,825,302	3,888,316
Skagit Hydroelectric Project:					
Gorge	958,211	832,815	947,000	998,676	1,036,540
Diablo	703,719	610,968	626,127	692,828	870,216
Ross	655,524	524,516	690,006	741,493	791,415
Cedar Falls/Newhalem	81,065	41,376	89,250	83,461	68,429
South Fork Tolt	42,306	29,624	58,518	54,803	52,348
Subtotal	<u>6,017,176</u>	<u>5,346,373</u>	<u>6,419,136</u>	<u>6,396,563</u>	<u>6,707,264</u>
Energy Purchases					
Bonneville	4,299,280	4,388,973	4,435,838	5,482,904	5,138,417
Priest Rapids	25,596	19,866	25,732	24,532	25,249
Columbia Basin Hydropower	258,498	219,094	241,236	228,789	253,628
High Ross	309,960	307,599	310,700	313,973	308,478
Lucky Peak	254,619	364,089	347,669	463,403	340,474
Stateline Wind Project	380,795	338,452	342,873	330,161	373,389
Columbia Ridge	102,421	101,615	102,617	96,096	99,487
Seasonal and Other Exchange <sup>(a)</sup>	541,909	503,881	547,638	581,909	676,186
Wholesale Market Purchases <sup>(b)</sup>	<u>633,111</u>	<u>1,028,182</u>	<u>1,167,441</u>	<u>904,362</u>	<u>936,289</u>
Subtotal	<u>6,806,189</u>	<u>7,271,751</u>	<u>7,521,744</u>	<u>8,426,129</u>	<u>8,151,597</u>
Total Department Resources	<u>12,823,365</u>	<u>12,618,124</u>	<u>13,940,880</u>	<u>14,822,692</u>	<u>14,858,861</u>
Minus Offsetting Energy Sales					
Firm Energy Sales and Marketing Losse	505,727	387,615	344,435	328,666	344,383
Seasonal and Other Exchange <sup>(a)</sup>	497,728	570,672	593,928	825,753	773,443
Wholesale Market Sales	<u>2,605,592</u>	<u>2,123,263</u>	<u>3,329,288</u>	<u>3,695,173</u>	<u>4,044,452</u>
Total Energy Resources	<u>9,214,318</u>	<u>9,536,574</u>	<u>9,673,229</u>	<u>9,973,100</u>	<u>9,696,583</u>

(a) Includes exchange contracts with Grant County, Lucky Peak Project, Northern California Power Agency (NCPA), expired 5/31/2018, and Sacramento Municipal Utility District (SMUD), expired 7/31/2017.

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

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

(d) Certain numbers were corrected in 2020.

# THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

## OTHER INFORMATION (UNAUDITED)

### CUSTOMER STATISTICS

Years ended December 31,	2020	2019	2018	2017	2016
Average number of customers:					
Residential	426,359	419,601	410,664	403,888	397,074
Non-residential	51,219	50,779	50,859	50,608	50,258
Total	<u>477,577</u>	<u>470,380</u>	<u>461,523</u>	<u>454,496</u>	<u>447,332</u>
Megawatt-hours <sup>(a)</sup> :					
Residential	37% 3,192,877	34% 3,091,019	33% 2,992,914	32% 3,132,079	32% 2,917,984
Non-residential	63% 5,446,010	66% 6,030,940	67% 6,081,148	68% 6,276,580	68% 6,262,454
Total	100% <u>8,638,887</u>	100% <u>9,121,959</u>	100% <u>9,074,062</u>	100% <u>9,408,659</u>	100% <u>9,180,438</u>
Average annual revenue per customer <sup>(a)</sup> :					
Residential	\$ 890	\$ 859	\$ 778	\$ 812	\$ 717
Non-residential	\$ 10,651	\$ 11,361	\$ 10,748	\$ 10,757	\$ 9,983

\* Seattle City Light changed customer counts to Service Agreement effective September 2016 with the implementation of the new retail electric billing system. Service Agreement determines how Seattle City Light and Seattle Public Utilities charge customers for services provided. An account can have several Service Agreements for the different types of services.

Years ended December 31,	2020	2019	2018	2017	2016
Average annual consumption per customer (kWhs) <sup>(a)(b)</sup> :					
Residential					
- Seattle	7,489	7,367	7,288	7,755	7,349
- National	n/a	10,649	10,972	10,399	10,766
Non-residential					
- Seattle	106,329	118,768	119,568	124,018	124,606
- National	n/a	120,663	122,952	122,121	123,846
Average rate per kilowatt-hour (cents) <sup>(a)(b)</sup> :					
Residential					
- Seattle	11.88	11.66	10.67	10.47	9.75
- National	n/a	13.01	12.87	12.89	12.55
Non-residential					
- Seattle	10.02	9.57	8.99	8.67	8.01
- National	n/a	9.04	9.10	9.07	8.91

(a) Source of national data: Department of Energy ([www.eia.doe.gov/electricity/annual/](http://www.eia.doe.gov/electricity/annual/)). 2020 National average annual consumption data and average rate data not available. Certain 2019-2016 national average annual consumption and national average rate data were updated with revised actuals.

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

NOTE 1: A comprehensive rate change of 5.5% became effective January 1, 2020

NOTE 2: As of November 2019, a Rate Stabilization Account (RSA) surcharge of 3% is in effect for all residential and non-residential rates schedules.

NOTE 3: A Bonneville Power Administration (BPA) passthrough adjustment of -1.9% is being applied to all retail energy charges beginning November 2019, and as a result, a 0.4% rate decrease effective November 1, 2019 was the net impact of the BPA passthrough and RSA surcharge.

NOTE 4: Notice of public hearings on future rate actions may be obtained on request to:

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



## THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

### OTHER INFORMATION (UNAUDITED)

#### TAXES AND CONTRIBUTIONS BY SEATTLE CITY LIGHT TO THE COST OF GOVERNMENT (Unaudited)

(in millions)

Years ended December 31,	2020	2019	2018	2017	2016
<b>Taxes</b>					
City of Seattle occupation utility tax	\$ 57.5	\$ 58.4	\$ 53.4	\$ 54.4	\$ 48.4
State public utility and business taxes	31.3	31.5	27.4	30.2	27.1
Suburban contract payments and other	7.3	6.8	6.3	6.4	6.0
Contract payments for government services	5.1	3.3	4.6	3.8	3.7
<b>Total taxes as shown in statement of revenues and expenses</b>	<b>101.2</b>	<b>100.0</b>	<b>91.7</b>	<b>94.8</b>	<b>85.2</b>
<b>Taxes/licenses charged to accounts other than taxes</b>	<b>16.7</b>	<b>15.5</b>	<b>16.6</b>	<b>15.4</b>	<b>16.6</b>
<b>Other contributions to the cost of government</b>	<b>16.5</b>	<b>17.1</b>	<b>22.2</b>	<b>22.7</b>	<b>17.6</b>
<b>Total miscellaneous taxes</b>	<b>33.2</b>	<b>32.6</b>	<b>38.8</b>	<b>38.1</b>	<b>34.2</b>
<b>Total taxes and contributions</b>	<b>\$ 134.4</b>	<b>\$ 132.6</b>	<b>\$ 130.5</b>	<b>\$ 132.9</b>	<b>\$ 119.4</b>

Note 1: Electric rates include all taxes. The State Public Utility Tax rate for retail electric power sales was 3.8734%.

The City of Seattle Occupation Utility Tax rate was 6% for in-state retail electric power sales.

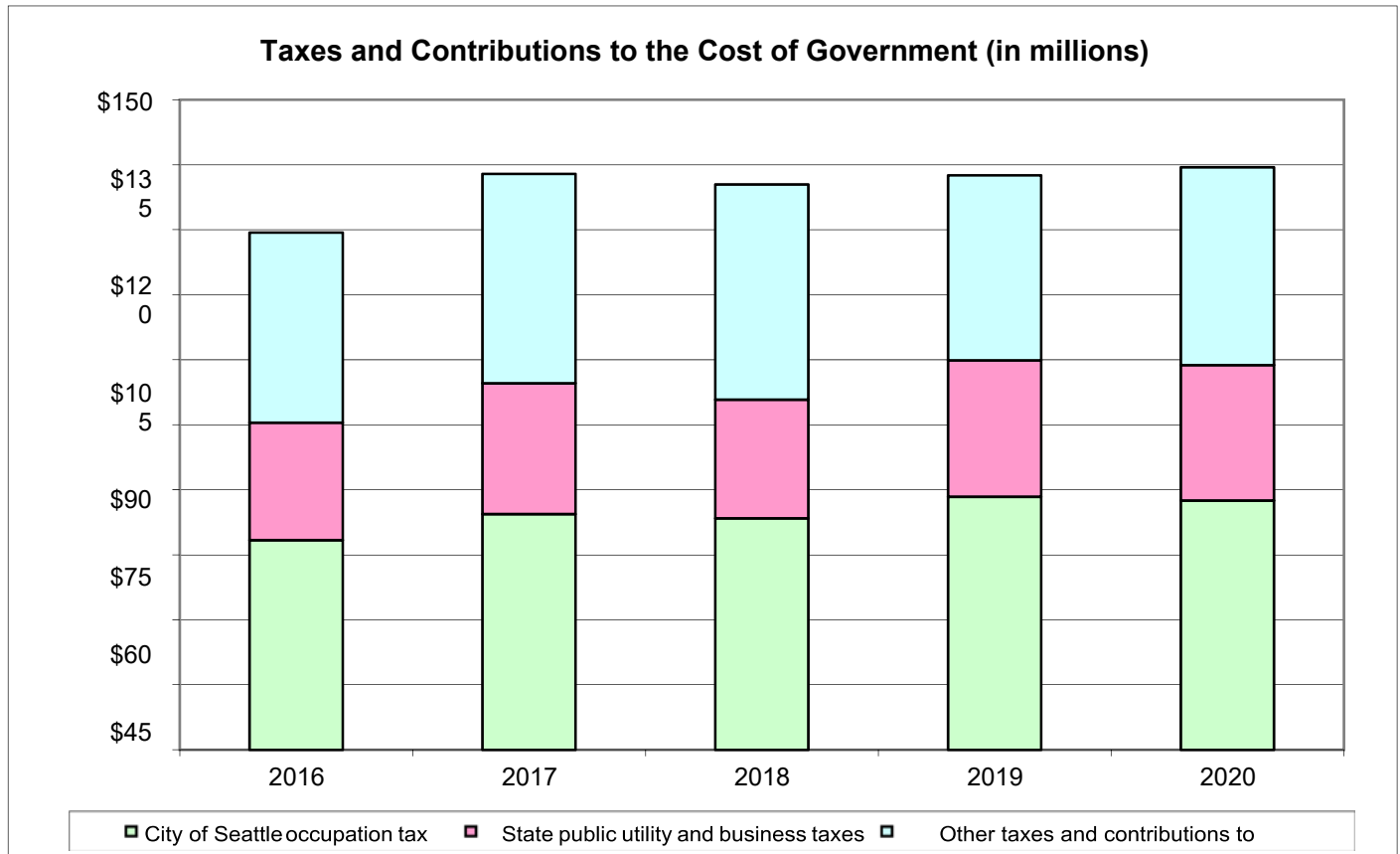
Note 2: 2017 Taxes/licenses charged to accounts other than taxes updated with more recent information.

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

## THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

### OTHER INFORMATION (UNAUDITED)

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# THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

## OTHER INFORMATION (UNAUDITED)

### PUBLIC PURPOSE EXPENDITURES (Unaudited)

Years ended December 31,	2020	2019	2018	2017	2016
<b>CONSERVATION</b>					
Annual energy savings (megawatt hours) <sup>A</sup>	80,731	111,735	131,858	136,632	133,532
Programmatic conservation expenses <sup>B</sup>					
Non-low income	\$ 20.3	\$ 23.8	\$ 24.3	\$ 31.0	\$ 31.3
Low income	1.7	3.1	1.7	2.9	2.8
Non-programmatic conservation expenses <sup>C</sup>	4.8	6.4	11.5	12.6	11.2
Subtotal	26.8	33.3	37.5	46.5	45.3
<b>OTHER PUBLIC PURPOSE EXPENDITURES</b>					
Low-income energy assistance <sup>D</sup>	23.7	18.8	17.8	18.5	13.4
Non-hydro renewable resources <sup>E</sup>	39.7	34.5	33.7	32.9	36.3
Subtotal	63.4	53.3	51.5	51.4	49.7
<b>NET PUBLIC PURPOSE SPENDING</b>	90.2	86.6	89.0	97.9	95.0
Revenue from retail electric sales	\$ 926.7	\$ 938.9	\$ 868.6	\$ 875.2	\$ 788.0
<b>PERCENT PUBLIC PURPOSE SPENDING TO RETAIL ELECTRIC SALES</b>					
Conservation only	2.9%	3.5%	4.3%	5.3%	5.7%
Low-income assistance & non-hydro renewables	6.8%	5.7%	5.9%	5.9%	6.3%
Total	9.7%	9.2%	10.2%	11.2%	12.0%

A Energy savings are from completed projects in that year include those from Northwest Energy Efficiency Alliance, residential behavior programs and applicable Transmission & Distribution benefit.

B Programmatic conservation expenditures are deferred and amortized over a 20-year period in accordance with City Council-passed resolutions and Statement No. 62 of the GASB, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB & AICPA Pronouncements*. Non-low income programmatic conservation includes expenditures for program measures, customer incentives, field staff salaries, energy code enforcement, and direct program administration. They do not include expenditures related to solar or other renewable programs. Low-income programmatic conservation includes these types of expenditures for the Department's HomeWise and Low-Income Multifamily Programs.

C Non-programmatic expenditures include program planning, evaluation, data processing, and general administration. These expenses are not associated with measured energy savings.

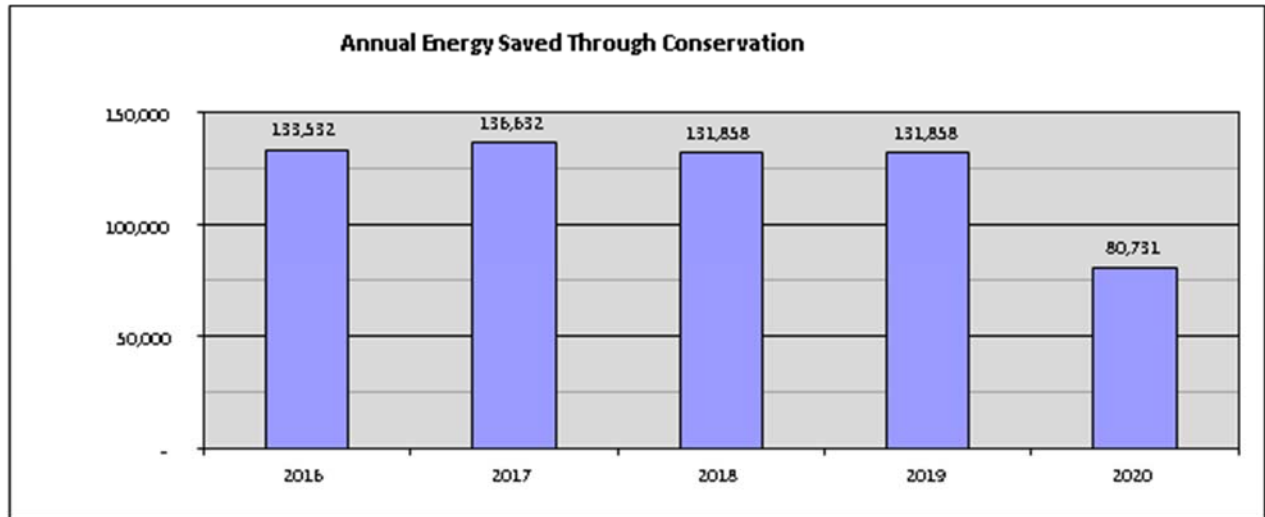
D Low-income assistance includes rate discounts and other programs that provide assistance to low income customers.

E Non-hydro renewable resources include energy generated from various sources bundled with renewable energy certificates (RECs) and purchased RECs which are funded from current revenues to comply with State of Washington Energy Independence Act (RCW 19.285).

## THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

### OTHER INFORMATION (UNAUDITED)

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

INDEPENDENT AUDITORS' REPORT

To the Transportation and Utilities Committee  
The City of Seattle - City Light Department

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of The City of Seattle, City Light Department as of and for the year ended December 31, 2020, and have issued our report thereon dated May 27, 2021.

***Internal Control Over Financial Reporting***

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

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

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

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

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

We noted certain matters that we reported to management of the Department in separate letters dated May 27, 2021.

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

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

A handwritten signature in black ink that reads "Baker Tilly US, LLP". The signature is written in a cursive, flowing style.

Madison, Wisconsin  
May 27, 2021

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**APPENDIX D**  
**DEMOGRAPHIC AND ECONOMIC INFORMATION**



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## DEMOGRAPHIC AND ECONOMIC INFORMATION

Seattle is the largest city in the Pacific Northwest, serves as the County seat and is the center of the County's economic activity. King County is the largest county in the State in population, number of cities and employment, and the fourteenth most populous county in the United States. Of the State's population, nearly 30% reside in the County, and of the County's population, 33% live in the City of Seattle.

### Population

Historical and current population figures for the State of Washington, the County, the two largest cities in the County, and the unincorporated areas of the County are given below.

POPULATION			
Year	Washington	King County	Seattle
1980 <sup>(1)</sup>	4,130,163	1,269,749	493,846
1990 <sup>(1)</sup>	4,866,692	1,507,319	516,259
2000 <sup>(1)</sup>	5,894,121	1,737,034	563,374
2010 <sup>(1)</sup>	6,724,540	1,931,249	608,660
2011 <sup>(2)</sup>	6,767,900	1,942,600	612,100
2012 <sup>(2)</sup>	6,817,770	1,957,000	616,500
2013 <sup>(2)</sup>	6,882,400	1,981,900	626,600
2014 <sup>(2)</sup>	6,968,170	2,017,250	640,500
2015 <sup>(2)</sup>	7,061,410	2,052,800	662,400
2016 <sup>(2)</sup>	7,183,700	2,105,000	686,800
2017 <sup>(2)</sup>	7,310,300	2,153,700	713,700
2018 <sup>(2)</sup>	7,427,570	2,190,200	730,400
2019 <sup>(2)</sup>	7,546,410	2,226,300	747,300
2020 <sup>(2)</sup>	7,656,200	2,260,800	761,100

(1) Source: U.S. Department of Commerce, Bureau of Census

(2) Source: State of Washington, Office of Financial Management

### Per Capita Income

The following table presents per capita personal income for the Seattle Metropolitan Division, the County, the State, and the United States.

PER CAPITA INCOME					
	2015	2016	2017	2018	2019
Seattle MD	\$ 68,792	\$ 71,903	\$ 75,973	\$ 81,201	\$ 85,284
King County	76,122	79,742	84,542	90,438	94,974
State of Washington	53,840	55,884	58,550	62,026	64,758
United States	48,978	49,870	51,885	54,446	56,490

Source: U.S. Bureau of Economic Analysis, U.S. Department of Commerce

## Construction

The table below lists the value of housing construction for which building permits have been issued by entities within the City of Seattle. The value of public construction is not included in this table.

### CITY OF SEATTLE RESIDENTIAL BUILDING PERMIT VALUES

Year	New Single Family Units		New Multi-Family Units		Total Value(\$)
	Number	Value(\$)	Number	Value(\$)	
2015	810	215,818,201	10,530	1,684,630,374	1,900,448,575
2016	797	216,693,139	9,202	1,242,951,877	1,459,645,016
2017	593	162,452,219	9,294	1,562,063,391	1,724,515,610
2018	523	141,737,845	7,395	892,514,843	1,034,252,688
2019	507	139,195,045	10,277	1,554,462,494	1,693,657,539
2020	247	111,343,320	5,479	637,037,156	748,381,079
2020 <sup>(1)</sup>	136	37,701,619	2,097	292,312,669	330,104,288
2021 <sup>(1)</sup>	88	29,972,334	3,350	483,009,405	512,981,739

(1) Estimates with imputations through April.

Source: U.S. Bureau of the Census

## Retail Activity

The following table presents taxable retail sales in King County and Seattle.

### THE CITY OF SEATTLE AND KING COUNTY TAXABLE RETAIL SALES

Year	King County	City of Seattle
2015	\$54,890,159,770	\$22,407,443,037
2016	59,530,882,870	24,287,539,378
2017	62,910,608,935	26,005,147,210
2018	69,018,354,390	28,292,069,881
2019	72,785,180,223	29,953,200,188
2019 <sup>(1)</sup>	53,511,071,448	21,962,409,065
2020 <sup>(1)</sup>	48,349,134,083	18,863,518,272

(1) Through third quarter.

Source: Quarterly Business Review, Washington State Department of Revenue

## Employment

The following table presents total employment in Washington State as of December 31, 2019 (unless otherwise noted) for certain major employers in the Puget Sound area.

### PUGET SOUND MAJOR EMPLOYERS

Employer	Employees
The Boeing Company	71,800 <sup>(1)</sup>
Amazon.com Inc.	60,000 <sup>(2)</sup>
Microsoft Corp.	55,000
Joint Base Lewis-McChord	54,000 <sup>(3)</sup>
University of Washington Seattle	46,800
Providence Health & Services	43,000 <sup>(4)</sup>
Safeway Inc. & Albertsons LLC	21,300 <sup>(4)</sup>
Wal-Mart Stores, Inc.	19,400
Costco Wholesale Corp.	18,000
MultiCare Health System	17,200
Fred Meyer Stores	16,200
King County Government	15,900
City of Seattle	15,800
Starbucks Corp.	14,000
CHI Franciscan Health	12,500
Seattle Public Schools	11,900
Kaiser Permanente	10,000
Alaska Air Group Inc.	9,600
Nordstrom, Inc.	9,200
Virginia Mason Health System	9,100

- (1) Since the date of this table, Boeing has faced financial stress and has significantly reduced its companywide workforce through a combination of buyouts and layoffs and the shift of 787 production out of the State. The State's economic and revenue forecast released in March 2021 expected that aerospace employment in the State (including Boeing and other employers) will be 29,800 lower in December 2021 than January 2020. The State estimates that about 19,000 of these job losses occurred prior to February 2021 and an additional 10,700 jobs will be lost during the remainder of 2021.
- (2) Amazon reports more than 60,000 employees but does not provide an exact count. As a result of the layoffs described in footnote (1), it is expected that Amazon is currently the largest employer in the region.
- (3) 40,000 are service members and 14,000 are civilian employees.
- (4) As of May 2019.

Source: *Puget Sound Business Journal*, Publication Date June 19, 2020

**KING COUNTY**  
**RESIDENT CIVILIAN LABOR FORCE AND EMPLOYMENT**  
**AND NONAGRICULTURAL WAGE AND SALARY EMPLOYMENT<sup>(1)</sup>**

	<b>Annual Average</b>				
	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
Civilian Labor Force	1,184,240	1,213,744	1,238,090	1,264,754	1,290,480
Total Employment	1,134,979	1,167,122	1,194,955	1,224,648	1,254,638
Total Unemployment	49,261	46,622	43,135	40,106	35,842
Percent of Labor Force	4.2%	3.8%	3.5%	3.2%	2.8%
<b>NAICS INDUSTRY</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
Total Nonfarm	1,356,900	1,397,408	1,431,933	1,467,817	1,385,242
Total Private	1,178,800	1,216,542	1,254,317	1,292,433	1,213,908
Goods Producing	177,250	177,733	181,550	186,058	172,317
Mining and Logging	525	533	500	500	467
Construction	71,217	74,342	78,108	79,533	76,675
Manufacturing	105,525	102,867	102,925	106,000	95,133
Service Providing	1,179,650	1,219,675	1,250,383	1,281,758	1,212,925
Trade, Transportation, and Utilities	254,142	268,325	274,642	280,933	276,200
Information	96,200	102,883	111,017	121,633	128,017
Financial Activities	70,642	71,450	73,708	75,267	72,567
Professional and Business Services	222,750	227,792	233,092	238,875	234,883
Educational and Health Services	174,042	179,142	185,842	189,592	180,558
Leisure and Hospitality	135,683	140,775	145,050	146,833	101,442
Other Services	48,092	48,442	49,417	53,242	47,925
Government	178,100	180,867	177,617	175,383	171,333
Workers in Labor/Management Disputes	0	0	0	0	0
	<b>Apr. 2021</b>				
Civilian Labor Force	1,308,394				
Total Employment	1,240,527				
Total Unemployment	67,867				
Percent of Labor Force	5.2%				

(1) Columns may not add to totals due to rounding.

Source: Washington State Employment Security Department

**APPENDIX E**  
**BOOK-ENTRY TRANSFER SYSTEM**

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## BOOK-ENTRY TRANSFER SYSTEM

*The following information has been provided by DTC. The City makes no representation as to the accuracy or completeness thereof. Purchasers of the Bonds (the "Beneficial Owners") should confirm the following with DTC or its participants (the "Participants").*

1. The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the securities (the "Securities"). The Securities will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Security certificate will be issued for [each issue of] the Securities, [each] in the aggregate principal amount of such issue, and will be deposited with DTC. [If, however, the aggregate principal amount of [any] issue exceeds \$500 million, one certificate will be issued with respect to each \$500 million of principal amount, and an additional certificate will be issued with respect to any remaining principal amount of such issue.]

2. DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

3. Purchases of Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC's records. The ownership interest of each actual purchaser of each Security ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Securities are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Securities, except in the event that use of the book-entry system for the Securities is discontinued.

4. To facilitate subsequent transfers, all Securities deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Securities with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Securities; DTC's records reflect only the identity of the Direct Participants to whose accounts such Securities are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

5. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners



will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. [Beneficial Owners of Securities may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Securities, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of Securities may wish to ascertain that the nominee holding the Securities for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.]

6. Redemption notices shall be sent to DTC. If less than all of the Securities within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

7. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Securities unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. Redemption proceeds, distributions, and dividend payments on the Securities will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from Issuer or Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, Agent, or Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of Issuer or Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

9. A Beneficial Owner shall give notice to elect to have its Securities purchased or tendered, through its Participant, to [Tender/Remarketing] Agent, and shall effect delivery of such Securities by causing the Direct Participant to transfer the Participant's interest in the Securities, on DTC's records, to [Tender/Remarketing] Agent. The requirement for physical delivery of Securities in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Securities are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Securities to [Tender/Remarketing] Agent's DTC account.

10. DTC may discontinue providing its services as depository with respect to the Securities at any time by giving reasonable notice to Issuer or Agent. Under such circumstances, in the event that a successor depository is not obtained, Security certificates are required to be printed and delivered.

11. Issuer may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Security certificates will be printed and delivered to DTC.

12. The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that Issuer believes to be reliable, but Issuer takes no responsibility for the accuracy thereof.

*The following information has been provided by the City.*

The City may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered to DTC.

The information in this appendix concerning DTC and DTC's book-entry system has been obtained from sources the City believes to be reliable, but the City takes no responsibility for the accuracy thereof.

The Bond Registrar is not obligated to exchange or transfer any Bond during the 15 days preceding any principal or interest payment or redemption date.

Neither the City nor the Bond Registrar shall have any responsibility or obligation to Participants of DTC or the persons for whom they act as nominees with respect to the Bonds regarding accuracy of any records maintained by DTC or its Participants of any amount in respect of principal of or interest on the Bonds, or any notice which is permitted or required to be given to Registered Owners under the Bond Ordinance (except such notice as is required to be given by the Bond Registrar to DTC).