

OFFICIAL STATEMENT

New Issue
Book-Entry Only

Moody's Rating: Aa2
Standard & Poor's 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 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 and corporations. See "Legal and Tax Information—Tax Exemption" herein with respect to tax consequences relating to the Bonds.

\$385,530,000

THE CITY OF SEATTLE, WASHINGTON

MUNICIPAL LIGHT AND POWER IMPROVEMENT AND REFUNDING REVENUE BONDS, 2017C

DATED: DATE OF INITIAL DELIVERY

DUE: SEPTEMBER 1, AS SHOWN ON PAGE I

The City of Seattle, Washington (the "City"), will issue its Municipal Light and Power Improvement and Refunding Revenue Bonds, 2017C (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 the denomination 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 March 1 and September 1, beginning March 1, 2018. 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 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 Transfer System" and in Appendix E.

The Bonds are being issued to finance certain capital improvements to and conservation programs for the City's municipal light and power plant and system (the "Light System"), to refund certain of the City's outstanding Municipal Light and Power bonds, to provide for the Reserve Fund Requirement, and to pay the costs of issuing the Bonds and administering the Refunding Plan. See "Use of Proceeds."

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

The Bonds are special limited obligations of the City, payable from and secured solely by Gross Revenues of the Light System and by money in the Parity Bond Fund and the Reserve Fund. The pledge of Gross Revenues constitutes a charge upon such Gross Revenues prior and superior to all other charges whatsoever except reasonable charges for maintenance and operation of the Light System. The Bonds will be issued on a parity with the Outstanding Parity Bonds and all Future Parity Bonds. Maintenance and operation charges include 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 legislation authorizing the issuance of the Bonds. 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. 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 September 28, 2017.

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: September 13, 2017

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, or other information provided by parties other than the City. 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.

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.

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 Legislation 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. 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 those 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 except to the extent described under “Legal and Tax Information—Continuing Disclosure Undertaking.”

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, except as otherwise expressly provided in “Legal and Tax Information—Continuing Disclosure Undertaking.”

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.

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.

MATURITY SCHEDULE

\$385,530,000

THE CITY OF SEATTLE, WASHINGTON

MUNICIPAL LIGHT AND POWER IMPROVEMENT AND REFUNDING REVENUE BONDS, 2017C

SERIAL BONDS

Due September 1	Amounts	Interest Rates	Yields	Prices	CUSIP Numbers
2018	\$ 5,135,000	5.00%	0.85%	103.814	812643 PH1
2019	4,100,000	5.00%	0.90%	107.806	812643 PJ7
2020	4,310,000	5.00%	1.00%	111.501	812643 PK4
2021	4,525,000	5.00%	1.13%	114.816	812643 PL2
2022	11,710,000	5.00%	1.24%	117.909	812643 PM0
2023	12,305,000	5.00%	1.38%	120.526	812643 PN8
2024	12,915,000	5.00%	1.52%	122.790	812643 PP3
2025	13,560,000	5.00%	1.70%	124.369	812643 PQ1
2026	14,240,000	5.00%	1.85%	125.804	812643 PR9
2027	6,040,000	5.00%	1.98%	127.089	812643 PS7
2028	15,445,000	5.00%	2.10%	125.857 ⁽¹⁾	812643 PT5
2029	16,215,000	5.00%	2.20%	124.841 ⁽¹⁾	812643 PU2
2030	17,030,000	5.00%	2.27%	124.136 ⁽¹⁾	812643 PV0
2031	17,880,000	5.00%	2.35%	123.335 ⁽¹⁾	812643 PW8
2032	18,770,000	5.00%	2.42%	122.640 ⁽¹⁾	812643 PX6
2033	19,705,000	4.00%	2.85%	109.878 ⁽¹⁾	812643 PY4
2034	20,500,000	4.00%	2.90%	109.426 ⁽¹⁾	812643 PZ1
2035	21,320,000	4.00%	2.95%	108.975 ⁽¹⁾	812643 QA5
2036	22,170,000	4.00%	3.00%	108.527 ⁽¹⁾	812643 QB3
2037	9,465,000	4.00%	3.02%	108.348 ⁽¹⁾	812643 QC1
2038	9,845,000	4.00%	3.05%	108.080 ⁽¹⁾	812643 QD9
2039	10,240,000	4.00%	3.08%	107.814 ⁽¹⁾	812643 QE7
2040	10,650,000	4.00%	3.11%	107.548 ⁽¹⁾	812643 QF4
2041	11,075,000	4.00%	3.19%	106.842 ⁽¹⁾	812643 QG2
2042	11,515,000	4.00%	3.21%	106.667 ⁽¹⁾	812643 QH0
2043	11,975,000	4.00%	3.23%	106.491 ⁽¹⁾	812643 QJ6

TERM BONDS

Due September 1	Amounts	Interest Rates	Yields	Prices	CUSIP Numbers
2047	\$ 52,890,000	4.00%	3.280%	106.055 ⁽¹⁾	812643 QK3

(1) Priced to the September 1, 2027, par call date.

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

MAYOR AND CITY COUNCIL

Edward B. Murray⁽¹⁾ Mayor

Council Member	Term Expiration
Sally Bagshaw	2019
Tim Burgess	2017
Lorena Gonzalez	2017
Bruce Harrell	2019
Lisa Herbold	2019
Rob Johnson	2019
Debora Juarez	2019
Mike O'Brien	2019
Kshama Sawant	2019

CITY ADMINISTRATION

Glen M. Lee Director of Finance
Peter Holmes City Attorney

SEATTLE CITY LIGHT DEPARTMENT

Larry Weis	General Manager and Chief Executive Officer
Paula Laschober	Chief Financial Officer
James Baggs	Customer Service, Communications, and Regulatory Affairs Officer
Robert Cromwell	Interim Power Supply and Strategic Planning Officer
Lynn Best	Chief Environmental Officer
Bernie Ziemianek	Transmission and Distribution Officer
Michael Haynes	Energy Generation Operations and Engineering Officer
DaVonna Johnson	Chief Administrative Services Officer

BOND COUNSEL

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

MUNICIPAL ADVISOR

Piper Jaffray & Co.
Seattle, Washington

BOND REGISTRAR

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

(1) On September 12, 2017, Edward B. Murray announced his resignation as Mayor effective 5:00 p.m., Pacific Time, on September 13, 2017. The vacancy will be filled in accordance with the City Charter.

Supplemental Information Dated as of September 19, 2017

On September 18, 2017, in accordance with the City Charter, the City Council selected Council Member Tim Burgess to fill the office of Mayor. He was sworn in on September 18, 2017, and will serve until the results of the November 2017 election are certified (expected to be November 28, 2017). The resulting vacancy on the City Council will be filled in accordance with the City Charter.

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OFFICIAL STATEMENT

\$385,530,000

THE CITY OF SEATTLE, WASHINGTON

MUNICIPAL LIGHT AND POWER IMPROVEMENT AND REFUNDING REVENUE BONDS, 2017C

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 plant and system (the “Light System”), in connection with the offering of \$385,530,000 aggregate principal amount of its Municipal Light and Power Improvement and Refunding Revenue Bonds, 2017C (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 the ordinance authorizing the sale of the new money portion of 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 2016 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 Legislation (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.

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”), the Seattle City Charter, Ordinance 125198, passed on November 21, 2016 (the “New Money Ordinance”), Ordinance 124335, passed on November 25, 2013 (as amended by Ordinance 124916) (the “Refunding Ordinance” and, together with the New Money Ordinance, the “Bond Ordinance”), and Resolution 31771, adopted on September 13, 2017 (the “Bond Resolution”). The Bond Ordinance and the Bond Resolution together are referred to in this Official Statement as the “Bond Legislation.” The New Money Ordinance authorizes the issuance of a maximum par amount of \$275 million of Parity Bonds. The new money portion of the Bonds is \$246,760,000 and represents the first and only issuance under this authorization. At this time, the City does not expect to issue the remainder of this authorization, which will expire on December 31, 2019. See “Capital Requirements—Financing Plans.”

Principal Amounts, Dates, Interest Rates, and Maturities

The Bonds will be dated the date of their initial issuance and delivery (the “Issue Date”), and 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 March 1 and September 1, beginning March 1, 2018, 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 Transfer System

Book-Entry Transfer System. The Bonds will be issued initially as fully registered bonds and registered by the fiscal agent of the State (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), in the name of Cede & Co. as nominee for DTC, which will act as the initial Securities Depository for the Bonds. The Bonds will be held fully immobilized in book-entry form by the Securities Depository. Individual purchases and sales of the Bonds will be made in book-entry form only in denominations of \$5,000 or any integral multiple thereof within a maturity of the Bonds (“Authorized Denominations”). Purchasers (“Beneficial Owners”) will not receive certificates representing their interest in the Bonds. So long as the Bonds are held in book-entry form, the Securities Depository will be deemed to be the Registered Owner of the Bonds, and all references herein to the Registered Owners will mean Cede & Co., as nominee of DTC, or its successor and will not mean the Beneficial Owners of the Bonds. 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.

Transfer and Exchange; Record Date. Registered ownership of any Bond registered in the name of Cede & Co., as nominee for DTC, 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 only form. If (i) the Securities Depository resigns from its functions as depository, and no substitute Securities Depository can be obtained, or (ii) the City determines that the Bonds are to be in certificated form, the ownership of Bonds may be transferred to any person as provided in the Bond Ordinance, and the Bonds no longer will be held in book-entry form. The Bond Registrar is not obligated to exchange or transfer any Bond during the period between the Record Date and the corresponding interest or principal payment date or redemption date. Record Date means, in the case of each interest or principal payment date, the Bond Registrar’s close of business on the 15th day of the month preceding the interest or principal payment date. With regard to redemption of a Bond prior to its maturity, 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.

Payment of the Bonds

Principal of and interest on each Bond registered in the name of Cede & Co., as nominee of DTC, are payable by wire transfer of the Bond Registrar to DTC, which is obligated to remit such principal and interest to its participants for subsequent disbursement to the Beneficial Owners of the Bonds, as further described in Appendix E—Book-Entry Transfer System.

Interest on each Bond not registered in the name of the Securities Depository 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 registered in the name of the Securities Depository is payable upon presentation and surrender of the Bond by the Registered Owner to the Bond Registrar.

Redemption of the Bonds

Optional Redemption. The Bonds maturing on and before September 1, 2027, are not subject to redemption prior to maturity. The City reserves the right and option to redeem Bonds maturing on and after September 1, 2028, prior to their stated maturity dates at any time on and after September 1, 2027, 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—Term Bonds. If not redeemed or purchased at the City’s option prior to maturity, the Term Bonds maturing on September 1, 2047, will be redeemed at a price equal to the principal amount thereof to be redeemed plus accrued interest on September 1 in the years and amounts as follows:

TERM BONDS

<u>Years</u>	<u>Amounts</u>
2044	\$ 12,455,000
2045	12,955,000
2046	13,470,000
2047 ⁽¹⁾	14,010,000

(1) Maturity.

If the City redeems or purchases Term Bonds at the City's option prior to maturity, the Term Bonds so redeemed or purchased (irrespective of their redemption or purchase prices) will be credited at the par amount thereof against the remaining mandatory redemption requirements as determined by the Director of Finance. In the absence of a determination by the Director of Finance or other direction in the Bond Resolution, credit will be allocated 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 fewer than all of the outstanding Bonds of a maturity are to be redeemed, then:

- (i) the Securities Depository will select Bonds registered in the name of the Securities Depository to be redeemed in accordance with the Letter of Representations, and
- (ii) the Bond Registrar will select all other Bonds to be redeemed randomly in such manner 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 Authorized Denomination.

Notice and Effect of Redemption

Notice of Redemption. The City is required to 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 Registered Owner of any Bond. See "—Registration and Book-Entry Transfer System" and Appendix E.

Rescission of Redemption Notice. 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 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.

Effect of Redemption. Interest on Bonds called for redemption will cease to accrue on the date fixed for redemption unless the Bond or Bonds called are not redeemed when presented pursuant to the call.

Purchase

The City reserves the right and option to purchase any or all of the Bonds 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 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.

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 to pay when due the principal of and premium, if any, and interest on any Bond, or any portion thereof, included in a refunding or defeasance plan, and to redeem and retire, release, refund, or defease those Bonds (the “Defeased Bonds”) and 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 investments thereof, to redeem and retire, release, refund, or defease the Defeased Bonds in accordance with their terms, are 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 Gross 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. Notice of refunding or defeasance is to be given, and selection of Bonds for any partial refunding or defeasance is to be conducted, in the manner provided for the redemption of Bonds. See “—Notice and Effect of Redemption.”

The term “Government Obligations” is defined in the Bond Resolution to include the following types of securities (provided that such securities are then permissible investments under the State law definition of “government obligations” under RCW 39.53.010): (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 to finance certain capital improvements to and conservation programs for the Light System, to refund certain of the City’s outstanding Municipal Light and Power bonds described below under “Refunding Plan,” to provide for the Reserve Fund Requirement as described below under “Security for the Bonds—Reserve Fund and Reserve Fund Requirement,” and to pay the costs of issuing the Bonds and administering the Refunding Plan.

Sources and Uses of Funds

The proceeds of the Bonds will be applied as follows:

SOURCES OF FUNDS	
Par Amount of Bonds	\$ 385,530,000
Net Reoffering Premium (Discount)	<u>54,794,648</u>
Total Sources of Funds	<u>\$ 440,324,648</u>
USES OF FUNDS	
Deposit to Project Fund	\$ 270,000,000
Deposit to Refunding Escrow	163,588,183
Deposit to Reserve Fund	5,292,933
Costs of Issuance ⁽¹⁾	<u>1,443,532</u>
Total Uses of Funds	<u>\$ 440,324,648</u>

(1) Includes legal fees, financial advisory and rating agency fees, verification agent and refunding trustee fees, costs of printing and posting this Official Statement, underwriter's discount, and other costs of issuing the Bonds and refunding the Refunded Bonds (defined below).

Refunding Plan

With a portion of the proceeds of the Bonds, the City will advance refund the callable "new money portion" of the City's Municipal Light and Power Improvement and Refunding Revenue Bonds, 2011A, identified below (the "Refunded Bonds"). The refunding is being undertaken to achieve debt service savings.

REFUNDED BONDS

Bond	Maturity Date	Par Amount	Coupon (%)	Call Price (%)	Call Date	Original CUSIP Numbers	Prerefunded CUSIP Numbers	Unrefunded CUSIP Numbers
<i>Municipal Light and Power Improvement and Refunding Revenue Bonds, 2011A</i>								
Serials	2/1/2022	\$ 7,140,000 ⁽¹⁾	5.00	100	2/1/2021	812643 FS8	812643 QL1	812643 QR8
	2/1/2023	7,510,000 ⁽¹⁾	5.00	100	2/1/2021	812643 FT6	812643 QM9	812643 QS6
	2/1/2024	7,895,000 ⁽¹⁾	5.00	100	2/1/2021	812643 FU3	812643 QN7	812643 QT4
	2/1/2025	8,300,000 ⁽¹⁾	5.00	100	2/1/2021	812643 FV1	812643 QP2	812643 QU1
	2/1/2026	8,725,000 ⁽¹⁾	5.00	100	2/1/2021	812643 FW9	812643 QQ0	812643 QV9
	2/1/2028	9,380,000	5.25	100	2/1/2021	812643 FX7		
	2/1/2029	9,900,000	5.50	100	2/1/2021	812643 FY5		
	2/1/2030	10,460,000	5.50	100	2/1/2021	812643 FZ2		
	2/1/2031	11,035,000	5.25	100	2/1/2021	812643 GA6		
	2/1/2032	11,630,000	5.25	100	2/1/2021	812643 GB4		
	2/1/2033	12,255,000	5.25	100	2/1/2021	812643 GC2		
Term	2/1/2036	<u>40,885,000</u>	5.25	100	2/1/2021	812643 GD0		
Total		<u>\$ 145,115,000</u>						

(1) Partial maturity.

The City will enter into a Refunding Trust Agreement with U.S. Bank National Association, as Refunding Trustee, upon the delivery of the Bonds, to provide for the advance refunding of the Refunded Bonds. The Refunding Trust Agreement creates an irrevocable trust fund to be held by the Refunding Trustee and to be applied solely to the payment of the Refunded Bonds. A portion of the proceeds of the Bonds will be deposited with the Refunding Trustee to establish a beginning cash balance and to acquire direct obligations of the United States of America (the "Escrow Securities") that will mature and bear interest at rates that will be sufficient, together with the beginning cash balance, to pay the principal of and accrued interest as they become due and on the redemption date of the Refunded Bonds.

The amounts held by the Refunding Trustee, including the beginning cash balance, the Escrow Securities, and earnings thereon will be held solely for the benefit of the registered owners of the Refunded Bonds.

The mathematical accuracy of (i) the computations of the adequacy of the maturing principal amounts of and interest on the Escrow Securities and cash on deposit to be held by the Refunding Trustee to pay principal of and interest on the Refunded Bonds as described above, and (ii) the computations supporting the conclusion of Bond Counsel that the Bonds are not “arbitrage bonds” under Section 148 of the Internal Revenue Code of 1986, as amended (the “Code”), will be verified by Causey Demgen & Moore P.C., independent certified public accountants (the “Verification Agent”).

SECURITY FOR THE BONDS

Outstanding Parity Bonds

The Bonds are being issued on a parity with the Outstanding Parity Bonds, which currently include 18 series of bonds issued since 2008. See “Department Financial Information—Debt Service Requirements.”

OUTSTANDING PARITY BONDS

Bond Description	Original Par Amount	Outstanding Principal as of September 13, 2017
2008 Bonds	\$ 257,375,000	\$ 21,065,000
2010A Bonds	181,625,000	181,625,000
2010B Bonds	596,870,000	290,240,000
2010C Bonds	13,275,000	13,275,000
2011A Bonds ⁽¹⁾	296,315,000	225,860,000
2011B Bonds	10,000,000	10,000,000
2012A Bonds	293,280,000	243,895,000
2012C Bonds	43,000,000	43,000,000
2013 Bonds	190,755,000	178,695,000
2014 Bonds	265,210,000	232,150,000
2015A Bonds	171,850,000	161,125,000
2015B-1 Bonds ⁽²⁾	50,000,000	50,000,000
2015B-2 Bonds ⁽²⁾	50,000,000	50,000,000
2016A Bonds	31,870,000	31,870,000
2016B Bonds	116,875,000	115,340,000
2016C Bonds	160,815,000	160,815,000
2017A Bonds ⁽²⁾⁽³⁾	50,000,000	50,000,000
2017B Bonds ⁽²⁾⁽³⁾	50,000,000	50,000,000
Total	\$2,829,115,000	\$ 2,108,955,000

(1) Includes the Refunded Bonds in the amount of \$145,115,000, which will be defeased by the deposit of proceeds of the Bonds with the Refunding Trustee in accordance with the Refunding Plan. See “Use of Proceeds—Refunding Plan.”

(2) Issued as multimodal variable rate bonds.

(3) Issued as a direct purchase under a continuing covenant agreement (“CCA”) with State Street Public Lending Corporation. The CCA contains a mandatory tender date of January 2, 2020. If the CCA is not extended or replaced on or before this date, the City would be obligated to repay all principal of such bonds during the following five-year Term-Out period and prior to the stated final maturity date of November 1, 2046. See “Department Financial Information—Outstanding Variable Rate Parity Obligations.”

Pledge of Revenue

The Bonds are special limited obligations of the City, payable from and secured solely by Gross Revenues of the Light System and by money in the Parity Bond Fund and the Municipal Light and Power Bond Reserve Fund (the “Reserve Fund”). The pledge of Gross Revenues constitutes a lien and charge upon such Gross Revenues prior and superior to all other charges whatsoever except reasonable charges for maintenance and operation of the Light System. 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) 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 may include 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 Gross Revenues for payment thereof.

The Bond Ordinance defines “Gross Revenues” to include (i) all income, revenues, receipts, and profits derived by the City through 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, including the federal credit payments for Outstanding Parity Bonds that have been issued as tax credit subsidy bonds, (iii) Payment Agreement Receipts to the extent such receipts are not offset by Payment Agreement Payments, and (iv) investment income earned on money held in any fund or account of the City. Bond proceeds and certain insurance proceeds are excluded from the definition.

The Bond Ordinance defines “Net Revenue” as the amount determined by deducting from Gross Revenues the expenses of operation, maintenance, and repair of the Light System and further deducting any deposits into the Rate Stabilization Account (“RSA”) and adding to Gross Revenues any withdrawals from the RSA and any amounts the City expects to receive from the federal government in respect of federal credit payments for Outstanding Parity Bonds that have been issued as tax credit subsidy bonds. The Bond Ordinance does not define “reasonable charges for maintenance and operation of the Light System” as used in the pledge language, nor does it define “expenses of operation, maintenance, and repair” as used in the definition of Net Revenue in the context of the test for issuing Future Parity Bonds. The Department treats these terms as interchangeable and utilizes generally accepted accounting principles applicable to similar municipal utility enterprises in order to record such expenses. See Appendix A—Bond Ordinance—Section 13(g). See also “Other Considerations—Federal Sequestration and Other Federal Funding Considerations” for a discussion of the impact of sequestration on federal interest payments for certain Department bonds. See the discussion of the RSA under “Security for the Bonds—Rate Stabilization Account,” “Department Financial Information—Financial Policies,” and Appendix A—Bond Ordinance—Section 17.

The complete definitions of the capitalized terms summarized above can be found in Appendix A—Bond 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 Legislation. 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.

Rate Covenant

In the Bond Legislation, 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 into the Parity Bond Fund the amounts that are required by the Bond Legislation to be applied to the payment of the principal of and interest on the Parity Bonds until the Parity Bonds have been paid in full, to pay all costs of operation and maintenance, and to pay all bonds, warrants, and indebtedness for which any revenues of the Light System have been pledged. The Bond Legislation does not include a requirement that the City set rates to achieve a specific level of debt service coverage on Parity Bonds. A coverage test is included as part of the test for

issuing Future Parity Bonds. See “Department Financial Information—Financial Policies” and Appendix A—Bond Ordinance—Section 13(d).

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 all Parity Bonds outstanding and all amounts due under Parity Payment Agreements. The Reserve Fund is a pooled reserve. See Appendix A—Bond Ordinance—Section 13(b).

The Bond Legislation 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 money in the Light Fund (after making provision for payment of operating and maintenance expenses and for required payments into the Parity Bond Fund) 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, and 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 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.”

The Bond Resolution 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.” Until the expiration of the Surety Bond (defined below under “Method of Satisfying Reserve Fund Requirement”), in 2029 unless earlier terminated, this amount is calculated based on the debt service requirements for all Parity Bonds that are outstanding as of the Issue Date (i.e., excluding the Refunded Bonds and including the Bonds). Upon the expiration or termination of the Surety Bond, this amount will be recalculated to exclude the debt service requirements of the outstanding multimodal variable rate 2015B-1 and 2015B-2 Bonds and the outstanding direct purchase 2017A and 2017B Bonds and any other issue of Future Parity Bonds that are excluded pursuant to the legislation authorizing such Future Parity Bonds. See “Capital Requirements—Financing Plans.”

Upon the issuance of the Bonds, the aggregate Reserve Fund Requirement for all Parity Bonds outstanding will be \$142,268,014. Upon the expiration or termination of the Surety Bond, the Reserve Fund Requirements for the 2015B-1 and 2015B-2 Bonds and 2017A and 2017B Bonds will be reduced to \$0, resulting in a reduction in the aggregate Reserve Fund Requirement. Nonetheless, all Parity Bonds then outstanding (including any series of Parity Bonds for which the incremental Reserve Fund Requirement has been set at \$0) 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 permits the City to select in the applicable bond sale resolution 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 out of Gross Revenues (or out of any other legally available funds, including proceeds of such Future Parity Bonds) at one time on the Issue Date, (ii) making periodic payments 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.

With respect to the Bonds, the Bond Resolution provides that the City will pay into the Reserve Fund out of Gross Revenues on the Issue Date such sums as will, together with money currently in the Reserve Fund, provide for the Reserve Fund Requirement for the Bonds. The Reserve Fund Requirement for the Bonds will be satisfied by the amounts already on deposit and an additional deposit from Bond proceeds of \$5,292,933. The City also holds approximately \$25,442,000 in the Reserve Fund that is set aside and intended to be used solely toward satisfying the Reserve Fund Requirement upon the expiration or termination of the Surety Bond, as discussed above under “Reserve Fund Requirement.” See “—Information Regarding the 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. See Appendix A—Bond Ordinance—Section 1. The Bond Legislation does not require that the Reserve Fund be funded with cash or an Alternate Reserve Security if the provider of qualified insurance is subsequently downgraded. The City currently has a surety bond (the “Surety Bond”) purchased from Financial Security Assurance, Inc. (“FSA”), with a policy limit (the “Policy Limit”) that is currently \$74,694,319. See “—Information Regarding Surety Bond.” This amount is used to satisfy a large proportion of the aggregate Reserve Fund Requirement. As of August 31, 2017, the remainder of the Reserve Fund Requirement was satisfied by \$62,280,762 in cash held in the Reserve Fund.

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. Should the Reserve Fund Requirement be reduced in the future, the Policy Limit would be 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 reimbursement agreement. 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 Standard & Poor’s Ratings Services, 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. 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 Bond Legislation authorizes the issuance of Future Parity Bonds if, at the time of delivery of such Future Parity Bonds:

- (i) there is no deficiency in the Parity Bond Fund or in any of the accounts therein and provision has been made to meet the Reserve Fund Requirement for all Parity Bonds then outstanding plus the proposed Future Parity Bonds, and
- (ii) there has been filed with the City either:
 - (a) a certificate of the Director of Finance stating that Net Revenue in any 12 consecutive months out of the most recent 24 months preceding the delivery of the proposed series of 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 Parity Bonds (except that if any adjustment in the rates, fees, and charges for the services of the Light System will be effective at any time prior to or within six months after the delivery of the proposed Parity Bonds, the

Director of Finance will reflect in his or her certificate the Net Revenue he or she calculates would have been collected in the Base Period if such new rates, fees, and charges had been in effect for the entire Base Period), or

- (b) a certificate of a Professional Utility Consultant stating that the Adjusted Net Revenue for the Base Period, computed as described in the Bond Legislation, is not less than 125% of maximum Annual Debt Service in any future calendar year on all Parity Bonds then outstanding and the Future Parity Bonds proposed to be issued. The Bond Legislation permits the Professional Utility Consultant to adjust Net Revenue based on certain conditions, as described in Section 13(g) of the Bond Ordinance.

The Bond Legislation authorizes the issuance of Refunding Parity Bonds without the requirement of meeting the above provisions if such issuance does not cause Annual Debt Service to increase by more than \$5,000 in any calendar year. See Appendix A—Bond Ordinance—Section 13(h).

Other Covenants; Amendments

In the Bond Legislation, 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—Bond Ordinance—Section 13.

The Bond Legislation also reserves to the City the right to amend or supplement the Bond Legislation, 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. In addition, Section 16(c) of the Bond Ordinance (set forth in Appendix A) provides that, by purchasing the Bonds, the Owners thereof are deemed to have consented to future amendments to certain covenants and other provisions of the Bonds described herein. See Appendix A—Bond Ordinance—Section 16.

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 prerequisites 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—Bond Ordinance—Sections 1 and 13(g). The City currently has no Parity Payment Agreements in effect.

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 Gross Revenues and any other money received by the Light System and available to be used therefor. The City may withdraw any or all of the money from the RSA for inclusion in 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 Net Revenue. See the discussion of the RSA and the City's current policies under "Department Financial Information—Financial Policies" and Appendix A—Bond Ordinance—Section 17.

Defaults and Remedies; No Acceleration of the Parity Bonds

The Bond Legislation does not enumerate events of default or remedies upon an event of default. In the event of a default, Bond owners would be permitted to pursue remedies permitted by 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.

The Parity Bonds are not subject to acceleration under any circumstances. The City is liable for principal and interest payments only as they become due. In the event of multiple defaults in payment of principal of 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 Obligations.”

Subordinate Lien Obligations

The City has reserved the right to issue bonds or other obligations with a charge or lien upon the Gross Revenues subordinate to the payments required to be made from Gross Revenues into the Parity Bond Fund and the accounts therein.

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 the Parity Bonds.

Contingent 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. Such contingent payment obligations may 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.”

SEATTLE CITY LIGHT DEPARTMENT

Introduction

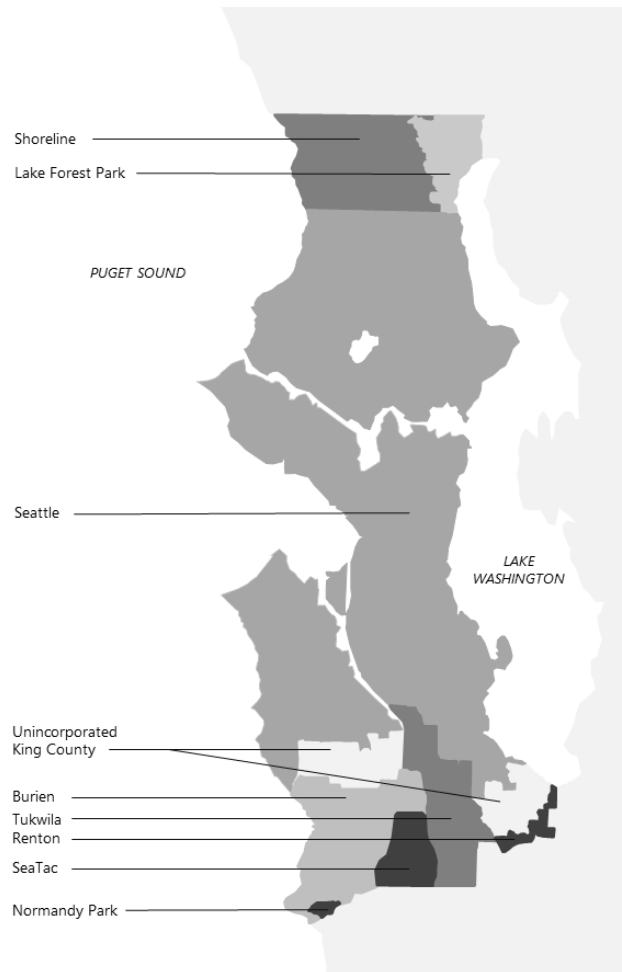
The Department is a municipally-owned electric utility. In 1905, the City began providing its customers with electricity generated by the Cedar Falls Hydroelectric Plant (the “Cedar Falls Project”), which was the first such municipally-owned facility in the nation. By 1910, operational responsibility 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 874,000.

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.

The City Light Review Panel (the "Review Panel") was created in March 2010 and replaced the City Light Advisory Committee and the Rates Advisory Committee. City of Seattle Ordinance 123256, which established the Review Panel, specifies the professions and qualifications that the members of the 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 financial analyst position is vacant and the current economist is departing the Review Panel, but nominees have been identified and are expected to be confirmed by City Council in September 2017.

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.

In early 2016, a new General Manager and Chief Executive Officer was appointed, following retirement of the prior General Manager. As a result, the Department has been reorganized into eight operating units: Financial Services; Customer Service, Communications and Regulatory Affairs; Power Management and Strategic Planning; Environmental; Transmission and Distribution; Energy Generation Operations and Engineering; Engineering and Technology Innovation; and Administrative Services.

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

Larry Weis, General Manager and Chief Executive Officer, was nominated to this position and confirmed by the City Council in March 2016. He is also serving as the Interim Engineering and Technology Innovation Officer until that position is permanently filled. He has more than 35 years of experience in the electric power and water utility industries, including 26 years as a General Manager and CEO. He has direct experience financing, constructing, and operating hydroelectric, gas, coal, and nuclear generation projects. In addition, he has provided strategic leadership in state and national government relations and regulatory affairs. He has direct experience in numerous FERC licensing issues and regulatory matters and has served on numerous industry boards and speaking panels.

From 2010 till 2016, Mr. Weis was General Manager of Austin Energy in Austin, Texas, a utility that is nationally regarded for its aggressive renewable energy and reliability goals and demonstrated efforts to promote new clean energy technologies, including a successful electric vehicle charging program. He was successful in rebuilding Austin Energy's financial strength and restructuring its rates to provide a sound revenue forecast and rebuild reserves. He resigned this position to join the Department.

Previously, Mr. Weis was the General Manager and CEO for Turlock Irrigation district in Central California from 2000 until 2010, and the General Manager for Pend Oreille County PUD from 1990 until 2000. He began his career in the utility industry with Snohomish PUD in 1981. Prior to his work in the utility industry, he worked for three years for the Boeing Company.

He is a graduate of the School of Engineering and Technology at Western Washington University, where he was a team member of the school's Vehicle Research Institute.

Paula Laschober, Ph.D., Chief Financial Officer, joined the Department in 1986, and served as the Department's Finance Director from 2008 until her appointment in January 2016 as Interim Chief Financial Officer. Prior to joining the Department, she spent eight years as a consultant to utilities with R.W. Beck and Associates, now part of Leidos Engineering. Dr. Laschober holds a master's degree in Business Administration and a Ph.D. in Latin American Literature from the University of Washington.

James Baggs, Customer Service, Communications, and Regulatory Affairs Officer, joined the Department in 2011 as Chief Compliance Officer. Since that time, he has also served as the Interim Power Supply and Environmental Affairs Officer and the Interim General Manager and Chief Executive 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.

Robert Cromwell, Interim Power Supply and Strategic Planning Officer, was previously the Director of Regional Affairs and Contracts for the Department. Prior to this position, he served as a Strategic Advisor for the Department, as a Senior Assistant City Attorney for the City representing the Department, and as Assistant Attorney General in the Public Counsel team representing Washington State utility customers. Mr. Cromwell has a law degree from the James E. Rogers College of Law at the University of Arizona and is a graduate of the University of Idaho's College of Business and Economics Utility Executive Course.

Lynn Best, Ph.D., Chief Environmental Officer, joined the Department in 1982 as a Senior Environmental Analyst. Since that time, she has been promoted to a manager position in Environmental Affairs and then to the position of Director of Environmental Affairs and Real Estate. Dr. Best received her Bachelor of Science degree from the Massachusetts Institute of Technology and her doctorate from the University of Washington.

Bernie Ziemianek, Ph.D., Transmission and Distribution Officer, joined the Department in 2006 as Energy Delivery Operations Director. Prior to joining the Department, he was the Public Utility Director for The City of Ukiah, California, and the Director of Research and Development for the Electric Power Research Institute (“EPRI”) in the areas of Transmission and Distribution, Renewables, and Advanced Grid Infrastructure Technologies. Before joining EPRI, he worked for Pennsylvania Power and Light Company, where he held a variety of positions. Mr. Ziemianek holds a bachelor's and doctorate degree in Electrical Engineering from Drexel University, a master's degree in Electrical Engineering from Lehigh University, and an Executive MBA from Duke University.

Michael Haynes, P.E., Energy Generation Operations and Engineering Officer, was appointed to this position in 2016. He joined the Department in 2000 and previously held the title of 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.

DaVonna Johnson, Chief Administrative Services 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.

Department Employment and Labor Relations

As of May 2017, 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—2016 Audited Financial Statements of the Department—Notes 12 and 13.

State law requires municipal agencies to bargain in good faith with the recognized bargaining agents. Approximately 91% 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. See “The City of Seattle—Labor Relations.”

In April 2016, the new Seattle Information and Technology Department (“Seattle IT”) became responsible for the delivery of information technology (“IT”) services for the entire City government, including the Department. As a result of this reorganization, the Department's existing IT staff of approximately 104 full-time employees, or approximately 5% of the existing workforce, was transferred to Seattle IT. The Department continues to work with Seattle IT to execute a successful transition.

Approximately half of the Department's workforce is eligible to retire in the next five years. 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 has a robust internship program that currently enrolls more than 80 high school and college students. 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.

Strategic Plan

The City Council unanimously approved the Department's 2017-2022 Strategic Plan Update on July 25, 2016. The fundamentals of this Strategic Plan remain unchanged from the prior Strategic Plan. The Strategic Plan Update calls for rate increases averaging 4.3% annually from 2017 to 2022, excluding any Bonneville Power Administration (“BPA”) pass-throughs or RSA surcharges. Rates increases for 2017 and 2018 were higher than the average, at 5.6% per year. The rate plan is based on certain assumptions, including that demand for electricity will increase 0.3% per year during the period 2017-2022 and inflation and wholesale prices will remain low. See “Department

Financial Information—Retail Rates—Rate Changes—2010-2017,” “—Management Discussion of Historical Operating Results 2012-2016—Operating Revenues—2016 vs. 2015,” and “Security for the Bonds—Rate Stabilization Account.”

The Strategic Plan Update includes initiatives aimed at repairing aging infrastructure and acquiring new infrastructure to meet future customer needs; improving the customer’s experience and rate predictability, including improving customer service interactions and customers’ ability to manage their own electrical use in real time; continuing conservation and environmental stewardship leadership; meeting the increased cost of compliance with renewable energy Initiative 937 (“I-937”) and mandatory North American Electric Reliability Corporation (“NERC”) reliability standards; and increasing workforce performance and safety practices. These initiatives are consistent with the previous Strategic Plan Update approved in 2014 and are reflected in the Department’s adopted Capital Improvement Program (“CIP”) for 2017-2022. See “Capital Requirements.”

The adopted Strategic Plan resolution directs the Department to study its declining retail load in efforts to stabilize financial performance. See “Management Discussion of Historical Operating Results 2012-2016.” The retail load study, which is currently underway, will help develop policy changes that would be included in the 2019-2024 Strategic Plan. The Department commissioned a third-party review of its load forecasting methods in early 2017. Following the study recommendations, the Department will gradually update its load forecasting methods to better account for changing customer end-use characteristics such as impacts from appliance codes and standards. Other policy changes that will be evaluated include restructuring of retail rate design, expanding the RSA mechanism to include some or all of retail revenue, and utility rate decoupling.

Enterprise Risk Management and Emergency Response

The Department has an Enterprise Risk Management program designed to assess and report on the organization’s strategic readiness, by tracking risk factors relating to strategic and corporate goals. All divisions of the Department provide input into the Enterprise Risk Management framework, including Emergency Response, Business Continuity, and Regulatory Compliance.

The Department has an active Emergency Response 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, prevent, respond to, and recover from 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 240 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.

Due to the City’s known seismic risk, the Department maintains a seismic hazard assessment program for substations and facilities consistent with requirements identified in the International Building Code. As upgrades and/or improvements are made to these substations and facilities, appropriate seismic mitigation features are incorporated into the new or upgraded features. The seismic hazard assessment also includes a method for establishing priorities within the Department’s service territory. Similar attention is applied to the generation facilities as part of ongoing Federal Energy Regulatory Commission (“FERC”) licensing and reporting obligations.

Cyber attacks continue to become more sophisticated and are increasingly capable of impacting control systems and components. The Department, working in conjunction with 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 Department regularly conducts voluntary cyber security assessments with the intent to identify areas for continual improvement. Work plans are developed to address issues and recommendations to support the cyber security program. A new version of Critical Infrastructure Protection Standards went into effect in July 2016. This is the next evolution of the NERC oversight of Critical Utility Infrastructure. For the Department, this latest version brought into scope additional facilities due to their level of interconnection with the Bulk Electric Transmission System. With additional facilities now subject to this set of standards comes additional documentation and controls administered by various subject matter experts across the Department. See “Transmission and Distribution—Federal Regulations.”

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.

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.

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 BPA. Together, these three sources provide approximately 113% of the energy needed to meet the Department’s retail demand under average water conditions. Under critical water conditions, the Department’s owned and contracted resources are sufficient to meet 100% of retail sales on an annual basis. Critical water conditions are defined as the lowest water conditions observed for 12 consecutive months during the period 1929 to 2008. The critical period for the Boundary Project and federal dams remarketed by BPA is 1936-1937; the critical 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 Tolt River South Fork Hydroelectric Project (the “Tolt Project”)), generated approximately 6.7 million megawatt hours (“MWh”) of electrical energy in 2016, which was about 45% 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 2018. 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. The Department is planning to join the California Independent System Operator’s (“CAISO”) Western Energy Imbalance Market (“EIM”), a real-time wholesale energy trading market that enables participants to buy and sell energy when needed, and has announced an April 2019 go-live date. City Light and the other EIM participants will provide load and resource information to CAISO, which 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 August 1, 2017, and gives estimates of output under critical and average water conditions based on historical data. The owned and purchased resources comprising the Department’s supply portfolio in 2018 are expected to be nearly identical to the resources in 2016 and 2017. 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 2016 water year and market prices.

TABLE 1
OWNED AND PURCHASED POWER RESOURCES FOR 2018
(AS OF AUGUST 1, 2017)

Nameplate Capability	Energy Available Under Critical Water Conditions (MWh)⁽¹⁾	Energy Available Under Average Water Conditions (MWh)⁽²⁾	Year FERC License Expires	Year Contract Expires	
(MW)					
Department-Owned Resources					
Boundary Project ⁽³⁾	1,048	2,610,772	3,654,155	2055	N/A
Skagit Project					
Gorge	173	698,908	931,233	2025	N/A
Diablo	169	583,618	674,755	2025	N/A
Ross	460	556,352	750,652	2025	N/A
Small Hydro Projects ⁽⁴⁾	48	121,000	139,844	Varies	N/A
Department's Share of Purchased Resources					
BPA Block ⁽⁵⁾		4,511,861	4,511,861	N/A	2028
Priest Rapids	6	16,540	21,024	2052	2052
CBH ⁽⁶⁾	64	233,598	240,034	2030/2032	2022/2027
High Ross ⁽⁷⁾	72	310,225	310,109	N/A	2066
Lucky Peak ⁽⁸⁾	113	236,817	293,359	2030	2038
Stateline ⁽⁹⁾	175	N/A	371,162	N/A	2021
Small Renewables ⁽¹⁰⁾	20	N/A	120,848	N/A	Various

- (1) Critical water conditions represent the lowest sequence of streamflows 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 critical water conditions, current operating constraints, generation technology, and availability. Actual water conditions would be expected to be better than critical 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 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." Effective October 1, 2017, the Department's long-term contract power purchase from BPA will be 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 ("GCPHA")), 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 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.
- (9) The project is not a hydroelectric project; therefore, average output is based on historic performance under the contract.
- (10) Small renewables are Columbia Ridge and King County West Point. The arrangement with Sacramento Municipal Utility District ("SMUD") for Burlington Renewable Biomass expired July 31, 2017, and was not renewed. See "--Purchased Power Arrangements." Average output is based on historic performance under each contract.

Source: *Seattle City Light Department, Power Production Division and Regional Affairs and Contracts Division*

TABLE 2
HISTORICAL ENERGY RESOURCES
(MWh)

	2012	2013	2014	2015	2016
Department-Owned Generation					
Boundary Project	3,802,251	3,465,890	4,249,957	3,469,855	3,888,316
Skagit Hydroelectric Project					
Gorge	1,081,349	955,265	1,057,865	953,628	1,036,540
Diablo	937,646	828,200	857,757	775,025	870,216
Ross	939,943	726,560	796,513	684,687	791,415
Cedar Falls/Newhalem	122,615	77,397	65,687	47,571	68,429
South Fork Tolt	63,284	55,596	63,589	49,118	52,348
Subtotal	6,947,088	6,108,908	7,091,368	5,979,884	6,707,264
Energy Purchases					
Bonneville	5,633,906	5,079,991	5,155,271	4,971,459	5,138,417
Priest Rapids	36,381	33,205	21,961	23,698	25,249
CBH (formerly GCPHA)	255,569	254,568	272,842	258,678	253,628
High Ross	308,365	312,350	307,873	310,102	308,478
Lucky Peak ⁽¹⁾	401,400	215,587	308,334	278,001	340,474
Stateline Wind Project	365,192	363,099	357,325	299,551	373,389
Columbia Ridge ⁽²⁾	49,779	51,577	68,920	94,271	99,487
Seasonal and Other Exchange ⁽³⁾	100,782	69,940	411,555	664,887	676,186
Wholesale Market Purchases ⁽⁴⁾	2,592,354	2,072,066	900,527	1,379,168	936,289
Subtotal	9,743,728	8,452,383	7,804,608	8,279,815	8,151,597
Total Department Resources	16,690,816	14,561,291	14,895,976	14,259,699	14,858,861
Minus Offsetting Energy Sales					
Firm Energy Sales and Marketing Losses ⁽⁵⁾	491,724	421,375	393,844	331,897	344,383
Seasonal and Other Exchange ⁽³⁾	491,980	236,864	507,117	692,073	773,443
Wholesale Market Sales ⁽⁶⁾	5,625,088	3,854,352	4,083,391	3,548,507	4,044,452
Total Net Energy Resources⁽⁷⁾	10,082,024	10,048,700	9,911,624	9,687,222	9,696,583

(1) Purchases from Lucky Peak were lower in 2013 due to an outage.

(2) The Columbia Ridge project was expanded in August 2014, effectively doubling the output.

(3) Includes exchange contracts such as those involving the Northern California Power Agency ("NCPA"), SMUD, Grant County, and Lucky Peak exchange. The arrangement with SMUD for Burlington Renewable Biomass expired on July 31, 2017, and was not renewed.

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

(5) 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.

(6) 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 121% in 2012, 96% in 2013, 104% in 2014, 89% in 2015, and 99% in 2016.

(7) Effective for 2014, total energy net resources represent system load vs. net load, to align with industry practice. Accordingly, prior years presented have been revised.

Source: Seattle City Light Department, Accounting Division

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

	2012	2013	2014	2015	2016
BPA ⁽¹⁾	\$ 145,986	\$ 146,832	\$ 152,282	\$ 153,176	\$ 157,412
Priest Rapids	2,981	2,977	3,174	3,163	2,314
CBH (formerly GCPHA)	5,360	5,441	6,047	6,642	6,166
High Ross	13,430	13,430	13,439	13,445	13,437
Lucky Peak	7,255	5,186	6,289	6,278	6,860
State Line Wind Project	24,256	23,830	23,686	20,787	24,777
Columbia Ridge - Biogas	2,720	3,063	5,469	6,929	7,377
SMUD - Biomass ⁽²⁾	1,731	1,464	1,628	1,810	1,344
Seasonal and Other Exchange ⁽³⁾	2,873	4,640	4,330	9,421	7,725
Total	\$ 206,592	\$ 206,863	\$ 216,344	\$ 221,651	\$ 227,412
Contracted Resources (MWh)	7,151,374	6,380,317	6,904,081	6,900,647	7,215,308
Average Unit Cost (Dollars/MWh) ⁽⁴⁾⁽⁵⁾	\$ 28.89	\$ 32.05	\$ 32.66	\$ 34.03	\$ 33.60

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

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

(3) Includes exchanges with NCPA, SMUD, Grant PUD, and Lucky Peak exchange.

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

(5) 2015 revised; published 2015 was calculated using 2014 Seasonal and Other Exchange MWh.

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 Tolt Project.

Dam Safety. The Department intends to operate, manage, and maintain its dams in a safe manner as described in FERC's Owners Dam Safety Program. The Department regularly inspects all its projects to ensure safety, and has current Emergency Action Plans, Monitoring Plans, and Safety Plans for all its dams. FERC requirements apply at the Boundary, Skagit, and Tolt Projects.

The Boundary Project. The Boundary Project is located on the Pend Oreille River in northeastern Washington near the British Columbia and Idaho borders, approximately 250 miles from Seattle. 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 1,048 MW and expected net power output of 3.4 million MWh under average water conditions. The Department proposed to amend the FERC license and revise the annual charges due to recent efficiency upgrades to two of the generating units, which are expected to be complete in 2017 and to increase the nameplate to 1,144 MW. The Department delivers up to 48 MW of energy to Pend Oreille PUD. Without this obligation, the nameplate capability of the Boundary Project is 1,096 MW and the expected power output is more than 3.4 million MWh, under average water conditions. The Boundary Project provides between 20% and 30% of the Department's total resource requirements and supplied approximately 26% of the Department's total resources in 2016.

The Department received a new license from FERC for the Boundary Project in 2013. The new license 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, the Bureau of Indian Affairs, the National Park Service, the U.S. Fish and

Wildlife Service (“USFWS”), the U.S. Forest Service, the Kalispel Tribe, the Washington State Department of Fish and Wildlife (“WDFW”), the Washington State Department of Ecology (“Ecology”), The Lands Council, American Whitewater, the Selkirk Conservation Alliance, and Pend Oreille PUD (collectively referred to as the “Settlement Parties”). Pend Oreille PUD is the licensee for the Sullivan Lake Hydroelectric Project (the “Sullivan Lake Project”), which is adjacent to the Boundary Project. As part of the Settlement, Pend Oreille PUD has surrendered the license for the Sullivan Lake Project to FERC, and the project has been decommissioned by the Department and Pend Oreille PUD. The Settlement and new license conditions made no material changes to previous operations at Boundary Dam, which is a significant benefit to the Department’s customers, given the load-following nature of operations at the Boundary Project described below. Pursuant to the Settlement and FERC license conditions, the Department will build facilities at the Boundary Project to improve Boundary Dam survival of target species (Bull Trout, Westslope Cutthroat Trout, and Mountain Whitefish) or implement appropriate non-operational measures to improve survival of target species, construct upstream passage, improve the habitat condition and function of tributaries draining to Boundary Reservoir, acquire land for wildlife habitat restoration and management, construct a native fish propagation facility, and construct improvements to improve water quality. The levelized cost of these measures over the license term is estimated to be less than \$4/MWh in 2009 dollars. A portion of the Department’s CIP includes the environmental and other improvements to the Boundary Project that meet the requirements of the Settlement and FERC license. The various mitigation provisions included in the FERC license will be implemented over the term of the license. See “Capital Requirements.”

The Settlement also seeks to minimize the impact of the Sullivan Lake Project surrender proceeding on the Pend Oreille PUD ratepayers, while at the same time preserving the Department’s operational flexibility at the Boundary Project. An important aspect of the Boundary Project’s value to the Department and the region is its flexibility and reliability; the Boundary Project can ramp up or down quickly within the hour and in immediate response to customer demand. The tributary restoration measures that the Department proposes to undertake in Sullivan Creek, the most important tributary to Boundary Reservoir, together with other protection, mitigation, and enhancement measures described in the Settlement, will provide substantial natural resource benefits.

The Department has historically delivered up to 48 MW of energy to Pend Oreille PUD at the Boundary Project’s production cost. The Department has agreed to continue delivery to Pend Oreille PUD at this level through the term of the new FERC license for the Boundary Project.

In 2010, the Department and Pend Oreille County reached agreement on impact payments related to the Boundary Project for 2010-2019. The Department will pay a total of \$19 million, to be paid in quarterly payments 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 a 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 2015, this encroachment amounted to 0.5% of the Boundary Project’s electrical energy output.

By December 2015, the Department had completed the FERC-required five-year and annual dam safety inspections at the Boundary Project and identified new Potential Failure Modes (“PFMs”) to focus surveillance, monitoring, and prioritized improvements. The dam was determined 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.

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 802 MW. Expected power output under average water conditions is 2.4 million MWh. The Skagit Project supplied approximately 18% of the Department's total resources in 2016.

The three Skagit Project plants are licensed as a unit by FERC under a license that expires in 2025. The Department began the relicensing process in 2017. As a condition of the 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 in 2016 required by the FERC license revealed no dam safety issues; the final report is scheduled for October 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.

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 most recent review concluded in 1998 and did not result in any changes to the agreement. Both parties mutually waived the 2009 periodic review.

The Department's annual payments to British Columbia include a fixed charge of \$21.8 million annually through 2020, which represents the estimated debt service costs that would have been incurred had the addition been constructed and financed with bonds. In 2000, the Department began deferring \$9.1 million of the total \$21.8 million annual payment, and will start amortizing the deferred portion over 15 years starting in 2021. Payment of equivalent 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 308,478 MWh in 2016. 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 government of Canada.

In August 2015, the Goodell Creek wildfire burned approximately 8,000 acres over several days and threatened the Skagit Project. Department employees in the town of Diablo were temporarily evacuated, and thick smoke in the air caused arcing which forced the shutdown of major 230 kV transmission lines connected to the Skagit Project. The Department spilled and purchased supplemental power and reserves. The fire never reached the project, but damage was sustained to a transmission tower, several distribution poles, a feeder and communication lines, and a portion of the wooden saddles supporting a steel penstock. As of July 2017, costs for repairs, firefighting, evacuation, and emergency management are estimated at \$2.5 million. FEMA reimbursements are expected to offset approximately 75% of this cost, with insurance and State funds covering a portion of the remaining cost. Supplemental energy purchases to make up for stranded generation and capacity due to the fire are estimated at about \$1.0 million. All costs associated with the fire were expensed in 2015. Prior to and since this wildfire incident, the Department has been integrating best management practices for reducing wildfire risk in areas within and adjacent to company

towns, generation sites, and transmission rights of way. These practices are designed to reduce the potential wildfire risk for the Department's remote infrastructure.

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 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 2016 at the Cedar Falls Project was 68,429 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 August 2014. The 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 2016 and concluded that the project was in good condition and safe for operations. Daily, weekly, and monthly visual inspections, and drain measurements are performed by the Department and Seattle Public Utilities ("SPU") crews.

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 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 did not generate in 2015 or 2016, due in part to the Goodell Creek fire. Plans to repair the facility and return it to operations are underway. Five-year inspections by FERC are not required of the Newhalem Project, due to its size and low criticality. In-house review of the project is performed annually, and the project is in good condition.

TOLT PROJECT. The 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 Tolt Project operates under a 40-year FERC license which expires in 2029. The nameplate capability of the installed unit is 16 MW. Power production at the Tolt Project in 2016 was 52,348 MWh. To reduce its cost of power from the 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 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 \$3.3 million in 2016. Without this agreement, the cost of power would still be very low, as all project debt has been paid off and the only expenses are associated with operations and capital refurbishment. The FERC-mandated dam safety inspections completed in 2012 concluded that the Tolt Project was in good condition. The most recent inspection of the Tolt Project occurred in August 2017. The Department will review the results and consider what, if any, changes to operations, maintenance, or inspections are 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.

Purchased Power Arrangements

In 2016, the Department purchased approximately 49% 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, under low water conditions, approximately 6,945 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 U.S. Army Corps of Engineers (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 over 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 over 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 beginning October 1, 2011. Until October 1, 2017, 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. The Department’s Slice and Block deliveries have been approximately equal on an annual basis. The BPA contract requires prior notice by the Department before the Department may use, or discontinue using, a generating resource to serve the Department’s own firm loads.

The Department exercised an option under the Power Sales Agreement to switch products, and requested a switch to 100% Block effective October 1, 2017, which is earlier than the contract specified date. BPA approved the Department’s request. The Department’s BPA purchase will be for the same amount of power, for critical water conditions, of 515 aMW, which will vary from a low of zero MWh in June to a high of 849 MWh in January.

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 Federal Fiscal Year (“FFY”) 2011. The Department currently purchases all of the power it receives under the BPA contract at the Tier 1 Rate. The Department made three separate decisions not to purchase additional energy from BPA, during the contract periods 2012-2014, 2015-2019, and 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, 2017, BPA’s average net cost for Tier 1 power will be \$35.57 per MWh, excluding delivery charges. 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 during a two-year rate period if certain events occur. BPA published rates for the period October 1, 2017, to September 30, 2019, on July 26, 2017, that, subject to FERC

approval, will take effect on October 1, 2017. The Tier 1 average net cost increase was 5.4%. 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, all located 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), of which one (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, 2 and 3 (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 \$5.1 billion of bonds outstanding 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.

Subsequently, 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 by 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 includes 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 to protect Columbia River basin fish and wildlife since 1964. The Department has been an active participant in the U.S. Entity's regional review process leading up to the final regional recommendation and supports that recommendation. The State Department has not announced a timeline for negotiations with Canada.

Priest Rapids Project. Under two agreements effective through 2052, the Department purchases a portion of the output of the Priest Rapids Project. As of November 2009, the Department is 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 only 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 \$5.0 million in 2011, \$4.5 million in 2012, \$5.2 million in 2013, \$5.5 million in 2014, and \$3.9 million in 2015. 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.

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 2016, the Department received 253,628 MWh from the project.

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") and began operation in 1988. Its FERC license 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 340,474 MWh in 2016. 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.

In 1984, the Department entered into a power purchase and sales contract with the Districts under which the Department purchases all 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.

Stateline. An agreement with J.P. Morgan Ventures Energy Corp. ("J.P. Morgan"), which became effective on January 1, 2002, provides for the Department's purchase of wind-generated power and associated renewable energy credits ("RECs") from the Stateline Wind Project ("Stateline") in eastern Washington and Oregon. In March 2016, J.P. Morgan finalized the sale of its interest in Stateline to Exelon Corporation, subject to the Department's consent, and the Department has consented to the sale. 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)." The contract ends in 2021; the Department has not currently exercised a renewal or extension of the contract but has the option to do so in the future. 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 373,389 MWh of wind-generated power under the Stateline purchase contract in 2016.

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 Mid-Columbia market hub two months after it is generated. The integration and exchange agreement with PacifiCorp terminates after final delivery in February 2022.

Small Renewables.

BURLINGTON RENEWABLE BIOMASS. In 2007, the Department began an arrangement with SMUD. SMUD purchases the output from the Sierra Pacific Industries Burlington Biomass Facility, which burns wood waste and produces electrical energy. The Department provides scheduling and delivery services to SMUD for up to 15 MW of power at the California-Oregon border and receives financial compensation for these services. The Department purchases from SMUD all of the renewable energy and environmental attributes associated with the resource output in excess of 15 MW. The arrangement expired on July 31, 2017, and was not renewed.

COLUMBIA RIDGE LANDFILL GAS. In December 2009, the Department began taking delivery from Columbia Ridge 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. The City sends its solid waste to 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 six MW of additional generation in summer 2014, and the Department is buying the output from the expansion under contract. The Department received 99,487 MWh of power under the Columbia Ridge purchase contract in 2016.

KING COUNTY WEST POINT TREATMENT PLANT. In 2010, the Department executed a power purchase agreement with King County (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. The NCPA exchange agreement provides for the Department to deliver 60 MW of capacity and 90,580 MWh of power to NCPA in the summer. In return, NCPA delivers 46 MW of capacity and 108,696 MWh of power to the Department in the winter. Deliveries to NCPA started in 1995 and will end in 2018.

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 the calendar years 2016 and 2017, the counterparty is Morgan Stanley Capital Group, which will also take on and pay for the associated transmission services from Idaho Power. The Department will consider short-term sales or seasonal exchanges 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 2016, hydro flows were near average on rivers where the Department’s primary generation hydro facilities are located. The hydro flows at Boundary Project and Ross Dam were 88% and 101% of the historical average, respectively. Regionally, flows at The Dalles Dam were 99% of the historical average. The average revenue per MWh realized from surplus sales in 2016 was \$18.45/MWh. Net wholesale revenue in 2016 was \$53.2 million, lower than the budgeted amount of \$60 million. As of July 14, 2017, net wholesale revenue for 2017 is forecast to be \$62.4 million, \$2.4 million higher than the budget. This variance will be transferred to the RSA. See “Department Financial Information—Management Discussion of Historical Operating Results 2012-2016” and “—Expectations for 2017 Operating Results” and “Security for the Bonds—Rate Stabilization Account.”

Table 4 displays the Department's purchases and sales of power in the wholesale market over the 2012-2016 period.

TABLE 4
SUMMARY OF WHOLESALE MARKET SALES AND PURCHASES

	2012	2013	2014	2015	2016
Cost of Wholesale Purchases (\$000)	\$ 22,805	\$ 31,063	\$ 23,404	\$ 37,658	\$ 21,414
Wholesale Market Purchases (MWh in 000s)	2,592	2,072	901	1,379	936
Average Cost (\$/MWh)	\$ 8.80	\$ 14.99	\$ 25.98	\$ 27.31	\$ 22.88
Revenue from Sales (\$000) ⁽¹⁾	\$ 86,728	\$ 82,628	\$ 111,993	\$ 76,819	\$ 74,632
Wholesale Market Sales (MWh in 000s)	5,625	3,854	4,083	3,549	4,044
Average Revenue (\$/MWh)	\$ 15.42	\$ 21.44	\$ 27.43	\$ 21.65	\$ 18.45
Net Revenue (\$000) ⁽¹⁾	\$ 63,923	\$ 51,565	\$ 88,589	\$ 39,161	\$ 53,218
Sales Net of Purchases (MWh in 000s)	3,033	1,782	3,182	2,170	3,108

(1) Shown as gross, prior to netting of bookouts. Audited financial statements are shown net of bookouts. 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.

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 the Power Management Division, and the Department's risk management activities are carried out by the 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, which is approved by the Mayor and City Council, and leading the Department's energy risk management efforts. The ROC is comprised of three voting and three non-voting members: the Department's Chief Financial Officer (Voting), Power Supply and Strategic Planning Officer (Voting), Director of Risk Oversight (Voting), Director of Power Management, Director of Power Contracts, Resource Acquisitions, and Regional Affairs, and Financial Planning Director. The ROC meets at least twice per month to review recent events in the wholesale power markets and review 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 policy contains limits on the dollar amount and volume for physical calls and puts. The Department has not entered into any hedging agreements under an International Swaps and Derivatives Master Agreement. The Department has entered into certain forward purchase and sale of electricity contracts that meet the Governmental Accounting Standards Board ("GASB") definition of a "derivative instrument," although they are intended to result in the purchase or sale of electricity delivered and used in the normal course of operations. See Appendix C—2016 Audited Financial Statements of the Department—Note 17.

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 24 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 Policy.

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 Power Supply and Strategic Planning Officer, with oversight and approval from the 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 interday transactions to take advantage of the ability to store water at certain of the Department's generating facilities and owned hydro storage, the Department does not take speculative market positions in anticipation of generating revenue.

With a significant portion (historically about 9% to 20%) of the Department's revenue 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 in place to mitigate credit risk.

Wholesale counterparties are assigned credit limits based on evaluations of their financial condition that include 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)

I-937 was approved by State voters in November 2006. 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 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. I-937 has been codified as "The Energy Independence Act" (chapter 19.285 RCW).

The law is specific about 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. The City considers I-937 during the preparation of its Integrated Resource Plans ("IRP") 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.

The Department met I-937's 3% renewable energy target for 2012 to 2015, and has under contract adequate eligible RECs and resources to ensure compliance with the 9% target in effect from 2016 to 2020. The Department estimates that, with the current renewable resources and recent acquisitions of RECs, it will be in compliance with I-937's January 1, 2020, target. The Department continues to evaluate compliance options, and will comply with I-937 using a combination of RECs and resources. 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.

Conservation

The Department measures energy conservation results in terms of cost, amount, and duration of savings using regionally and nationally recognized methods. In 2016, the Department achieved 15.39 aMW (134,836 MWh) of energy savings from completed projects, which cost the Department \$34.1 million in incentives and expenditures associated with the delivery of the energy savings. Total savings in place in 2016 amounted to approximately 180 aMW (1,576,550 MWh), representing more than 15% of the Department's total energy needs in 2016. 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 Operating Results 2012-2016."

Under I-937, the Department is required to establish two-year conservation targets. For the 2016-2017 biennium, the I-937 total energy savings target is 25.62 aMW. The Department is on track to meet this target, and has established a new energy savings target of 24.50 aMW for 2018-2019. The Department's Strategic Plan has identified a slightly more aggressive annual energy savings target of 14 aMW per year for 2018-2023 and has identified budgets and resources necessary to meet this energy savings target.

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. BPA provided \$11.1 million for energy conservation activities over FFY 2016 and 2017, which funds 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. For FFY 2018 and FFY 2019 (BPA's next rate period), the Department expects an energy efficiency incentive budget of approximately \$11 million. The majority of this will be received in calendar year 2017.

Integrated Resource Plan

The Department's IRP evaluates a range of resource portfolios that are designed to meet the Department's future resource needs and the State's I-937 renewable portfolio standard. A key objective of the IRP is to ensure that expected long-term customer demand can be met with firm 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. The main feature of the preferred portfolio is typically conservation. Aligned with the Strategic Plan, the Integrated Resource Plan, and the need to meet its I-937 energy conservation target, the Department continues to make investments in energy conservation that help to delay the need for new, higher cost generating resources.

The Department's 2016 IRP affirms its conservation-centered resource strategy. The IRP considers conservation as its first-choice resource in meeting expected load growth, which is forecasted to average 0.4% on an annual basis over the course of the 20-year study. Continued regional economic and related population growth are key contributors to demand within the service area. The IRP shows sufficient RECs have been acquired to meet forecasted State renewable portfolio standard requirements through 2023. With expected modest gains in nameplate from hydro generator upgrades and conservation, the Department expects to be net surplus in resources for more than a decade.

The resource strategy continues to be:

- (i) Acquire cost-effective conservation;
- (ii) Acquire RECs and/or renewable resources, whichever is more cost-effective, for compliance with I-937;
- (iii) Make increased use of the flexibility available in existing power contracts for meeting seasonal variability in supply and demand; and
- (iv) Manage second-quarter hydro surpluses and, using the Department's seasonal exchange contracts, provide spring and summer energy in return for winter energy to enhance reserves for serving peak demand and reduce price risk in the second quarter, due to concurrent high hydro flows and high regional wind output.

The recommended resource strategy continues the Department's policy of obtaining affordable power with low environmental impacts for its ratepayers while making the most of its existing resources. Conservation is the first choice resource, followed by purchases and sales of 24 months or less that reshape seasonal resources to better match seasonal changes in customer demand.

On August 1, 2016, the City Council approved a resolution acknowledging the 2016 IRP. The IRP was subsequently submitted to the State's Department of Commerce to meet the September 1, 2016, deadline.

TRANSMISSION AND DISTRIBUTION

Introduction

The Department owns transmission facilities for the delivery of energy from the Skagit Project to the Department's service territory. 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 656 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 and Cedar Falls Projects with BPA'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. 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, 2017, BPA raised its PTP transmission and other associated rates by a cumulative 0.2% for the rate period FFY 2018-2019.

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 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.

ColumbiaGrid

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

Open Access Transmission Services

The Department currently has no open access transmission customers but is committed to offering comparable 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 periodically updates its open access transmission tariff, which is not filed with FERC but is publicly available on the City Clerk's website.

Retail Service

The Department owns, operates, and maintains overhead and underground transmission and distribution facilities within its 131-square-mile service territory. The distribution system consists of 2,556 miles of overhead and underground wiring. The Department operates 15 major substations throughout the service area, which supply power to the distribution system's primary feeders and ultimately to the Department's retail customers. Most of the distribution system is looped radial design, which means that a single feeder provides electrical energy to customers. Customers in the downtown Seattle, University District, and First Hill neighborhoods are served by a more reliable multiple-feeder network.

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, communications, and distribution facilities to serve the system loads.

The Department's System Control Center controls dam operations and monitors delivery of power to the service area. Staff uses a real-time distributed computer system that provides information about loads and resources to the power dispatchers so they can properly balance load and resources.

In 2010, the Department implemented an Outage Management System designed to improve operational efficiencies while 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, asset cost tracking, and data repository.

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

Since 2009, the Department has inspected 92,000 wood poles in the service area and replaced more than 1,000 poles yearly.

Under the Cable Replacement program, started in 2008 to replace the aging underground cable system in order to improve system reliability, the Department has rejuvenated more than 130 miles of direct buried cables to extend the life of the cables, installed duct systems, and replaced miles of underground cable in the distribution system.

Federal Regulations

The Department's Regulatory Compliance Office manages the Department's FERC regulatory compliance program (Federal Power Act/Part II). FERC reliability standard compliance stands as a central program, with moderate programs that concern FERC transmission and power market matters. The Director of Regulatory Compliance reports to the Customer Service, Communications, and Regulatory Affairs Officer, and has direct access to the General Manager and Chief Executive Officer. Regulatory Compliance has eight employees and 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 compliance with FERC reliability standards, foster a culture of compliance, and support the Department's mission to deliver reliable power to its customers. The Internal Compliance Program Policy documents the Department's regulatory compliance program for FERC reliability standards, providing the framework and key elements of the Department's Internal 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 Compliance conducts assessments on both a regular and periodic basis. Assessments may be performed internally or through external consultants. Regulatory Compliance uses a risk-assessment to determine when a periodic assessment should occur, along with which 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 Compliance 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.

The Western Electricity Coordinating Council ("WECC") audits the Department triennially; WECC completed its last audit of the Department on June 23, 2017. An 18-member WECC Audit Team reviewed Department compliance for 23 reliability standards (13 Operations and Planning Standards and ten Cyber Security Standards), which comprise 49 individual requirements. Consistent with the Electric Reliability Enterprise Risk-Based Compliance Monitoring and Enforcement Program, WECC performed an Inherent Risk Assessment of the Department. The results of the Inherent Risk Assessment identified the standard scope for audit, about a quarter of the nearly 90 reliability standards applicable to the Department.

The WECC Audit Team found no potential non-compliance in its review of the Operations and Planning Standards and identified potential non-compliance of nine requirements associated with the Cyber Security Standards. WECC Enforcement will review the Audit Team audit findings to confirm whether non-compliance exists. The Department expects to receive the final audit report by the third quarter of 2017 and any compliance findings by the fourth quarter of 2017.

Evolving and changing reliability standards are a fixture for the FERC reliability compliance program. As such, Regulatory Compliance establishes review and coordination practices to ensure Department compliance prior to a standard's effective date. The Version 6 Cyber Security Standard suite was particularly important to the Department because these standards represent significant change, from both an operational and a regulatory standpoint. Regulatory Compliance, together with the responsible Department operating divisions, established structured and coordinated processes to ensure Department compliance by the standard's various requirement enforcement dates of July 1, 2016, and April 1, 2017. The Department prepared for similar transitions on a number of Operations and Planning Standards also enforceable on April 1, 2017.

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 classroom 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 2.3%. Retail energy sales largely varied with weather between 2012 and 2016. There was a 2% decrease in retail energy sales in 2014 due to an unusually warm winter and another 2% decrease in 2015 due to unseasonably warm weather throughout most of the year. Peak energy sales for the period 2012-2016 was 1,867 MW in February 2014 compared to the record peak load of 2,055 MW recorded in December 1990 due to unusually cold weather.

TABLE 5
RETAIL CUSTOMER ACCOUNTS, POWER SALES AND ENERGY REQUIREMENTS

	2012	2013	2014	2015	2016
Average Number of Customer Accounts					
Residential	362,658	367,837	374,619	381,419	397,074 ⁽¹⁾
Non-Residential	39,950	40,218	40,437	41,391	50,258 ⁽¹⁾
Total Customer Accounts	402,608	408,055	415,055	422,811	447,332
Energy Sales (MWh) ⁽²⁾					
Residential	3,098,745	3,158,629	2,987,711	2,914,563	2,917,984
Non-Residential	6,367,897	6,347,771	6,352,873	6,242,931	6,262,454
Total Energy Sales	9,466,642	9,506,400	9,340,584	9,157,494	9,180,438
Peak Demand (MW) ⁽³⁾	1,805	1,841	1,867	1,689	1,785
Energy Requirements (MWh)					
Total Energy Sales	9,466,642	9,506,400	9,340,584	9,157,494	9,180,438
Energy used in Operation	31,072	30,910	29,717	25,195	24,912
System Losses ⁽⁴⁾	584,310	511,390	541,323	504,533	491,233
Total Energy Requirements ⁽⁵⁾	10,082,024	10,048,700	9,911,624	9,687,222	9,696,583

(1) The increase from 2015 to 2016 is due to the Department's changing customer counts to Service Agreements effective September 2016 with 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. No revisions were made to prior year customer counts.

(2) Amounts include an allocation for the net change in unbilled revenues. Effective in 2013, the allocation of the net change in unbilled revenue excludes retail customer voluntary payments for conservation and solar energy. Prior years presented were not revised.

(3) Effective for 2014, peak demand represents system load vs. firm load to align with industry practice. Accordingly, prior years presented have been revised.

(4) Includes transmission and distribution losses.

(5) 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 2016.

TABLE 6
TOP TEN CUSTOMERS

Customer	Customer Profile	Annual Dollars Billed	% Total Retail Revenue
University of Washington	Higher Education	\$ 26,251,329	3.36%
Nucor Corporation	Steel Manufacturer	22,251,274	2.85%
City of Seattle ⁽¹⁾	Government	21,298,348	2.72%
Boeing Company	Airplane Manufacturer	14,731,360	1.88%
King County	Government	11,531,819	1.47%
International Gateway/Sabey	Data Center Operator/Developer	9,336,134	1.19%
U.S. Government	Government	7,431,738	0.95%
Saint-Gobain	Building Materials Manufacturer	6,969,996	0.89%
2001 Sixth LLC	Data Center	6,531,871	0.84%
Martin Selig	Developer	5,767,840	0.74%
Total		\$ 132,101,709	16.89%

(1) 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 budgeted amount of net wholesale revenues is known as the RSA baseline. 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 2010-2017” and “Security for the Bonds—Rate Stabilization Account”

The RSA has been in use since January 1, 2011. As of June 30, 2016, the RSA balance was \$89.1 million, which falls below the surcharge trigger of \$90 million. Consequently, a 1.5% surcharge was automatically implemented on August 1, 2016, and currently remains in place. See “Department Financial Information—Expectations for 2017 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 Strategic Plan includes a transition to less dependence on sales of surplus wholesale power that aligns with lower expected net wholesale volumes and market prices. The reduction is being implemented gradually over the period 2013-2022. 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 Legislation 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. See “Capital Requirements—Financing Plan.”

City Investment Pool

The City’s Finance Department invests the Department’s funds. See “The City of Seattle—Investments” and Appendix C—2016 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 in Washington 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 in amounts ranging from 4% to 6% of the revenue from rates charged to customers residing in those cities. 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 and adopted by the City Council include encouraging the efficient use of resources needed to provide electrical service, achieving rate predictability in an orderly way so as to avoid large changes for some customers or customer classes, providing for public involvement, achieving consistency with the Strategic Plan and financial policies, establishing rates sufficient to meet annual revenue requirements, basing rates on the marginal cost to customers, fairly apportioning costs of providing service among customer classes, and allocating the costs of conservation and providing low-income residential service to all customer classes.

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. These rate changes take effect without passage of a new ordinance by the City Council. In October 2017, new BPA rates will go into effect and the Department will change its BPA energy product selection. These two concurrent changes result in a net BPA cost decrease. Per the terms of the BPA rate pass-through, a rate decrease of \$0.0014 per kWh on all retail energy charges will become effective October 1, 2017. See "Power Resources and Cost of Power—Purchased Power Arrangements."

Rate Changes 2010-2017. Table 8 summarizes the Department's rate changes for the period 2010-2017. In adopting the Strategic Plan Update for 2017-2022, the City Council approved a projected average annual rate increase of 4.3% over the period, including projected annual rate increases of 5.6% in 2017 and 2018 (exclusive of BPA pass-throughs and RSA surcharges), with projected increases between 2.5% and 5.0% annually for the remainder of the period covered by the Strategic Plan Update. Actual rates for 2017 and 2018 were approved by the City Council in early October 2016. The automatic BPA rate pass-through, which will become effective October 1, 2017, will decrease adopted 2017 and 2018 rates by approximately 1.6%.

TABLE 8
RATE CHANGES, 2010-2018

<u>Effective Date</u>	<u>Percent Change</u>	<u>Type</u>
January 1, 2010	13.8%	Base Rate Increase
May 1, 2010 ⁽¹⁾	4.5%	RSA Surcharge
October 1, 2010	0.5%	BPA Pass-Through
January 1, 2011	4.3%	Base Rate Increase
January 1, 2012	3.2%	Base Rate Increase
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 ⁽²⁾	1.5%	RSA Surcharge
January 1, 2017	5.6%	Base Rate Increase
October 1, 2017	-1.6%	BPA Pass-Through
January 1, 2018 ⁽³⁾	5.6%	Base Rate Increase

(1) Temporary surcharge to help initially fund the RSA; lifted as of December 31, 2010.

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

(3) Approved by the City Council.

Rates for Customers Outside the City of Seattle. The Department provides electric service to the residents and businesses in the cities of Shoreline, Burien, Lake Forest Park, SeaTac and Tukwila (the “Franchise Cities”) and unincorporated parts of the County, under individual franchise agreements with the Franchise Cities and the County. The agreements grant the Department a non-exclusive franchise to operate within the Franchise Cities’ and the County’s right-of-way, 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 Seattle 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 all five Franchise Cities. Recently renewed agreements expire in 2029 (Shoreline) and 2030 (Lake Forest Park, SeaTac, and Burien), while one (Tukwila) expires in March 2018. Tukwila’s franchise renewal discussions have begun in advance of the agreement expiry and are expected to be completed by the end of 2017. 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 85% of the Department’s retail power sales outside the City but within the service area; the unincorporated areas of the County represent approximately 14%.

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 suburban franchise customers to reimburse the capital costs of six completed undergrounding projects: four 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 rate of \$15 per MWh. Green Up revenues are used to acquire RECs, to administer and market the program, and to invest in local solar projects and education programs through Green Up Grants. Monthly payments for residential customers are \$3, \$6, or \$12 (for 200, 400, or 800 kWh per month). Suggested (marketed) monthly payments for non-residential customers are \$15 or \$150, although non-residential customers may participate at any level they choose. They 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, 2016, 12,691 customers participated in Green Up through payments on their bills. Green Up revenue in 2016 totaled \$1.31 million. REC purchases on behalf of Green Up customers totaled 87,755 MWh in 2016. 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. In addition to being competitive within the Puget Sound region, the Department's rates are among the lowest of any major city in the United States.

TABLE 9
AVERAGE RATE IN CENTS PER KWH AND MONTHLY BILLS⁽¹⁾
(AS OF AUGUST 1, 2017)

	Average Revenue in Cents per kWh						Average Monthly Bills (\$)					
	City Standard	City Network ⁽²⁾	Burien and Lake Forest Park	SeaTac and Shoreline	Suburban ⁽³⁾	Tukwila	City Standard	City Network ⁽²⁾	Burien and Lake Forest Park	SeaTac and Shoreline	Suburban ⁽³⁾	Tukwila
Residential												
500 kWh per month	9.4	76.0	9.6	9.8	9.4	9.8	47		48	49	47	49
1,000 kWh per month	11.2	⁽⁴⁾	11.7	11.9	11.2	11.8	112	⁽⁴⁾	117	119	112	118
2,000 kWh per month	12.1		12.7	12.9	12.1	12.9	243		254	259	243	257
Small General Service												
10,000 kWh per month (40kW)	9.2	⁽⁴⁾	9.5	9.7	9.2	9.7	924	⁽⁴⁾	951	969	924	967
Medium General Service												
20,000 kWh per month (60kW)	8.1	10.4	8.6	8.8	8.1	8.7	1,621	2,073	1,719	1,751	1,621	1,749
200,000 kWh per month (500kW)	7.9	10.0	8.4	8.6	7.9	8.6	15,865	19,975	16,825	17,140	15,865	17,120
Large General Service												
400,000 kWh per month (1,000kW)	7.9	9.8	8.3	8.5	7.8	8.4	31,457	39,042	33,043	33,935	31,102	33,521
1,800,000 kWh per month (5,000kW)	8.0	10.0	8.4	8.6	7.9	8.5	143,105	179,555	150,335	154,378	141,509	152,514
High Demand General Service												
6,000,000 kWh per month (20,000kW)	7.5	⁽⁵⁾	⁽⁵⁾	⁽⁵⁾	⁽⁵⁾	8.2	449,922	⁽⁵⁾	⁽⁵⁾	⁽⁵⁾	⁽⁵⁾	489,584
18,000,000 kWh per month (60,000kW)	7.5					8.2	1,349,767					1,468,753

(1) The Department's rates include municipal taxes and a 1.5% surcharge effective August 1, 2016.

(2) 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.

(3) All jurisdictions outside the City of Seattle, except the cities of Burien, Lake Forest Park, SeaTac, Shoreline, and Tukwila.

(4) Residential and Small General Service customers receiving network service are charged City standard rates.

(5) 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 AUGUST 1, 2017)

<u>Monthly Use</u>		Seattle	Puget Sound	Snohomish	Tacoma
<u>kWh</u>	<u>kW</u>	City Light (\$) ⁽¹⁾	Energy (\$) ⁽²⁾	County PUD (\$) ⁽³⁾	Power (\$) ⁽⁴⁾
Residential					
100		145	219	205	254
500		562	693	652	623
1,000		1,346	1,382	1,304	1,084
3,000		4,483	4,232	3,911	2,929
Small General Service					
300	1	333	498	483	530
3,000	10	3,326	3,820	3,543	3,062
12,000	40	13,306	14,894	13,743	11,501
Medium General Service					
150,000	500	147,900	185,720	164,346	125,551
200,000	500	190,380	223,181	208,102	151,330
360,000	900	342,684	400,601	373,310	271,788
Large General Service					
300,000	1,000	292,410	370,034	327,098	250,346
1,000,000	5,000	1,036,701	1,469,942	1,191,549	990,924
2,500,000	7,500	2,405,754	2,953,431	2,661,663	2,001,576
High Demand General Service					
6,000,000	20,000	5,399,067	7,373,993	6,511,689	4,992,564
18,000,000	60,000	16,197,202	22,119,170	19,531,881	14,976,180
24,000,000	60,000	20,852,270	26,614,494	24,782,697	18,069,588
Last Rate Change		01/01/17	05/01/17	4/1/2017	4/16/2017

(1) The Department's rates include municipal taxes and a 1.5% surcharge effective August 1, 2016.

(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 6.5% 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. A new billing system, implemented September 2016, provides utility customers with new self-service features while improving operational efficiencies.

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 with an option to pay one half of the amount by the bill due date and the remainder in the following month. 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 payment arrangements. 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.

Accounts receivable write-offs by the Department in 2016 were \$5.1 million, or 0.66%, of retail electrical energy sales revenue, compared to write-offs of \$2.6 million, or 0.37%, in 2015. The increase in accounts receivable write-offs in 2016 is attributable to the clean-up of older accounts in arrears as part of the conversion to the new billing system in 2016. The Department's collection policy provides for disconnection of power for nonpayment of amounts due the Department.

Historical Operating Results 2012-2016

Table 11 presents information on operating results for the period 2012-2016, 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.

The financial statements of the Light Fund as of and for the fiscal year ended December 31, 2016, 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)

	2012	2013	2014	2015	2016
OPERATING REVENUES					
Retail power revenues	\$664,263	\$ 697,696	\$ 720,777	\$ 736,582	\$ 788,029
Short-term wholesale power revenues	70,402	63,035	96,815	61,219	62,909
Other power-related revenues ⁽¹⁾⁽²⁾⁽³⁾	29,305	40,439	50,825	36,833	32,558
Transfers from/(to) rate stabilization account ⁽⁴⁾	13,219	18,285	(4,369)	23,363	(142)
Other operating revenues	23,085	22,774	22,395	24,860	19,821
Total Operating Revenues	\$800,274	\$ 842,229	\$ 886,443	\$ 882,857	\$ 903,175
OPERATING EXPENSES					
Long-term purchased power—Bonneville and other	\$204,133	\$ 203,126	\$ 214,262	\$ 213,621	\$ 219,795
Short-term wholesale power purchases	11,764	19,759	14,912	26,812	15,048
Other power expenses	50,378	66,325	65,843	59,597	60,052
Transmission ⁽⁵⁾	46,979	48,213	52,833	54,289	53,488
Distribution	60,855	59,568	59,753	65,052	63,522
Customer service	31,296	39,177	37,621	38,302	42,636
Conservation	20,763	21,504	27,271	29,122	30,217
Administrative and general	66,114	71,751	75,774	92,108	104,998 ⁽⁶⁾
Taxes	74,885	79,321	80,007	81,114	85,202
Depreciation and amortization	94,810	102,261	105,813	112,000	120,808
Total Operating Expenses	\$661,977	\$ 711,005	\$ 734,089	\$ 772,017	\$ 795,766
Net Operating Revenue ⁽⁷⁾	\$138,297	\$ 131,224	\$ 152,354	\$ 110,840	\$ 107,409
Adjustments to Net Operating Revenue ⁽⁸⁾					
City Taxes ⁽⁹⁾	\$ 40,950	\$ 42,834	\$ 44,608	\$ 45,534	\$ 48,456
Depreciation and amortization	94,811	102,261	105,813	112,000	120,807
Depreciation and amortization include in operating and maintenance expenses ⁽¹⁰⁾	21,518	22,250	24,679	27,132	29,871
Pension expense ⁽¹¹⁾	-	-	-	27,912	40,797
Pension contributions ⁽¹¹⁾	-	-	-	(24,883)	(25,331)
Valuation on exchange power, net ⁽²⁾⁽³⁾	240	(251)	271	634	16
BPA Conservation Augmentation/Agreement revenue ⁽¹²⁾	(187)	(464)	(722)	(946)	(1,233)
Investment income ⁽¹³⁾	4,390	4,724	5,430	6,746	7,342
Non-cash expenses ⁽¹⁴⁾	2,828	10,796	1,935	(320)	1,806
Other ⁽¹⁵⁾	3,292	6,192	7,004	1,943	1,988
Total Adjustments	\$167,842	\$ 188,342	\$ 189,018	\$ 195,752	\$ 224,519
Net Revenue Available for Debt Service	\$306,139	\$ 319,566	\$ 341,372	\$ 306,592	\$ 331,928

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 in 2012, the Department adopted GASB Statement No. 62 ("GASB 62"), *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. Non-monetary transactions are measured at fair value in accordance with GASB 62. Additionally, 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) Includes revenue from the short-term sale of excess transmission capacity.
- (6) 2016 increase is primarily the result of an \$11.3 million increase in pension expense due to the actual performance of plan investments compared to the expected rate of return.
- (7) Operating income per audited financial statements.
- (8) 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.
- (9) City taxes are excluded because the lien of such taxes on revenue is junior to debt service in accordance with the Bond Legislation.
- (10) 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.
- (11) Pension expense is the amount recorded for compliance with GASB Statement No. 68 ("GASB 68"), implemented in 2015, a non-cash item. Pension contributions are the Department's cash contributions to the Seattle City Employees' Retirement System ("SCERS").
- (12) 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.
- (13) 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.
- (14) Primarily claim expenses and capital project expenditures from prior years which were determined not to be capital expenditures.
- (15) Includes proceeds from sale of properties, principal receipts from suburban underground charges from local jurisdictions, and miscellaneous items. In 2014, the line item labeled Other included a one-time true-up downward adjustment to unbilled revenue of \$4.1 million, a non-cash transaction recorded in 2014. Prior years were not revised. In 2013, the line item labeled Other included operating grants totaling \$3.2 million.

Source: Audited Financials (except as noted in footnote 7), Seattle City Light Department, Accounting Division

Historical Debt Service Coverage. The Bond Legislation does not define a "coverage requirement" other than the rate covenant to maintain rates and charges sufficient to pay "all costs of operation and maintenance and to pay all bonds, warrants and indebtedness" of the Light System. See "Security for the Bonds—Rate Covenant" and Appendix A— Bond Ordinance—Section 13(d). The test for the issuance of Future Parity Bonds requires coverage equal to 125% of maximum Annual Debt Service on all Parity Bonds then outstanding and the proposed series of Parity Bonds, with certain permitted adjustments. See "Security for the Bonds—Future Parity Bonds" and Appendix A— Bond Ordinance—Section 13(g).

Furthermore, the Bond Legislation does not specifically define "reasonable charges for maintenance and operation of the Light System" as used in the pledge language, nor does it define "all costs of operation and maintenance" (as used in the rate covenant) or "expenses of operation, maintenance, and repair" (as used in the definition of Net Revenue in the context of the test for issuing Future Parity Bonds). However, the Department treats these terms as interchangeable, and the operating expenses listed in Table 11 are recorded in accordance with applicable Generally Accepted Accounting Principles ("GAAP").

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 Legislation and described under "Security for the Bonds" and for no other purpose. Such calculations reflect the application of generally accepted accounting principles as

applied to financial results and may reflect non-recurring or extraordinary accounting transactions permitted under the Bond Legislation.

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 Legislation. 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)

	2012	2013	2014	2015	2016
Revenue Available for Debt Service ⁽¹⁾	\$ 306,139	\$ 319,566	\$ 341,372	\$ 306,592	\$ 331,928
Parity Bonds					
Debt Service ⁽¹⁾	\$ 169,124	\$ 172,800	\$ 184,756	\$ 189,573	\$ 196,548
Debt Service Ratio-Times Covered ⁽²⁾	1.81	1.85	1.85	1.62	1.69

(1) In accordance with a change in Department policy in 2012, federal subsidy payments received in respect of outstanding Build America Bonds, Recovery Zone Economic Development Bonds, and New Clean Renewable Energy Bonds are excluded from Revenue Available for Debt Service effective beginning in 2012. Federal subsidy payments excluded were \$4.6 million, \$5.2 million, \$5.1 million, \$5.0 million, and \$5.5 million, respectively, for years 2012, 2013, 2014, 2015, and 2016. For a description of the effect of the federal sequestration that began in March 2013 on these federal direct-pay tax credit bond programs, see “Other Considerations—Federal Sequestration and Other Federal Funding Considerations.”

(2) Revenue Available for Debt Service (see Table 11) divided by Parity Bond Debt Service.

Source: *Seattle City Light Department, Accounting Division*

Management Discussion of Historical Operating Results 2012-2016

This section provides a discussion of operating results for the period 2012-2016, based on information in Tables 11 and 12, and an expanded discussion for the period 2015-2016, based on a summary of the Management’s Discussion and Analysis included in Appendix C—2016 Audited Financial Statements of the Department.

Summary 2012-2016. Retail revenues increased from \$664.3 million in 2012 to \$788.0 million in 2016, 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 402,608 in 2012 to 447,332 in 2016 (customer counts changed to Service Agreements with the implementation of the new billing system in September 2016).

Net wholesale revenues varied during this period, ranging from a high of \$81.9 million in 2014 to a low of \$34.4 million in 2015. 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, and less-than-budgeted net wholesale revenue in 2016 resulted in a net transfer from the RSA to operating cash. An RSA rate surcharge of 1.5% became effective August 1, 2016 because the RSA balance dropped below \$90.0 million at the end of June 2016, and currently remains in place.

Debt service on Parity Bonds increased from \$169.1 million in 2012 to \$196.5 million in 2016. Debt service coverage ranged from a high of 1.85x in 2013 and 2014 to a low of 1.62x in 2015, reflecting the effect of \$39.3 million lower than planned retail revenue. The debt service coverage for 2016 was 1.69x and continued to be lower due to the shortfall in retail revenue driven by lower than planned retail consumption. About half of the lower consumption was driven by warmer than normal weather. 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 was able to achieve this level of coverage in the three years prior to 2015.

The Department's retail load has been declining since 2011. While the number of customers has been growing, the use per customer has been declining. While some of this is attributed to warmer than normal weather, energy efficiencies including LED lighting, appliance standards, and improved building standards are all helping customers use less energy. The Department's robust conservation program is also contributing to declining retail load. See "Conservation." The Department's adopted 2016 load forecast projects a modest growth. The Department has reviewed its load forecasting methodology and is in the process of making improvements to its load forecast to better capture changes in customer end uses. See "Seattle City Light Department—Strategic Plan."

Operating Revenues—2016 vs. 2015. Retail revenues in 2016 were \$788.0 million, \$51.4 million or 7.0% higher than in 2015, because of a 4.9% average system rate increase effective January 1, 2016, the 0.9% BPA pass-through effective October 1, 2015, and the 1.5% RSA rate surcharge effective August 1, 2016. Even with the lower energy consumption in 2016, this was comparable to 2015 because of the warmer weather experienced throughout the year in 2016. The number of retail customers also increased to 447,332 in 2016, a 5.8% increase from 2015 (considering the change in methodology for customer counts).

Net wholesale revenues were \$47.8 million, an increase of \$13.5 million, or 39.1% from 2015. Wholesale power sales were \$62.9 million in 2016, an increase of \$1.7 million from 2015, whereas wholesale power purchases decreased by \$11.8 million to \$15.0 million. The increase in net wholesale revenues was due to improved water conditions in the Pacific Northwest resulting in more power generated to meet the Department's load and in turn leading to lower short-term power purchases. Wholesale energy prices were lower in 2016 compared to 2015 due to low natural gas prices, also contributing to the lower short-term power purchases. The average peak Mid-Columbia Hub electricity price for 2016 was \$22.60 per MWh, compared to \$25.72 per MWh in 2015.

Other power-related revenues, including valuation of power exchanges, decreased by \$4.3 million to \$32.6 million. Other power-related purchases, including valuation of power exchanges, decreased by \$1.3 million to \$10.5 million in 2016, resulting in net other power-related revenues of \$22.1 million in 2016, a net decrease of \$2.9 million or 11.7% from net other power-related revenues of \$25.0 million in 2015. The net decrease was due to the lower wholesale power market prices compared to 2015.

In 2016, net transfers to the RSA were \$0.1 million, including the net effect of the RSA rate surcharge; in 2015, net transfers from the RSA were \$23.4 million.

Revenues from other sources decreased by \$5.1 million, totaling \$19.8 million in 2016. Damage billings declined by \$1.9 million, salvage sales declined by \$1.6 million, retail billing system interest charges declined by \$0.6 million, and other declined by net \$1.0 million.

Operating Expenses—2016 vs. 2015. In 2016, long-term purchased power (BPA and other) increased by \$6.2 million to \$219.8 million, due to higher BPA Slice power costs and higher generation at Stateline, which is weather dependent.

Other power expenses, including generation, power exchanges, and other at \$60.1 million, were \$0.5 million higher than in 2015. Transmission expenses, including wheeling, were \$53.5 million, a decrease of \$0.8 million from 2015, due to a decrease in Skagit tree clearing and non-recurring expenses related to the costs incurred for the 2015 Goodell Creek wildfire near one of the Department's Skagit facilities, offset by an increase in rates for BPA wheeling costs. See "Power Resources and Cost of Power—Department-Owned Resources—Skagit Project." Distribution expenses decreased by \$1.5 million to \$63.5 million in 2016 due to decreases in overhead and underground system expenses offset by increases in salary costs for cost-of-living adjustments ("COLA") and costs associated with service work on customer premises.

Other operating and maintenance expenses at \$177.9 million increased by \$18.3 million from 2015, for customer service, conservation, and administrative and general. Customer service expenses were higher by \$4.3 million driven by higher bad debt expense for retail sales, due in large part to clean-up of older accounts in arrears as part of a new billing system conversion. Other increases were because of salary and COLA adjustments and Seattle

Information Technology expenses. The significant increase was for administrative and general, in the amount of \$12.9 million. GASB 68 actuarially-determined pension expense increased by \$11.3 million. Other administrative and general increases were incurred for administrative, general, and engineering salaries and related benefits due to retro pay and COLA salary adjustments, and injuries and damages expenses. These were partially offset by lower legal costs, compensated absences, and other. Taxes in 2016 were \$85.2 million, an increase of \$4.1 million from 2015, primarily due to higher revenues. Depreciation and amortization increased by \$8.8 million to \$120.8 million.

Net Operating Revenue—2016 vs. 2015. Net operating revenue in 2016 was \$107.4 million, \$3.4 million lower than in 2015. Higher retail electric revenues were the result of rate increases, including the 1.5% rate surcharge, and higher net wholesale revenues. The higher revenues were offset by lower transfers from/(to) the RSA, higher non-power operations and maintenance expenses due to retro pay and COLA salary adjustments, bad debt expense, and pension expense.

Although not included in Table 11, changes in nonoperating revenues and expenses provide additional information on the financial condition of the Department. Nonoperating revenues decreased by \$2.1 million, to \$14.6 million in 2016 from \$16.7 million in 2015. In 2016, there was no FEMA grant revenue used to restore damaged property from the 2015 Goodell Creek wildfire near one of the Department's Skagit facilities. Additionally, lower sales of property were offset by higher federal interest subsidies for tax credit subsidy bonds.

Nonoperating expenses decreased by \$1.4 million to \$75.1 million in 2016. Higher bond premium amortization and interest during construction were offset by increases in refunding loss amortization and interest expense for higher bonds outstanding.

Capital contributions and grants were \$38.4 million in 2016, a decrease of \$1.0 million from 2015. Higher service connection revenues for larger construction projects were offset by lower underground electrical infrastructure revenues for a local suburban jurisdiction as there was no energization of a similar project in 2016.

Effect of GASB 68 Implementation. Effective January 1, 2015, the Department adopted GASB 68, which required the Department to record its proportionate share of net pension liability ("NPL") and pension expense in its financial statements, and expanded note disclosures and supplementary information. Previously, the Department did not record NPL, and only pension contributions were recorded as pension expense. Net pension expense recorded for 2016 was \$40.8 million, an increase of \$11.3 million from the \$29.5 million amount recorded in 2015. \$1.6 million of pension expense was deferred in 2015 for the portion attributable to capital projects; there was no deferral in 2016.

The debt service coverage ratio was not affected by the new accounting standard, because pension expense continued to be determined based on cash contributions. For further information, see the 2016 audited financial statements of the Department attached as Appendix C.

Expectations for 2017 Operating Results

As of July 14, 2017, the full-year forecast indicates that the Department's debt service coverage ratio is expected to be 1.80x, which meets the City Council-adopted financial policy target of 1.80x. Retail sales from base rates are expected to come in very close to planned levels. Exceptionally cold temperatures at the beginning of the year are responsible for higher than planned retail revenue through June. However, this is offset by lower than planned retail revenues for the remainder of the year, primarily from a downward revision to projected residential sales. Generation volumes for the calendar year are forecasted to be 106% of the average of the past five years. Net wholesale revenue is forecasted to be \$62.4 million, \$2.4 million above the budgeted amount of \$60.0 million. As of June 30, 2017, the RSA balance was \$93.6 million. A 1.5% RSA surcharge has been applied since August 2016 that is expected to produce approximately \$12.6 million in revenue in 2017 (\$11.3 million deposited into the RSA after reduction for taxes). The current forecast has the RSA balance returning to above \$100 million by the end of 2017, with the 1.5% surcharge being removed in early 2018. See "Security for the Bonds—Rate Stabilization Account." Net income is expected to be approximately \$124.8 million.

Debt Service Requirements

As of September 13, 2017, the principal amount of Outstanding Parity Bonds totaled \$2,108,955,000, which includes the \$145,115,000 par amount of the Refunded Bonds to be defeased at closing in accordance with the Refunding Plan. See “Use of Proceeds—Refunding Plan.” 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 Obligations

The City currently has \$200 million of variable rate Parity Bonds outstanding, its \$100,000,000 Municipal Light and Power Revenue Bonds, 2015B-1 and 2015B-2 (SIFMA Index) (the “2015 Floating Rate Notes”), and its \$100,000,000 Municipal Light and Power Revenue Bonds, 2017A and 2017B (the “2017 Variable Rate Bonds”).

2015 Floating Rate Notes. The outstanding 2015 Floating Rate Notes have a maturity date of May 1, 2045, and a par call date of May 1, 2018. The 2015 Floating Rate Notes are Parity Bonds. The Initial Index Floating Rate Period ends as of November 1, 2018, which is a Mandatory Tender Date. The 2015 Floating Rate Notes may be converted to another index floating rate or to another interest rate mode, or may be redeemed or otherwise refinanced, any time after the par call date. A description of the 2015 Floating Rate Notes is set forth in an Official Statement dated July 9, 2015, which is available on the MSRB’s Electronic Municipal Market Access system (“EMMA”), currently located at www.emma.msrb.org. The information contained in such Official Statement speaks only as of its date and is not incorporated herein.

2017 Variable Rate Direct Placement Bonds. In January 2017, the City sold its 2017 Variable Rate Bonds in a direct placement transaction with State Street Public Lending Corporation, pursuant to Ordinance 124916 (passed on November 23, 2015) and Resolution 31728 (adopted on January 11, 2017) (the “Variable Rate Resolution” and together with Ordinance 124916, the “Variable Rate Bond Legislation”), copies of which are available from the City Clerk’s office. Exhibit B to the Variable Rate Resolution sets forth a maturity schedule and annual sinking fund requirements through a maturity date of November 1, 2046. The 2017 Variable Rate Bonds have not been rated and have not been assigned CUSIP numbers. The 2017 Variable Rate Bonds are Parity Bonds.

The City has voluntarily filed on EMMA a redacted copy of the CCA with the initial purchaser, setting forth certain terms and conditions applicable to the 2017 Variable Rate Bonds during the Initial Index Rate Period, which include (without limitation): payment dates and interest reset dates; methods for calculating the variable interest rate, which include adjustments for various factors such as Parity Bond rating downgrades, failure to purchase on a Mandatory Tender Date, purchaser’s increased costs recovery and tax risk, Determinations of Taxability and, in the event of default; provisions for Directed and Mandatory Tender; provisions for Optional Redemption and Extraordinary Optional Redemption (including a five-year Term-Out Provision); clawback and “most favored nations” clauses; Events of Default and remedies, which include consequences for ratings downgrades below investment grade; an optional redemption or conversion fee prior to the Par Call Date; various notice and ongoing reporting requirements; and other covenants, terms and conditions. Certain financial obligations accruing under the CCA (other than the payment of principal and interest on the 2017 Variable Rate Bonds) are subordinate to the Parity Bonds and may be deemed immediately due and payable, subject to the superior lien of the Parity Bonds, in an event of default. The principal of and interest on the 2017 Variable Rate Bonds are not subject to acceleration in an event of default.

TABLE 13
DEBT SERVICE REQUIREMENTS

Year	Outstanding Parity Bonds ⁽¹⁾			The Bonds			Total Parity Bonds		
	Principal	Interest ⁽³⁾⁽⁴⁾	Total	Principal	Interest	Total	Principal	Interest ⁽³⁾⁽⁴⁾	Total
2017 ⁽²⁾	\$ 113,010,000	\$ 97,490,440	\$ 210,500,440	\$ -	\$ -	\$ -	\$ 113,010,000	\$ 97,490,440	\$ 210,500,440
2018	113,670,000	85,762,917	199,432,917	5,135,000	15,875,775	21,010,775	118,805,000	101,638,692	220,443,692
2019	110,510,000	81,236,373	191,746,373	4,100,000	16,906,250	21,006,250	114,610,000	98,142,623	212,752,623
2020	109,795,000	77,530,017	187,325,017	4,310,000	16,701,250	21,011,250	114,105,000	94,231,267	208,336,267
2021	108,885,000	72,657,260	181,542,260	4,525,000	16,485,750	21,010,750	113,410,000	89,143,010	202,553,010
2022	101,325,000	67,329,801	168,654,801	11,710,000	16,259,500	27,969,500	113,035,000	83,589,301	196,624,301
2023	102,835,000	62,223,379	165,058,379	12,305,000	15,674,000	27,979,000	115,140,000	77,897,379	193,037,379
2024	105,595,000	57,049,256	162,644,256	12,915,000	15,058,750	27,973,750	118,510,000	72,108,006	190,618,006
2025	94,575,000	51,650,708	146,225,708	13,560,000	14,413,000	27,973,000	108,135,000	66,063,708	174,198,708
2026	90,725,000	47,163,117	137,888,117	14,240,000	13,735,000	27,975,000	104,965,000	60,898,117	165,863,117
2027	73,735,000	43,097,951	116,832,951	6,040,000	13,023,000	19,063,000	79,775,000	56,120,951	135,895,951
2028	65,850,000	39,828,065	105,678,065	15,445,000	12,721,000	28,166,000	81,295,000	52,549,065	133,844,065
2029	58,925,000	37,127,482	96,052,482	16,215,000	11,948,750	28,163,750	75,140,000	49,076,232	124,216,232
2030	43,390,000	34,749,071	78,139,071	17,030,000	11,138,000	28,168,000	60,420,000	45,887,071	106,307,071
2031	44,885,000	32,822,762	77,707,762	17,880,000	10,286,500	28,166,500	62,765,000	43,109,262	105,874,262
2032	46,465,000	30,830,594	77,295,594	18,770,000	9,392,500	28,162,500	65,235,000	40,223,094	105,458,094
2033	48,110,000	28,741,181	76,851,181	19,705,000	8,454,000	28,159,000	67,815,000	37,195,181	105,010,181
2034	49,945,000	26,571,786	76,516,786	20,500,000	7,665,800	28,165,800	70,445,000	34,237,586	104,682,586
2035	51,930,000	24,399,725	76,329,725	21,320,000	6,845,800	28,165,800	73,250,000	31,245,525	104,495,525
2036	59,180,000	21,965,937	81,145,937	22,170,000	5,993,000	28,163,000	81,350,000	27,958,937	109,308,937
2037	61,375,000	19,391,901	80,766,901	9,465,000	5,106,200	14,571,200	70,840,000	24,498,101	95,338,101
2038	63,650,000	16,703,727	80,353,727	9,845,000	4,727,600	14,572,600	73,495,000	21,431,327	94,926,327
2039	66,030,000	13,914,004	79,944,004	10,240,000	4,333,800	14,573,800	76,270,000	18,247,804	94,517,804
2040	68,505,000	11,001,984	79,506,984	10,650,000	3,924,200	14,574,200	79,155,000	14,926,184	94,081,184
2041	57,080,000	8,330,283	65,410,283	11,075,000	3,498,200	14,573,200	68,155,000	11,828,483	79,983,483
2042	42,700,000	6,310,488	49,010,488	11,515,000	3,055,200	14,570,200	54,215,000	9,365,688	63,580,688
2043	44,475,000	4,545,411	49,020,411	11,975,000	2,594,600	14,569,600	56,450,000	7,140,011	63,590,011
2044	35,325,000	2,701,865	38,026,865	12,455,000	2,115,600	14,570,600	47,780,000	4,817,465	52,597,465
2045	27,570,000	1,273,963	28,843,963	12,955,000	1,617,400	14,572,400	40,525,000	2,891,363	43,416,363
2046	12,920,000	498,488	13,418,488	13,470,000	1,099,200	14,569,200	26,390,000	1,597,688	27,987,688
2047	-	-	-	14,010,000	560,400	14,570,400	14,010,000	560,400	14,570,400
Total	\$2,072,970,000	\$1,104,899,938	\$3,177,869,938	\$385,530,000	\$271,210,025	\$656,740,025	\$2,458,500,000	\$1,376,109,963	\$3,834,609,963

(1) Excludes debt service on the Refunded Bonds.

(2) Reflects full year of debt service.

(3) 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—Federal Sequestration and Other Federal Funding Considerations."

(4) Assumes interest rates on variable rate bonds ranging from 2.00% to 4.00%, per the Department's financial plan.

CAPITAL REQUIREMENTS

Every year during its annual budget process, the City adopts a six-year CIP, which outlines anticipated investments over that timeframe. The Department's CIP is a part of the City's CIP. The current adopted CIP covers calendar years 2017-2022. 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. This section describes the adopted 2017-2022 CIP and other capital requirements that the Department intends to implement over the period 2017-2022. Any amounts listed for specific projects are for expenses expected to occur only during the period 2017-2022 and may not represent the total cost of the project.

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 projects are expected to be the service center development project (\$99.9 million), replacement of fleet equipment (\$46.2 million), and miscellaneous building improvements (\$17.2 million).

Distribution

Distribution plant includes 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 overhead equipment (\$135.2 million), replacement of underground equipment (\$72.0 million), service connection work for medium customers (\$72.5 million), the development of the Denny Network (\$69.8 million) and Denny Substation (\$65.9 million), and advanced meter infrastructure (\$65.2 million).

External Projects

These projects include work related to relocating infrastructure for transportation projects, investments in streetlight assets, various undergrounding work, and City-driven IT projects. Over the six-year planning period, the largest projects are expected to be the Alaskan Way Viaduct and seawall replacement (\$90.5 million), the enterprise software solution replacement strategy (\$40.1 million), and the streetlight LED conversion program (\$37.5 million).

Power Supply

Power supply includes generation facilities used to produce electricity. Typical assets would be 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 programs. Over the six-year planning period, the largest projects are expected to be license mitigation at the Boundary Project (\$115.0 million), and relicensing (\$52.9 million) and minor improvement programs (\$38.2 million) at the Skagit Project.

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 (\$62.5 million), transmission reliability (\$18.1 million), and transmission line inductor installations (\$12.9 million).

Conservation

Conservation resource 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 84 aMW of cumulative annual energy savings between 2017 and 2022. The Department is

forecasting an annual achievement of 14.0 aMW over this six-year period, and the expenditure forecast reflects this level of effort.

High Ross Payment Amortization

In setting rates for the 2000-2003 period, the City Council directed the Department to amortize the \$21.8 million capital portion of the annual payment to B.C. Hydro under the High Ross Agreement through 2035. The Department pays B.C. Hydro \$21.8 million each year from 2000 through the final capital payment in 2020, \$9.1 million of the annual payment is deferred, and \$12.7 million is 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 is capitalized and therefore is 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 operations and maintenance expenditures for environmental mitigation. These deferred operations 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. 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 as 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 public 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, was prepared on a reasonable basis, reflects the best currently available estimates and judgments, 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 is not fact and should not be relied upon as being necessarily indicative of future results, and 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
ADOPTED CAPITAL IMPROVEMENT AND CONSERVATION PROGRAMS AND OTHER CAPITAL REQUIREMENTS
2017-2022
(\$million)

	2017	2018	2019	2020	2021	2022	Total
Central Utility Projects	\$ 44.4	\$ 26.1	\$ 19.3	\$ 22.9	\$ 77.4	\$ 62.4	\$ 252.4
Distribution	229.5	174.7	173.7	163.0	185.9	194.3	1,121.1
External Projects ⁽¹⁾	55.2	52.3	35.4	28.8	28.3	28.1	228.2
Power Supply	84.1	90.8	68.6	65.9	90.0	87.4	486.7
Transmission	17.1	14.3	6.2	8.8	41.1	3.9	91.4
Total CIP	\$ 430.3	\$ 358.2	\$ 303.1	\$ 289.3	\$ 422.7	\$ 376.1	\$ 2,179.8
Conservation ⁽²⁾	\$ 32.5	\$ 35.4	\$ 36.1	\$ 36.8	\$ 37.6	\$ 38.3	\$ 216.7
High Ross Payment Amortization ⁽²⁾	9.1	9.1	9.1	9.1	-	-	36.4
Relicensing, Mitigation and Other Costs ⁽²⁾	9.3	4.8	3.3	4.0	3.7	10.3	35.4
Total Funds Required	\$ 481.2	\$ 407.5	\$ 351.6	\$ 339.3	\$ 464.0	\$ 424.8	\$ 2,468.4
Sources of Funds							
Cash from Operating Account	\$ 69.9	\$ 92.4	\$ 84.6	\$ 14.3	\$ 165.5	\$ 208.7	\$ 635.4
Cash from Contributions	47.9	47.0	31.0	31.1	34.3	35.6	227.0
Cash from Bond Sale	363.4	268.1	235.9	293.9	264.2	180.4	1,605.9
Total Funds Available	\$ 481.2	\$ 407.5	\$ 351.6	\$ 339.3	\$ 464.0	\$ 424.8	\$ 2,468.4

(1) Includes Alaskan Way Viaduct and seawall replacement. See “Other Considerations—Considerations Related to Alaskan Way Viaduct and Seawall Replacement Program.”

(2) The City Council passed resolutions authorizing the debt financing and/or deferral of certain costs in accordance with GASB 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. The deferred portion of annual payments to B.C. Hydro under the High Ross Agreement, which amounts to \$9.1 million per year in years 2000 through 2020, will be amortized over 15 years beginning in 2021. 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.

Source: *Seattle City Light Department, Finance Division*

Financing Plans

Capital requirements of \$2,468.4 million from 2017 through 2022 (including \$2,179.0 million of the CIP and \$288.6 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 projects that bond proceeds will fund approximately 65% of the capital requirements over the period 2017-2022, with the remaining 35% funded by cash from operations and contributions. This is lower than the 40% policy target due to the concentration of many large, one-time projects during this six-year timeframe, including Denny Substation, Advanced Metering, Alaska Way Viaduct Relocations, and Service Center Replacement. Cash funding will return to above target levels following the completion of these projects. The City expects to issue additional Parity Bonds in an aggregate principal amount of approximately \$265 million in June 2018.

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, 2016, the Department had recorded environmental liability amounts net of recoveries of \$45.9 million under the GASB reporting requirements. This amount is evaluated semi-annually and is subject to adjustment based on future developments. It is likely that the Department will be liable for a portion of the costs of future remediation of other areas on the Lower Duwamish site.

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 action when contamination is discovered during regular maintenance and construction.

Lower Duwamish Waterway. In 2001, the U.S. Environmental Protection Agency (the "EPA") listed the Lower Duwamish Waterway as a Superfund site. A remedial investigation ("RI") and feasibility study ("FS") and a study and cleanup of early action sites was completed in 2012 pursuant to an Administrative Settlement Agreement Order on Consent entered into among the City (through the Department and SPU), the County, the Port of Seattle, and the Boeing Company. EPA released its Record of Decision in November 2014 estimating the cost to be \$342 million, with a seven-year construction period beginning in 2019. More than 100 entities have been identified as potentially responsible parties ("PRPs"). Over the next two years, a third party will determine the liability of each of the PRPs in accordance with a voluntary allocation agreement.

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 PRPs 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 and Feasibility Study ("SRI/FS") has been underway since 2006, with the Port of Seattle taking the lead on the study. The City has agreed to an interim sharing of on-going costs of the SRI/FS with the Port and the County. The Department expects that EPA will act on the SRI/FS before the end of 2017, though the proposed plan is not expected to be published until late 2018 at the earliest.

Georgetown Steam Plant. In addition, 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; the FS is anticipated to be complete in 2018. The Department completed interim actions at the Georgetown Steam Plant property in 2012. The Department is also conducting voluntary remedial actions related to pesticides, PCB, and lead contamination at some of its discontinued electrical facilities.

Endangered Species Act

The Endangered Species Act (“ESA”) is administered by the 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 on May 4, 2016. The court remanded the Biological Opinion, but left it in place so that ongoing recovery actions could continue, while ordering NOAA to complete a new recovery plan by March 1, 2018. The court order also required updated environmental impact statements for the recovery plan that will need to be completed by NOAA, the Corps, and the Bureau of Reclamation. The outcome of this litigation and the new recovery plan may affect the price and supply of power that the Department purchases from BPA and Grant PUD. See “Power Resources and Costs of Power—Purchased Power Arrangements.”

The Department’s power generation at the Boundary Project has been affected by NOAA’s salmon and steelhead recovery plans and the Biological Opinions on which they were based. Specifically, the Biological Opinions require reservoirs upstream from the Boundary Project to store more water during the winter for release in the spring and summer when it is needed for downstream juvenile fish migration. Therefore, generation at the Boundary Project is reduced in the fall and winter, when the region experiences its highest sustained energy demand. The water not released in the fall and winter 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 reduces the Boundary Project’s firm capability under the terms of the Coordination Agreement. See “Power Resources and Cost of Power—Overview of Resources.” Any new recovery plan or Biological Opinion issued by NOAA will likely result in changes in flows 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. Bull Trout are also found in Chester Morse Lake, in the Cedar River in the vicinity of the Cedar Falls Project, and in the mainstream Tolt River downstream of the 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 Tolt and Cedar Rivers and reservoirs are excluded from the Critical Habitat designations for this species. A final recovery plan for Bull Trout was released by the USFWS in 2015.

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. Chinook Salmon populations increased to 30-year-high levels on the Skagit River from 2004 through 2006, declined to average levels in 2007 and 2008, further declined from 2009 to 2011, and improved to average levels from 2012 to 2014. The Skagit River downstream of the Skagit Project continues to sustain the largest native population of Chinook Salmon in the Puget Sound region. The Skagit, Cedar, and Tolt Rivers downstream of the Department’s hydroelectric facilities were designated as Critical Habitat for Chinook Salmon by NOAA Fisheries. The Department’s dams on the Skagit and Tolt Rivers are located above natural passage barriers to salmon and steelhead.

Steelhead were listed as threatened by NOAA Fisheries in 2007. Winter steelhead populations are located 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. Steelhead populations declined to 30-year-low levels in most Puget Sound rivers during the early 2000s. Steelhead returns to the Skagit River basin remained below the floor level established by WDFW from 2006 to 2009, and reached an historic low point in 2009. Since then, the returns have shown incremental improvement, and exceeded the floor level in 2013 and 2014. Steelhead returning to the upper Skagit River, the area most affected by the Skagit Project, exceeded average annual counts for this reach from 2010 through 2014. NOAA Fisheries is in the process of developing a recovery plan for steelhead in the Puget Sound region, with the plan expected to be completed in early 2018.

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 Tolt Projects were licensed through a collaborative process involving State and federal regulatory agencies, including NOAA Fisheries, USFWS, 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 Early Action 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 3,000 acres of high quality habitat for 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, U.S. Fish and Wildlife Service, 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 Tulip Tribes and WDFW on the South Fork Tolt River focused on Chinook Salmon and both summer and winter steelhead. These studies will be used to develop management and recovery plans in cooperation with State and federal agencies to improve habitat conditions for 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.

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.

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.

In August 2015, a new rule defining the "waters of the United States" under the CWA went into effect. Promulgated by EPA and the Corps, the rule redefines what individual bodies of water are jurisdictional under the

CWA and thus subject to federal permitting requirements. The rule clarifies that certain tributaries, wetlands, and ditches connected to designated “waters of the United States” are also protected under the CWA. Following legal challenges throughout the country, a nationwide stay of the rule was issued by the U.S. Court of Appeals (Sixth Circuit) on October 2015. In May 2016, the U.S. Supreme Court ruled that landowners can challenge “waters of the United States” rulings in federal court. The impact of the rule on the Department 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 86% of the power it provides. The Department’s carbon 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. Ecology released the draft of the proposed Clean Air Rule in June 2016. The Department is not expected to be regulated under this newly proposed rule. On August 3, 2015, the EPA finalized a new rule, “The Clean Power Plan,” under Section 111(d) of the Clean Air Act designed to regulate greenhouse gas emissions from existing power plants. The new rule includes state-specific goals and guidelines for states to develop plans for meeting these goals. The Department is reviewing this new rule and is working with key stakeholders to monitor it as it moves toward possible final implementation. At this time, it is unknown how the State will choose to implement the rule. The Department reports to EPA a small amount of emissions of a potent greenhouse gas used in electrical equipment, but any cost impacts resulting from future legislation are expected to be low. The direct costs of carbon dioxide (CO₂) regulation are likely to be paid by direct emitters. The Department has no fossil fuel plants and very small operational emissions. In addition, IRP analyses suggest that a carbon tax or carbon cap and trade regime could increase the competitiveness of the Department’s wholesale power sales, because 86% are from power resources with no CO₂ emissions.

Climate Change

The Department continues to research and monitor potential effects of climate change. In 2016, the Department completed a Climate Change Vulnerability Assessment and Adaptation Plan to identify potential actions to reduce risks associated with climate change. The Department is 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’s resource mix is 86% hydro-based generation. The physical effects of climate change are expected to affect the amount, timing, and availability of hydroelectric generation in the future. In cooperation with the University of Washington’s Civil and Environmental Engineering Department, the Department is studying how projected changes in temperature, rainfall, and snowpack could affect glaciers and streamflow in the region and thus future output from its hydropower generating plants and other hydropower purchases. The climate change studies described in the 2010 through 2014 IRPs suggest little change in annual generation, but gradually increasing runoff during the winter peak demand period, accompanied by gradually decreasing runoff during the late summer and fall. Warmer temperatures may also cause small decreases in winter electricity demand. The projected effects of climate change on hydropower generation and demand are much less adverse 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 on future changes in lightning potential and windstorms due to climate change in western Washington. The study showed little change in these extreme weather events. The Department will be less

affected by changes in extreme weather and sea level rise than other City departments, but coordinates with other City departments to understand potential risks. The Department continues to monitor new information on potential climate change effects through its Climate Change Initiative as part of the Strategic Plan.

VARIOUS FACTORS AFFECTING 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, statewide 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 cybersecurity) breaches, cyber-attacks, and collateral damage from untargeted computer viruses;
- (xx) variations in the weather and changes in the climate; and
- (xxi) failures of or other issues with infrastructure.

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. This Official Statement includes a brief discussion of certain of these factors. This discussion 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.

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 seven Municipal Court judges are all elected to four-year terms. In 2013, voters approved a charter amendment shifting from nine at-large City Council positions to seven City Council positions elected by district and two at-large positions. As a result, all nine City Council positions were up for election in 2015. The City Council members elected by district will serve four-year terms and the at-large City Council members elected in 2015 will serve a two-year term. In 2017, the at-large positions will be up for election again, and thereafter, all City Council positions will be for 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, sets 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.

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 2016 may be obtained from the Department of Finance and Administrative Services and is available at <http://www.seattle.gov/cafrs/default.htm>. The Department's 2016 financial statements are also audited by an independent auditor and 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.

Municipal Budget. City operations are guided by a budget prepared under the direction of the Mayor by the City Budget Office pursuant to State statute (chapter 35.32A RCW) and based in part on General Fund revenue forecasts prepared by the City's Department of Finance and Administrative Services. 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 2017 budget was adopted on November 21, 2016. The City's adopted General Subfund budget is approximately \$1.1 billion in 2016 and approximately \$1.2 billion in 2017.

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 any local government in the State that have at the time of investment one of the three highest credit ratings of a nationally recognized rating agency, 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 by the Washington State Investment Board.

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. In addition to the eligible investments discussed above, bond proceeds may also be invested, subject to certain restrictions, in mutual funds with portfolios consisting of (i) only United States government bonds or United States government guaranteed bonds issued by federal agencies with average maturities of less than four years; bonds of the State or of any local government in the State that have at the time of the investment one of the four highest credit ratings of a nationally recognized rating agency; 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 four highest credit ratings of a nationally recognized rating agency; (ii) bonds of states and local governments or other issuers authorized by law for investment by local governments that have at the time of investment one of the two highest credit ratings of a nationally recognized rating agency; or (iii) securities otherwise authorized by law for investment by local governments.

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. City cash is deposited into a single bank account, and cash expenditures are paid from a consolidated disbursement account. Investments of temporarily idle cash may be made, according to existing City Council-approved policies, by the Treasury 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 June 30, 2017, the combined investment portfolios of the City, not including pensions, totaled \$2,229.0 million at par value. The City’s investment portfolios consist solely of City funds. The City does not invest funds in any other pools, with the exception of tax collection receipts initially held by the County. As of June 30, 2017, the earnings yield on the City’s investment portfolios was 1.60%, and the average maturity of the City’s investment portfolios was 1,056 days. Approximately 22.8%, or \$507.4 million, was invested in securities with maturities of three months or less. The City held no securities with maturities longer than 15 years.

Investments were allocated as follows:

U.S. Government and Agencies	29%
U.S. Government Agency Mortgage-Backed	22%
Taxable Municipals	15%
State Local Government Investment Pool	14%
U.S. Government	13%
Commercial Paper	4%
Bank Deposit Notes	2%
Repurchase Agreements	1%

(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 and to establish a rate of interest on such loans. Loans of a longer duration require City Council approval.

Risk Management

The City purchases excess liability insurance to address general, automobile, professional, public official, and other exposures. The policies provide \$40 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 provide up to \$500 million in limits subject to a schedule of deductibles and sublimits. City hydroelectric generation and transmission equipment and certain other utility systems and equipment are not covered by the property insurance policy.

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, notary publics, and workers who are permanently and totally disabled from a workplace injury or occupational disease.

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: 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.

Change in Accounting Standards. In 2012, the Governmental Accounting Standards Board ("GASB") approved Statement No. 67 ("GASB 67") and GASB 68, which modified the accounting and financial reporting of pensions by pension plans (GASB 67) and by state and local government employers (GASB 68). GASB 67 affects the financial reporting requirements for the pension systems and does not change the funding requirements for members, employers, or the State. Under GASB 67, pension plans are required to report Total Pension Liability ("TPL") and Net Pension Liability instead of the previously required Unfunded Actuarial Accrued Liability ("UAAL"). GASB 67 requires multi-employer plans to provide a schedule in the notes to the financial statements that displays the proportionate share of contributions per employer, to be used in determining the proportionate share of the NPL that the employer recognizes on its financial statements under GASB 68. GASB 68 requires employers to report any NPL, including a proportionate share of the multiple-employer plans to which they contribute, as a liability in their Statement of Net Position.

The SCERS Annual Report (for the fiscal year ended December 31, 2016) and the DRS Comprehensive Annual Financial Reports for LEOFF (for the fiscal year ended June 30, 2016) were prepared in accordance with GASB 67.

The 2016 Financial Statements, attached as Appendix C, have been prepared in accordance with GASB 68. The Seattle City Light Fund reported a liability of \$317.8 million and \$271.8 million representing its proportionate share of NPL for SCERS as of December 31, 2016, and December 31, 2015, respectively. The effect of this recognition is

reflected in its Balance Sheets and as a cumulative adjustment to net position in its Statement of Revenues, Expenses and Changes in Net Position in the 2016 Financial Statements. The NPL was measured as of December 31, 2015, and December 31, 2014, and the TPL used to calculate the NPL was based on the actuarial valuations as of December 31, 2015, and December 31, 2014, rolled forward to December 31, 2016, and December 31, 2015, respectively. The Seattle City Light Fund's proportion of the NPL was based on contributions to SCERS during the fiscal years ended December 31, 2015, and December 31, 2014. The Seattle City Light Fund's proportionate share was 24.46% and 24.53% for the years ended December 31, 2016, and December 31, 2015, respectively. Schedules of 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 2016 Financial Statements.

The City's financial statements for the fiscal year ended December 31, 2016 were prepared in accordance with GASB 68. The City's Comprehensive Annual Financial Report for 2016 may be obtained from the Department of Finance and Administrative Services and is available at <http://www.seattle.gov/cafrs/default.htm>.

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 Seattle Municipal Code ("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 Seattle City Council, the 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.

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, 2017), which was completed on June 30, 2017 (the "2016 Actuarial Valuation"), there were 6,382 retirees and beneficiaries receiving benefits, and 9,151 active members of SCERS 1. There are an additional 1,394 terminated employees in SCERS 1 who are vested and entitled to future benefits and another 958 who are not vested and not entitled to benefits beyond contributions and accumulated interest. From January 1, 2016, to January 1, 2017, the net number of active members in SCERS 1 increased by 3.0%, the net number of retirees receiving benefits increased by 2.6%, and the net number of vested terminated members increased by 2.7%. Information regarding enrollment in SCERS 2 is not available, as the plan opened on January 1, 2017.

Certain demographic data from the 2016 Actuarial Valuation are shown below:

TABLE 15
PLAN MEMBER DEMOGRAPHIC INFORMATION, SCERS 1

<u>Age Range</u>	<u>Retirees and Beneficiaries</u>		<u>Active Employees</u>	
	<u>Number⁽¹⁾</u>	<u>Percent</u>	<u>Number</u>	<u>Percent</u>
<25	-		90	1.0%
25-39	-		2,239	24.5%
40-49	10 ⁽²⁾	0.2% ⁽²⁾	2,283	24.9%
50-59	304	4.8%	2,758	30.1%
60-69	2,341	37.2%	1,653	18.1%
70+	3,633	57.8%	128	1.4%

(1) Does not include 91 survivors receiving Option B or Option C benefits for a certain period.

(2) Includes everyone under the age of 50

Source: 2016 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 most recent such audited report, for the years ended December 31, 2016, and December 31, 2015, was transmitted on July 7, 2017, by CliftonLarsonAllen LLP (the "2016 SCERS Annual Report")

On July 17, 2014, the Washington State Auditor's Office issued a finding of a significant deficiency in internal controls over financial reporting relating to SCERS account reconciliations as set forth in the financial statements for the year ending December 31, 2013. As described, the finding stated that general ledger accounts were not analyzed and reconciled with subsidiary information on a monthly basis. The City responded to this finding by stating that SCERS would work with the City's central accounting unit to establish a common understanding of how investments and investment activities should be reflected in the City's general ledger. A copy of that audit report is available on the State Auditor's website (www.sao.wa.gov).

Milliman Consultants and Actuaries, as consulting actuary, has evaluated the funding status of SCERS annually since 2010. The most recent actuarial report is the 2016 Actuarial Valuation (with a valuation date as of January 1, 2017). The next actuarial valuation (with a valuation date as of January 1, 2018) is expected to be completed by mid-2018. Historically, the City prepared actuarial valuations biennially, but has prepared them annually since 2010.

As of January 1, 2017 (as set forth in the 2016 Actuarial Valuation), the actuarial value of net assets available for benefits was \$2.564 billion and the actuarial accrued liability was \$3.766 billion. The 2016 Actuarial Valuation utilized the following assumptions:

Investment return	7.50%
Price inflation	3.25%
Expected annual average membership growth	0.50%
Wage inflation	4.00%
Interest on member contributions made prior to January 1, 2012 ⁽¹⁾	5.75%

(1) Contributions made on or after January 1, 2012, are assumed to accrue interest at 4.75%.

A UAAL exists to the extent that actuarial accrued liability exceeds plan assets. The UAAL decreased from \$1,208.0 million as of January 1, 2016, to \$1,202.3 million as of January 1, 2017. The funding ratio increased from 66.5% as of January 1, 2016, to 68.1% as of January 1, 2017, which increase is primarily

due to the UAAL amortization payment made by the City during the prior year. For the year ending December 31, 2016, SCERS assets returned about 8.4% on a market basis (net of investment expenses), a rate of return greater than the assumed rate of 7.50%. The result is an actuarial gain on assets for 2016, but only one-fifth of this gain will be 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.

The following table provides historical plan funding information for SCERS 1:

TABLE 16
HISTORICAL SCERS 1 SCHEDULE OF FUNDING PROGRESS⁽¹⁾
(\$000,000)

Actuarial Valuation Date (January 1)⁽²⁾	Actuarial Value of Assets (AVA)	Actuarial Accrued Liability (AAL)⁽³⁾	Unfunded AAL (UAAL)	Funding Ratio	Covered Payroll⁽⁴⁾	UAAL as % of Covered Payroll
2008	\$ 2,119.4	\$ 2,294.6	\$ (175.2)	92.4%	\$ 501.9	34.9 %
2010	1,645.3	2,653.8	(1,008.5)	62.0%	580.9	173.6 %
2011 ⁽⁵⁾	2,013.7	2,709.0	(695.4)	74.3%	563.2	123.5 %
2012 ⁽⁵⁾	1,954.3	2,859.3	(905.0)	68.3%	557.0	162.5 %
2013 ⁽⁵⁾	1,920.1	3,025.3	(1,105.2)	63.5%	567.8	194.6 %
2014 ⁽⁵⁾	2,094.3	3,260.1	(1,165.8)	64.2%	597.9	195.0 %
2015 ⁽⁵⁾	2,266.7	3,432.6	(1,165.9)	66.0%	630.9	184.8 %
2016 ⁽⁵⁾	2,397.1	3,605.1	(1,208.0)	66.5%	641.7	188.3 %
2017 ⁽⁵⁾	2,564.1	3,766.4	(1,202.3)	68.1%	708.6	169.7 %

(1) For accounting purposes under GASB 67/68, UAAL is replaced with NPL. However, because the City continues to set its contribution rates based on an actuarially required contribution (“ARC”) 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) Actuarial valuations were performed biennially until 2010, after which the City began performing an actuarial valuation annually.

(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.

(5) Beginning with the January 1, 2011, actuarial valuation, SCERS has used five-year asset smoothing.

Source: 2016 Actuarial Valuation

In accordance with GASB 67, the SCERS 2016 Annual Report calculated TPL and NPL based on the actuarial valuation dated as of January 1, 2017, rolled forward using generally accepted actuarial procedures (assuming a 7.50% investment rate of return and 4.00% salary increases) to December 31, 2016, as follows: TPL was calculated to be \$3,793.6 million; plan fiduciary net position (“Plan Net Position”) was calculated to be \$2,488.5 million, and NPL was calculated to be \$1,305.0 million, for a funding ratio (Plan Net Position as a percentage of TPL) of 65.6%. A Schedule of the Department’s Proportionate Share of the Net Pension Liability and Schedule of the Department’s Contributions are set forth in the required supplementary information in Appendix C—2016 Audited Financial Statements of the Department.

SCERS CONTRIBUTION RATES. Member and employer contribution rates for SCERS 1 and SCERS 2 are established 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 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 a result, for purposes of the 2016 Actuarial Valuation calculation, a 26-year amortization period was used. This policy may be revised by the City Council in future years. The 2016 Actuarial Valuation was prepared using the Entry Age Actuarial Cost Method. Under this 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 1, based on a percentage of employee compensation (exclusive of overtime), are shown in the table below. The employee rate for SCERS 2 beginning on January 1, 2017, is 7.0%.

**TABLE 17
EMPLOYER AND EMPLOYEE SCERS CONTRIBUTION RATES**

Calendar Years (beginning Jan. 1)	Employer Rate	Employee Rate	Total Contribution Rate	Total ARC⁽¹⁾	% of Total ARC Contributed	Total ARC per GASB 27⁽²⁾	% of Total ARC Contributed per GASB 27
2011	9.03%	9.03%	18.06%	25.03%	72%	22.14%	82%
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%	23.32%	100%	N/A	N/A
2018	15.23%	10.03%	25.26%	25.00%	100%	N/A	N/A

- (1) Reflects total actuarial required contribution (*i.e.*, employer plus employee contribution rates). Beginning November 21, 2011, this rate is 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 no membership growth assumption. 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).

Source: Seattle Municipal Code; 2017 Budget; Annual Actuarial Valuation Reports

In 2011, the City failed to increase contribution rates sufficiently to fund the ARC. The City limited its contribution to matching the employee contribution (which was capped pursuant to certain collective bargaining agreements described in the following paragraph), without regard to any amortization of UAAL. This resulted in an increase in unfunded liability, underfunded the pension obligations, and deferred pension funding. On November 21, 2011, the City Council adopted Resolution 31334, affirming the City’s intent to fully fund the annual ARC each year with its budget. The budget for 2018 will incorporate a total contribution rate that exceeds the ARC. See Table 17—Employer and Employee SCERS Contribution Rates and Table 18—Projected Actuarially Required Total Contribution Rates by Employer and Employee.”

The City’s contracts with all labor unions that represent SCERS members describe how contribution rates would be changed in the event that higher contributions are needed to improve the funding status of the system. Under these contracts, the City and employees will share in any contribution rate increase equally,

up to a maximum increase of 2% in the employee contribution. The 2% employee contribution rate increase was implemented via 1% increases in 2011 and 2012. This contractual restriction shifts the risk of future increases to the City's employer contribution.

Projected total actuarially required contribution rates for SCERS 1 reported in the 2016 Actuarial Valuation are shown in the table below:

TABLE 18
PROJECTED ACTUARIALY REQUIRED TOTAL CONTRIBUTION RATES FOR SCERS 1
BY EMPLOYER AND EMPLOYEE

Contribution Year⁽¹⁾	Assuming 7.50% Returns	Confidence Range⁽²⁾
2018	25.00%	25.00-25.00
2019	25.08%	25.82-24.35
2020	25.41%	27.05-23.86
2021	25.67%	28.47-23.10
2022	25.63%	29.85-21.86
2023	25.63%	31.52-20.45

(1) Contribution year lags valuation year by one. For example, contribution year 2018 is based on the 2016 Actuarial Valuation (as of January 1, 2017) results, amortized over 26 years beginning in 2017 if the contribution rate change takes place in 2017.

(2) Confidence range if asset return at 95th percentile and if asset return at 5th percentile.

Source: 2016 Actuarial Valuation

Employer contributions were \$101.0 million in 2015, of which approximately \$24.9 million was from the Seattle City Light Fund. In 2016, employer contributions were approximately \$108.5 million, of which approximately \$25.3 million was from the Seattle City Light Fund. The employer share for employees of each of the utility funds is allocated to and paid out of those funds.

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

SCERS' net assets increased by \$175.5 million (7.6%) during 2016, including member and employer contributions of \$180.2 million and net revenue from investment activity totaling \$189.9 million. Expenses increased by \$11.0 million in 2016, primarily attributed to an \$9.6 million increase in retiree benefit payments.

Table 19 shows the historical market value of SCERS' net assets (as of each December 31). Table 20 shows the revenue or loss from investment activity for the last ten years.

TABLE 19
MARKET VALUE OF ASSETS

Year (As of December 31)	Market Value of Assets (MVA)⁽¹⁾
2007	\$ 2,119.4
2008	1,477.4
2009	1,645.3
2010	1,812.8
2011	1,753.5
2012	1,951.4
2013	2,216.9
2014	2,322.7
2015	2,313.0
2016	2,479.8

(1) In millions.

Source: SCERS Actuarial Valuations

TABLE 20
SCERS INVESTMENT RETURNS

Year (As of December 31)	Net Investment Income (Loss)	
	Amount⁽¹⁾	%⁽²⁾
2007	\$ 138.8	7.3%
2008	(619.7)	(26.8%)
2009	194.7	10.8%
2010	208.5	13.2%
2011	(15.8)	0.0%
2012	230.7	14.0%
2013	289.8	15.5%
2014	122.5	5.7%
2015	7.1	0.3%
2016	189.9	8.6%

(1) In millions.

(2) Represents one-year return on asset classes.

Source: SCERS Annual Reports

The table below shows the historical distribution of SCERS investments over the last five years:

TABLE 21
HISTORICAL SCERS DISTRIBUTION OF INVESTMENTS BY CLASS

Investment Categories (January 1)	2017	2016	2015	2014	2013
Fixed Income	22.9%	28.4%	24.2%	23.7%	23.1%
Domestic and International Stocks	57.4%	53.3%	33.4%	32.1%	30.4%
Real Estate	12.2%	12.8%	11.0%	10.6%	11.3%
Alternative Investments	7.4%	5.4%	4.8%	4.9%	6.2%
Total	100.0%	100.0%	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, 2017, membership in these plans consisted of 675 fire employees and survivors and 745 police employees and survivors. See "Other Post-Employment Benefits" below for a discussion of medical benefits paid to retirees.

These pension plans do not issue separate financial reports. The most recent actuarial valuations, dated January 1, 2017, use the Entry Age Normal ("EAN") Actuarial Cost 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, 6.00%; and projected salary increases, 2.75%. 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, 3.75%; and projected salary increases, 2.75%. 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 2023 and last year was extended again to 2028). For 2016, the City funded 100% of the ARC but only a portion of the projected payment necessary to fully fund the AAL by 2028. The City's 2016 budget also anticipates fully funding the ARC and making partial payments toward the full funding of the AAL. As of January 1, 2017, the actuarial value of net assets available for benefits in the Firefighters' Pension Fund was \$15.3 million, and the AAL was \$83.2 million. As a result, the UAAL was \$67.9 million and the funded ratio was 18.4%. The City's employer contribution to the fund in 2016 was \$6.9 million, representing 140% of the ARC; 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. As of January 1, 2017, the actuarial value of net assets available for benefits in the Police Relief and Pension Fund was \$6.0 million, and the AAL was \$93.4 million. As a result, the UAAL was \$87.4 million and the funded ratio was 6.4%. The City's employer contribution to the fund in 2016 was \$7.8 million, representing 127% of the ARC; 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 \$14.7 million in 2016 and \$14.2 million in 2015. The following table outlines the contribution rates of employees and employers under LEOFF.

TABLE 22
LEOFF CONTRIBUTION RATES EXPRESSED AS A PERCENTAGE OF COVERED PAYROLL
(AS OF JULY 1, 2017)

	From January 1, 2017 Through June 30, 2017		As of July 1, 2017	
	Plan 1	Plan 2	Plan 1	Plan 2
Employer	0.18% ⁽¹⁾	5.23% ⁽¹⁾	0.18% ⁽¹⁾	5.43% ⁽¹⁾
Employee	0.00	8.41%	0.00	8.75%
State	N/A	3.36%	N/A	3.50%

(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 of LEOFF. For additional information, see Note 11 to the City's 2016 Comprehensive Annual Financial Report, which may be obtained from the Department of Finance and Administrative Services and is available at <http://www.seattle.gov/cafrs/default.htm>.

According to the Office of the State Actuary's June 30, 2015, valuation, LEOFF had no UAAL. LEOFF Plan 1 had a funded ratio of 125% and LEOFF Plan 2 had a funded ratio of 105%. The assumptions used by the State Actuary in calculating the accrued actuarial assets and liabilities are a 7.7% annual rate of investment return for LEOFF Plan 1 and a 7.5% annual rate of investment return for LEOFF Plan 2, 3.75% general salary increases, and 3.0%

consumer price index increase. Liabilities were valued using the EAN Actuarial Cost 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.

Other Post-Employment Benefits

The City has liability for two types of other post-employment benefits (“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. The City has assessed its OPEB liability in order to satisfy the expanded reporting requirements specified by GASB Statement No. 45 (“GASB 45”). While GASB 45 requires reporting and disclosure of the unfunded OPEB liability, it does not require that it be funded. The City funds its OPEB 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 as of January 1, 2016, and showed the UAAL for the implicit rate subsidy was \$67.5 million; the City’s estimated annual cost in 2016 was \$6.7 million and the City’s estimated contribution in 2016 was \$2.0 million. The valuation of the OPEB liability associated with the City’s Firefighters’ Pension Fund and Police Relief and Pension Fund is updated annually. As of January 1, 2017, the UAAL for OPEB in the City’s Firefighters’ Pension Fund was \$301.3 million; the estimated annual cost for 2017 was \$16.2 million and the estimated annual contribution for 2017 was \$11.5 million. As of January 1, 2017, the UAAL for OPEB in the Police Relief and Pension Fund was \$330.9 million; the estimated annual cost for 2017 was \$22.1 million and the estimated annual contribution for 2017 was \$14.0 million.

For additional information regarding the City’s OPEB liability, see Note 11 to the City’s 2016 Comprehensive Annual Financial Report.

Labor Relations

As of December 2016, the City had 36 separate departments and offices with approximately 13,650 regular and temporary employees. Twenty-six different unions and 51 bargaining units represent approximately 75% of the City’s regular employees.

In early 2016, the City adopted legislation approving an agreement reached in December 2015 with the Coalition of City Unions (comprising bargaining units representing the majority of City employees) and other non-Coalition unions. All of the agreements with the bargaining units comprising the Coalition of City Unions and with the other non-Coalition unions have been fully implemented. These agreements are effective through December 31, 2018.

The City remains in negotiations with certain non-Coalition bargaining groups who are operating under expired contracts: Seattle Police Management Association (expired December 2013), Seattle Police Officers’ Guild (expired December 2014), and Seattle Fire Chiefs’ Association (expired December 2014)). In July 2016, the Seattle Police Officers’ Guild failed to ratify a tentative agreement and negotiations will return to mediation. Under Washington State law, police are prohibited from striking, so if mediation fails, the parties would be subject to arbitration.

There is no expected date by which the agreements that are currently in negotiations will be reached, and unions continue to operate under current or expired contracts.

All of the agreements with bargaining units whose members are SCERS participants (which excludes the Seattle Police Management Association, Seattle Police Officers’ Guild, and Seattle Fire Chiefs’ Association) contain or will contain a provision for the implementation of SCERS 2 as of January 1, 2017. See “Pension Plans.”

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 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, breaches in cybersecurity, and civil disorder), transportation incidents, fires, hazardous materials, 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.

OTHER CONSIDERATIONS

Federal Sequestration and Other Federal Funding Considerations

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 FFY 2017 is expected to be a 6.9% reduction in the amount the Department expects to receive from the federal government in connection with its Municipal Light and Power Revenue Bonds, 2010A (Taxable Build America Bonds—Direct Payment); Municipal Light and Power Revenue Bonds; 2010C (Taxable Recovery Zone Economic Development Bonds—Direct Payment); Municipal Light and Power Improvement Revenue Bonds, 2011B (Taxable New Clean Renewable Energy Bonds—Direct Payment); Municipal Light and Power Improvement Revenue Bonds, 2012C (Taxable New Clean Renewable Energy Bonds—Direct Payment); and Municipal Light and Power Revenue Bonds, 2016A (Taxable New Clean Renewable Energy Bonds—Direct Payment). Because of this reduction, the Department will receive approximately \$434,000 less in interest subsidies than originally anticipated for 2017. The sequester rate for FFY 2018 will be 6.6%. 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 2024.

The City cannot predict whether the current Congress and administration will continue to implement Sequestration or other federal funding policies in the same manner as under the previous administration. Further, the City cannot predict whether Sequestration or other federal funding policies may be enacted or implemented in a way that negatively or disproportionately affects certain cities or regions that adopt policies that are inconsistent with the current federal administration's policy priorities.

Other Federal Funding Considerations Relating to "Sanctuary Cities" Executive Order and Related Matters. On March 29, 2017, the City filed a challenge (the "Complaint") to President Trump's January 25, 2017, Executive Order (the "Order") which directs reductions in or denial of federal funds to local jurisdictions that refuse to assist in federal immigration enforcement activities. The Complaint argues that the Order violates the 10th Amendment and the Spending Clause (Art. I, §8, cl. 1) of the U.S. Constitution. The Order has also been challenged by multiple other local jurisdictions. A nation-wide preliminary injunction was entered against its implementation on April 25, 2017, by the U.S. District Court for the Northern District of California in the case of *County of Santa Clara v. Trump*.

At this time, it is unclear how, whether, or when actions might be taken to reduce funding to any local jurisdiction pursuant to this Order. Nonetheless, the City expects that, if the administration were to implement reductions, the City would likely be one of many local jurisdictions affected. The City cannot predict the outcome of its lawsuit or the effect of any other pending lawsuits challenging the Order.

The Department does not receive significant amounts of federal funding for capital or operating purposes for the Light System (other than the Tax Credit Subsidy Payments discussed above under "Federal Sequestration"). The City would not expect the Light System to be materially affected if federal funding reductions were to occur.

Considerations Related to Alaskan Way Viaduct and Seawall Replacement Program

The Alaskan Way Viaduct and Seawall Replacement Program (“AWVSR Program”) consists of multiple projects to remove and replace the State Route 99 Alaskan Way Viaduct, replace an existing seawall, and carry out the redevelopment of the City’s central waterfront area. The various projects comprising the AWVSR Program are separate public projects by separate lead public agencies being implemented in a coordinated manner pursuant to a series of written agreements.

Many elements of the AWVSR Program are presently underway. The State’s project to replace the Alaskan Way viaduct with a bored tunnel (the “State’s Bored Tunnel Project”) and the City’s project to replace the existing aging seawall along the waterfront (the “City’s Seawall Project”) are by far the largest projects in the AWVSR Program. There is also coordination between the AWVSR Program waterfront redevelopment elements (*e.g.*, the City’s “Waterfront Seattle” project) and redevelopment projects undertaken by other public agencies in the central waterfront area, such as the recently completed Pike Place Market Preservation and Development Authority’s MarketFront Project.

Status of State’s Bored Tunnel Project. The State’s Bored Tunnel Project was delayed by more than two years due to the malfunctioning of a deep bore tunneling machine (the “TBM”). The contractor resumed tunneling in February 2016 following repairs and implementation of new quality and safety plans. The TBM completed boring on April 6, 2017, and is in the process of being disassembled. The Bored Tunnel Project is currently scheduled for completion in 2019.

Direct Cost Overruns. The State’s Bored Tunnel Project is being undertaken pursuant to a contract between the Washington State Department of Transportation (“WSDOT”) and a joint venture named Seattle Tunnel Partners. The City is not a party to that contract. Responsibility for direct cost overruns resulting from the repair of the TBM will be governed by that contract; the City has no direct contractual liability.

Indirect Cost Overruns. The City has a series of agreements with WSDOT relating to the coordination of projects within the AWVSR Program, covering various issues including the protection, repair, and relocation of the City’s utility infrastructure impacted by or constructed as part of the State’s Bored Tunnel Project, including infrastructure owned by the Department. See “Capital Requirements—Distribution.” In general, these agreements provide that the City is responsible for relocating certain utility infrastructure that conflicts with the State’s Bored Tunnel Project and the State is responsible for avoiding damage and repairing or replacing damaged utility infrastructure as defined in the agreements. It is the City’s position that any increase in these indirect costs resulting from the TBM’s malfunction or delays are governed by these agreements, and the City’s utilities have budgeted according to the agreed-upon City obligations, plus necessary contingencies. The City and the State are currently in negotiations regarding this indirect cost responsibility as well as direct and indirect costs related to other AWVSR projects affected by the delays.

The State’s Upcoming AWVSR Program Projects. The State is beginning early design and planning for the Alaskan Way Viaduct Demolition Project and the Battery Street Tunnel Decommissioning Project. As was done for the State’s Bored Tunnel Project, the City and WSDOT plan to execute contracts relating to the coordination of these projects within the AWVSR Program that will address the protection, repair, and relocation of the City’s utility infrastructure impacted by or constructed as part of these projects. The City’s utilities have budgeted according to the agreements finalized for the State’s Bored Tunnel Project, plus necessary contingencies. The City also is working with the State to closely coordinate the construction of the new Alaskan Way roadway with the State’s Alaskan Way Viaduct Demolition Project. Although the State is responsible for the cost of constructing the new Alaskan Way roadway, the City is responsible for the construction project.

Status of City’s Seawall Project. The majority of the City’s Seawall Project is currently scheduled for completion in 2017. The final component of the Seawall Project will be constructed in conjunction with these Waterfront Seattle projects on a timeline that is yet to be determined. As with the State’s Bored Tunnel Project, the Seawall Project and Waterfront Seattle Projects will involve 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 of the Seawall Project and other Waterfront Seattle projects 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% (referenda) 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. Tax and fee initiative measures continue to be filed, 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. 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—2016 Audited Financial Statements of the Department—Notes 10, 11, and 14.) 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 opinions 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 do 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 upon the occurrence of an event of default under the Bond Legislation 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 Legislation 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 Registered Owners of the Bonds.

The rights and obligations under the Bonds and the Bond Legislation 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 to 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 1898 federal bankruptcy statute that was superseded by the current Bankruptcy Code. The State Legislature has not amended the 1935 State statute to update the cross-reference to the current Bankruptcy Code, but several Washington municipal corporations nonetheless have been permitted to seek 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 certain discretionary powers under the Bankruptcy Code.

In the event of a chapter 9 bankruptcy filing by the City, owners of the Bonds may not be able to exercise any of their remedies under the Bond Legislation during the course of the proceeding. Legal proceedings to resolve issues could be time consuming, and substantial delays or reductions in payments to Bondholders may 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 Exemption

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 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 and corporations. Bond Counsel notes that, with respect to corporations, interest on the Bonds may be included as an adjustment in the calculation of alternative minimum taxable income, which may affect the alternative minimum tax liability of corporations.

The Bonds that have a yield that is higher than their respective stated interest rates, as shown on page i, are being sold with original issue discount (the "Discount Bonds"). The excess of the stated redemption price at maturity of a Discount Bond over the issue price of such Discount Bond constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to a Discount Bond Owner before receipt of cash attributable to such income. The amount of original issue discount deemed received by the Discount Bond Owner will increase the Discount Bond Owner's basis in the respective Discount Bond. For federal tax purposes, original issue discount is treated as interest on a Discount Bond.

The Bonds that have a yield that is lower than their respective stated interest rates, as shown on page i, are being sold at a premium (the "Premium Bonds"). The amount by which a Premium Bond Owner's original basis for determining gain or loss on the sale or exchange of a Premium Bond (generally, the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes bond premium, which must be amortized under

Section 171 of the Code. Amortized bond premium reduces the Premium Bond Owner's basis in the applicable Premium Bond, and reduces the amount of tax-exempt interest received. Amortized bond premium is not deductible for federal income tax purposes. The basis reduction as a result of the amortization of bond premium may result in a Premium Bond Owner realizing a taxable gain when a Premium Bond is sold by the Owner for an amount equal to or less (under certain circumstances) than the original cost of the Premium Bond to the Owner. Purchasers of any of the Premium Bonds should consult their own tax advisors as to the treatment, computation, and collateral consequences of amortizable bond premium.

Bond Counsel's opinion as to the exclusion from gross income of interest 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 Code that must be satisfied subsequent to the issuance of the Bonds to assure that interest on the Bonds will be excluded from gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause interest 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 IRS has initiated an expanded program for the auditing of tax-exempt bond issues that includes 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). It is possible that any such audit might adversely affect the exclusion from gross income of interest 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 INTERPRETATIONS OF FEDERAL, STATE, OR LOCAL LAW) THAT AFFECT THE FEDERAL, STATE, OR LOCAL TAX TREATMENT OF THE INTEREST ON THE BONDS OR THE MARKET VALUE OF THE BONDS. LEGISLATIVE CHANGES HAVE BEEN PROPOSED IN CONGRESS, WHICH, IF ENACTED, WOULD RESULT IN ADDITIONAL FEDERAL INCOME TAX BEING IMPOSED ON CERTAIN OWNERS OF TAX-EXEMPT STATE OR LOCAL OBLIGATIONS, SUCH AS THE BONDS. THE INTRODUCTION OR ENACTMENT OF ANY OF SUCH 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, SUCH CHANGES (OR OTHER CHANGES) WILL NOT BE INTRODUCED OR ENACTED OR INTERPRETATIONS WILL NOT OCCUR. 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 Legislation and the Tax Certificate relating to the Bonds permit certain actions to be taken or to be omitted if a favorable opinion of Bond Counsel is provided with respect thereto. Bond Counsel expresses no opinion as to the effect on the exclusion from gross income of interest on the Bonds for federal income tax purposes with respect to any Bond if any such action is taken or omitted based upon the advice of counsel other than Stradling Yocca Carlson & Rauth.

Although Bond Counsel has rendered an opinion that interest 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 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 UNDERTAKING

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 undertake in the Bond Legislation (the “Undertaking”) for the benefit of holders of the Bonds, 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:
 - (a) principal and interest payment delinquencies;
 - (b) non-payment related defaults, if material;
 - (c) unscheduled draws on debt service reserves reflecting financial difficulties;
 - (d) unscheduled draws on credit enhancements reflecting financial difficulties;
 - (e) substitution of credit or liquidity providers, or their failure to perform;
 - (f) 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;
 - (g) modifications to rights of holders of the Bonds, if material;
 - (h) Bond calls (other than scheduled mandatory redemptions of Term Bonds), if material, and tender offers;
 - (i) defeasances;
 - (j) release, substitution, or sale of property securing repayment of the Bonds, if material;
 - (k) rating changes;
 - (l) bankruptcy, insolvency, receivership, or similar event of the City, as such “Bankruptcy Events” are defined in Rule 15c2-12;
 - (m) 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; and
 - (n) appointment of a successor or additional trustee or the change of name of a trustee, if material.

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 bonded debt secured by Gross Revenues of the Light System;
- (iii) debt service coverage ratios for the bond debt secured by Gross Revenues 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 with the City's fiscal year ended December 31, 2017. 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 Undertaking. The Undertaking 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 identity, 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 Legislation 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 Undertaking 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 Undertaking. The City's obligations under the Undertaking will terminate upon the legal defeasance, prior repayment, or payment in full of all of the outstanding Bonds. In addition, the City's obligations under the Undertaking will terminate if those provisions of Rule 15c2-12 that require the City to comply with the Undertaking 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 Undertaking. The City has agreed to proceed with due diligence to cause any failure to comply with the Undertaking 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 Undertaking 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 Undertaking.

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.

OTHER BOND INFORMATION

Ratings on the Bonds

The Bonds have been rated “Aa2” and “AA” by Moody’s Investors Service, Inc. and Standard & Poor’s Ratings Services, 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 each rating agency. The ratings were applied for by the City and 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 Jaffray & 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 Morgan Stanley & Co. LLC (the “Purchaser”) at a price of \$439,186,725.16, and will be reoffered at a price of \$440,324,647.80. 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.

Morgan Stanley & Co. LLC., the Purchaser, has entered into a distribution agreement with its affiliate, Morgan Stanley Smith Barney LLC. As part of the distribution arrangement, Morgan Stanley & Co. LLC may distribute municipal securities to retail investors through the financial advisor network of Morgan Stanley Smith Barney LLC. As part of this arrangement, Morgan Stanley & Co. LLC may compensate Morgan Stanley Smith Barney LLC for its selling efforts with respect to the Bonds.

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: _____ /s/ Glen M. Lee
Glen M. Lee
Director of Finance

APPENDIX A

BOND ORDINANCE

Ordinance 125198, passed by the City Council on November 21, 2016, which is set forth in this appendix, authorized the issuance of the new money portion of the Bonds. Ordinance 124335 (as amended by Ordinance 124916) authorized the issuance of the refunding portion of the Bonds and is substantially similar to Ordinance 124916.

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CITY OF SEATTLE

ORDINANCE 125198

COUNCIL BILL 118840

AN ORDINANCE relating to the electric system of The City of Seattle; authorizing the issuance and sale of municipal light and power revenue bonds for the purposes of providing funds for certain additions and betterments to and extensions of the existing municipal light and power plant and system of the City, paying the costs of issuance of those bonds, and providing for the reserve fund requirement; providing for the terms, conditions, covenants, and manner of sale of those bonds; describing the lien of those bonds; and ratifying and confirming certain prior acts.

WHEREAS, The City of Seattle, Washington (“City”), owns, operates, and maintains an electric system (“Light System”); and

WHEREAS, the City has need to acquire and construct certain additions and betterments to and extensions of the Light System described in the system or plan adopted by this ordinance (“Plan of Additions”); and

WHEREAS, the City has outstanding certain revenue bonds (“Outstanding Parity Bonds”) having a charge and lien upon Gross Revenues of the Light System prior and superior to all other charges whatsoever, except reasonable charges for maintenance and operation of the Light System; and

WHEREAS, pursuant to the respective ordinances and resolutions listed in Exhibit A to this ordinance, the City issued its municipal light and power revenue bonds described in Exhibit A, and provided for the issuance of additional bonds having a lien and charge on Gross Revenues of the Light System on a parity of lien with those bonds (“Parity Bonds”) upon compliance with certain conditions; and

WHEREAS, after due consideration, the City finds that it is necessary and in the best interest of the City and its ratepayers to issue municipal light and power revenue bonds as Parity

1 Bonds to pay part of the cost of the Plan of Additions, pay costs of issuance of those
2 bonds, and provide for the reserve fund requirement; NOW, THEREFORE,

3 **BE IT ORDAINED BY THE CITY OF SEATTLE AS FOLLOWS:**

4 Section 1. **Definitions.** As used in this ordinance, the following words and phrases shall
5 have the meanings set forth below.

6 “**Accreted Value**” means with respect to any Capital Appreciation Bonds (a) as of any
7 Valuation Date, the amount set forth for such date in any Parity Bond Legislation authorizing
8 such Capital Appreciation Bonds and (b) as of any date other than a Valuation Date, the sum of
9 (i) the Accreted Value on the preceding Valuation Date and (ii) the product of (A) a fraction, the
10 numerator of which is the number of days having elapsed from the preceding Valuation Date and
11 the denominator of which is the number of days from such preceding Valuation Date to the next
12 succeeding Valuation Date, calculated based on the assumption that Accreted Value accrues
13 during any semiannual period in equal daily amounts on the basis of a year of twelve 30-day
14 months, times (B) the difference between the Accreted Values for such Valuation Dates.

15 “**Adjusted Net Revenue**” has the meaning assigned to that term in Section 13(g)(iii).

16 “**Alternate Reserve Security**” means Qualified Insurance or a Qualified Letter of Credit,
17 that is used to satisfy all or a portion of the Reserve Fund Requirement for the Parity Bonds.

18 “**Annual Debt Service**” for any calendar year means the sum of the amounts required in
19 such calendar year to pay (a) the interest due in such calendar year on all Parity Bonds
20 outstanding, excluding interest to be paid from the proceeds of the sale of Parity Bonds or other
21 bonds; (b) the principal of all outstanding Serial Bonds due in such calendar year; and (c) the
22 Sinking Fund Requirement, if any, for such calendar year.

1 For purposes of this definition, the principal and interest portions of the Accreted Value
2 of Capital Appreciation Bonds becoming due at maturity or by virtue of a Sinking Fund
3 Requirement shall be included in the calculations of accrued and unpaid and accruing interest or
4 principal in such manner and during such period of time as is specified in any Parity Bond
5 Legislation authorizing such Capital Appreciation Bonds.

6 For purposes of making coverage ratio calculations in connection with a certificate
7 delivered under Section 13(g) regarding the issuance of Future Parity Bonds, Annual Debt
8 Service shall exclude debt service on Parity Bonds that are included in a refunding or defeasance
9 plan approved by the City Council, which provides for the refunding or defeasance of certain
10 Parity Bonds by irrevocably pledging money and/or Government Obligations pending their early
11 redemption.

12 For purposes of calculating and determining compliance with the Reserve Fund
13 Requirement and conditions for the issuance of Future Parity Bonds and/or entering into Parity
14 Payment Agreements:

15 (i) **Generally.** Except as otherwise provided by subparagraph (ii) below with
16 respect to Variable Interest Rate Bonds and by subparagraph (iii) below with respect to Parity
17 Bonds with respect to which a Payment Agreement is in force, interest on any series of Parity
18 Bonds shall be calculated based on the actual amount of accrued, accreted or otherwise
19 accumulated interest that is payable in respect of that issue taken as a whole, at the rate or rates
20 set forth in the applicable Parity Bond Legislation.

21 (ii) **Interest on Variable Interest Rate Bonds.** The amount of interest deemed to
22 be payable on any Series of Variable Interest Rate Bonds shall be calculated on the assumption

1 that the interest rate on those bonds would be equal to the rate that is 90% of the average RBI
2 during the four calendar quarters preceding the quarter in which the calculation is made.

3 **(iii) Interest on Parity Bonds With Respect to Which a Payment Agreement**
4 **is in Force.** Debt service on Parity Bonds with respect to which a Payment Agreement is in force
5 shall be based on the net economic effect on the City expected to be produced by the terms of the
6 Parity Bonds and the terms of the Payment Agreement, including but not limited to the effects
7 produced by the following: (A) Parity Bonds that would, but for a Payment Agreement, be
8 treated as obligations bearing interest at a Variable Interest Rate instead shall be treated as
9 obligations bearing interest at a fixed interest rate, and (B) Parity Bonds that would, but for a
10 Payment Agreement, be treated as obligations bearing interest at a fixed interest rate instead shall
11 be treated as obligations bearing interest at a Variable Interest Rate. Accordingly, the amount of
12 interest deemed to be payable on any Parity Bonds with respect to which a Payment Agreement
13 is in force shall be an amount equal to the amount of interest that would be payable at the rate or
14 rates stated in those Parity Bonds plus Payment Agreement Payments minus Payment Agreement
15 Receipts. For the purposes of calculating as nearly as practicable Payment Agreement Receipts
16 and Payment Agreement Payments under a Payment Agreement that includes a variable rate
17 component determined by reference to a pricing mechanism or index that is not the same as the
18 pricing mechanism or index used to determine the variable rate interest component on the Parity
19 Bonds to which the Payment Agreement is related, it shall be assumed that the fixed rate used in
20 calculating Payment Agreement Payments will be equal to 105% of the fixed rate specified by
21 the Payment Agreement and that the pricing mechanism or index specified by the Payment
22 Agreement is the same as the pricing mechanism or index specified by the Parity Bonds.
23 Notwithstanding the other provisions of this subparagraph (iii), the City shall not be required to

1 (but may in its discretion) take into account in determining Annual Debt Service the effects of
2 any Payment Agreement that has a term of ten years or less.

3 (iv) **Parity Payment Agreements.** No additional debt service shall be taken into
4 account with respect to a Parity Payment Agreement for any period during which Payment
5 Agreement Payments on that Parity Payment Agreement are taken into account in determining
6 Annual Debt Service on related Parity Bonds under subparagraph (iii) of this definition.

7 However, for any period during which Payment Agreement Payments are not taken into account
8 in calculating Annual Debt Service on any outstanding Parity Bonds because the Parity Payment
9 Agreement is not then related to any outstanding Parity Bonds, payments on that Parity Payment
10 Agreement shall be taken into account by assuming:

11 (A) **City Obligated to Make Payments Based on Fixed Rate.** If the City
12 is obligated to make Payment Agreement Payments based on a fixed rate and the Qualified
13 Counterparty is obligated to make payments based on a variable rate index, that payments by the
14 City will be based on the assumed fixed payer rate, and that payments by the Qualified
15 Counterparty will be based on a rate equal to the average rate determined by the variable rate
16 index specified by the Parity Payment Agreement during the four calendar quarters preceding the
17 quarter in which the calculation is made, and

18 (B) **City Obligated to Make Payments Based on Variable Rate Index.**
19 If the City is obligated to make Payment Agreement Payments based on a variable rate index and
20 the Qualified Counterparty is obligated to make payments based on a fixed rate, that payments
21 by the City will be based on a rate equal to the average rate determined by the variable rate index
22 specified by the Parity Payment Agreement during the four calendar quarters preceding the

1 quarter in which the calculation is made, and that the Qualified Counterparty will make
2 payments based on the fixed rate specified by the Parity Payment Agreement.

3 (v) **Tax Credit Subsidy Payments.** For the purpose of calculating the Reserve
4 Fund Requirement, the City shall deduct from Annual Debt Service the Tax Credit Subsidy
5 Payments the City is scheduled to claim from the federal government in respect of the interest on
6 a series of Parity Bonds that are Tax Credit Subsidy Bonds or other bonds with respect to which
7 the federal government is scheduled to provide direct payments.

8 “**Authorized Denomination**” means \$5,000 or any integral multiple thereof within a
9 maturity of a Series or such other amount to be established in the Bond Resolution.

10 “**Beneficial Owner**” means, with regard to a Bond, the owner of any beneficial interest
11 in that Bond.

12 “**Bond Counsel**” means a lawyer or a firm of lawyers, selected by the City, of nationally
13 recognized standing in matters pertaining to bonds issued by states and their political
14 subdivisions.

15 “**Bond Purchase Contract**” means a written offer to purchase a Series, which offer has
16 been accepted by the City in accordance with this ordinance. In the case of a competitive sale,
17 the official notice of sale, the Purchaser’s bid and the award by the City shall comprise the offer
18 and the award by the City in accordance with this ordinance shall be deemed the acceptance of
19 that offer for purposes of this ordinance.

20 “**Bond Register**” means the books or records maintained by the Bond Registrar for the
21 purpose of registration of each Bond.

1 **“Bond Registrar”** or **“Registrar”** means the Fiscal Agent (unless the Bond Resolution
2 provides for a different Bond Registrar with respect to a particular Series of the Bonds), or any
3 successor bond registrar selected in accordance with the Registration Ordinance.

4 **“Bond Resolution”** means a resolution of the City Council adopted pursuant to this
5 ordinance approving the Bond Sale Terms and taking other actions consistent with this
6 ordinance.

7 **“Bond Sale Terms”** means the terms and conditions for the sale of a Series of the Bonds,
8 including the amount, date or dates, denominations, interest rate or rates (or mechanism for
9 determining interest rate or rates), payment dates, final maturity, redemption and tender rights,
10 price, and other terms or covenants set forth in Section 5.

11 **“Bonds”** means the revenue bonds issued pursuant to this ordinance.

12 **“Capital Appreciation Bonds”** means any Parity Bonds as to which interest is payable
13 only at the maturity or prior redemption of such Parity Bonds. For the purpose of (a) receiving
14 payment of the redemption premium, if any, on a Capital Appreciation Bond that is redeemed
15 prior to maturity, or (b) computing the principal amount of Parity Bonds held by the Owner of a
16 Capital Appreciation Bond in giving to the City or the paying agent for those bonds any notice,
17 consent, request, or demand pursuant to this ordinance or for any purpose whatsoever, the
18 principal amount of a Capital Appreciation Bond shall be deemed to be its Accreted Value.

19 **“CIP”** means the portion or portions relating to the Light System of the “2016-2021
20 Capital Improvement Program” adopted by the City in Ordinance 124927, together with any
21 previously adopted capital improvement program of the City, as the CIP may be amended,
22 updated, supplemented or replaced from time to time by ordinance.

1 **“City”** means The City of Seattle, Washington, a municipal corporation duly organized
2 and existing under the laws of the State.

3 **“City Council”** means the City Council of the City, as duly and regularly constituted
4 from time to time.

5 **“Code”** means the Internal Revenue Code of 1986, or any successor thereto, as it has
6 been and may be amended from time to time, and regulations thereunder.

7 **“Conservation Plan”** means the Conservation Potential Assessment 2016 of the City
8 with respect to the Light System endorsed by the City in Resolution 31631, adopted January 11,
9 2016, as that plan may be amended, updated, supplemented or replaced from time to time, to the
10 extent that funds are appropriated by the City therefor.

11 **“Deferred Hydroelectric Project Relicensing Costs”** means certain costs required by
12 the Federal Energy Regulatory Commission to be incurred as a condition of the renewal of
13 licenses for the Light System’s hydroelectric projects, which costs are treated in the same
14 manner as capital expenditures.

15 **“DTC”** means The Depository Trust Company, New York, New York.

16 **“Director of Finance”** means the Director of the Finance Division of the Department of
17 Finance and Administrative Services of the City, or any other officer who succeeds to
18 substantially all of the responsibilities of that office.

19 **“Fiscal Agent”** means the fiscal agent of the State, as the same may be designated by the
20 State from time to time.

21 **“Future Parity Bonds”** means, with reference to any Series of the Bonds, any fixed or
22 variable rate revenue bonds of the City (other than that Series and any other Parity Bonds then
23 outstanding) issued or entered into after the Issue Date of such Series, having a charge or lien

1 upon Gross Revenues for payment of the principal thereof and interest thereon equal in priority
2 to the charge or lien upon Gross Revenues for the payment of the principal of and interest on the
3 Outstanding Parity Bonds and the Bonds. Future Parity Bonds may include Parity Payment
4 Agreements and any other obligations issued in compliance with Section 13(g) or Section 13(h).

5 **“Government Obligations”** has the meaning given in RCW 39.53.010, as now in effect
6 or as may hereafter be amended.

7 **“Gross Revenues”** means (a) all income, revenues, receipts and profits derived by the
8 City through the ownership and operation of the Light System; (b) the proceeds received by the
9 City directly or indirectly from the sale, lease or other disposition of any of the properties, rights
10 or facilities of the Light System; (c) Payment Agreement Receipts, to the extent that such
11 receipts are not offset by Payment Agreement Payments; and (d) the investment income earned
12 on money held in any fund or account of the City, including any bond redemption funds and the
13 accounts therein, in connection with the ownership and operation of the Light System. Gross
14 Revenues do not include: (i) insurance proceeds compensating the City for the loss of a capital
15 asset; (ii) income derived from investments irrevocably pledged to the payment of any defeased
16 bonds payable from Gross Revenues; (iii) investment income earned on money in any fund or
17 account created or maintained solely for the purpose of complying with the arbitrage rebate
18 provisions of the Code; (iv) any gifts, grants, donations or other funds received by the City from
19 any State or federal agency or other person if such gifts, grants, donations or other funds are the
20 subject of any limitation or reservation imposed by the donor or grantor or imposed by law or
21 administrative regulation to which the donor or grantor is subject, limiting the application of
22 such funds in a manner inconsistent with the application of Gross Revenues hereunder; (v) the
23 proceeds of any borrowing for capital improvements (or the refinancing thereof); and (vi) the

1 proceeds of any liability or other insurance (excluding business interruption insurance or other
2 insurance of like nature insuring against the loss of revenues).

3 **“High Ross Agreement”** means the agreement dated as of March 30, 1984, between the
4 City and Her Majesty the Queen in Right of the Province of British Columbia relating to the
5 City’s High Ross Dam.

6 **“High Ross Capital Payments”** means the deferred portion of the annual capital
7 payments required to be made by the City under Section 5 of the High Ross Agreement,
8 representing the annual cost that would have been incurred by the City for the construction of the
9 High Ross Dam.

10 **“Issue Date”** means, with respect to a Bond, the date, as determined by the Director of
11 Finance, on which that bond is initially issued and delivered to the Purchaser in exchange for its
12 purchase price.

13 **“Letter of Representations”** means the Blanket Issuer Letter of Representations
14 between the City and DTC dated October 4, 2006, as it may be amended from time to time, or an
15 agreement with a substitute or successor Securities Depository.

16 **“Light Fund”** means the special fund of the City of that name heretofore created and
17 established by the City Council.

18 **“Light System”** means the municipal light and power plant and system now belonging to
19 or which may hereafter belong to the City.

20 **“MSRB”** means the Municipal Securities Rulemaking Board.

21 **“Net Revenue”** for any period means that amount determined by deducting from Gross
22 Revenues the expenses of operation, maintenance and repair of the Light System and further
23 deducting any deposits into the Rate Stabilization Account, and by adding to Gross Revenues

1 any withdrawals from the Rate Stabilization Account. In calculating Net Revenue, the City may
2 include the Tax Credit Subsidy Payments the City expects to receive from the federal
3 government in respect to the interest on a series of Parity Bonds that are Tax Credit Subsidy
4 Bonds or other bonds with respect to which the federal government will provide direct payments.

5 **“Omnibus Refunding Bond Ordinance”** means Ordinance 124335 (which amended and
6 restated Ordinance 121941, as previously amended by Ordinance 122838), as amended by
7 Ordinance 124916 and as it may be amended from time to time in the future.

8 **“Outstanding Parity Bonds”** means, for purposes of this ordinance, the outstanding
9 series of Parity Bonds described in Exhibit A.

10 **“Owner”** means, without distinction, the Registered Owner and the Beneficial Owner of
11 a Bond.

12 **“Parity Bond Fund”** means the special fund of the City known as the Seattle Municipal
13 Light Revenue Parity Bond Fund established within the Light Fund pursuant to Ordinance 92938
14 for the purpose set forth in Section 13(a).

15 **“Parity Bond Legislation”** means any ordinance or resolution passed or adopted by the
16 City Council providing for the issuance of Parity Bonds, and any other ordinance or resolution
17 amending or supplementing the provisions of any Parity Bond Legislation as originally passed or
18 adopted or as theretofore amended or supplemented.

19 **“Parity Bonds”** means the Outstanding Parity Bonds, the Bonds and any Future Parity
20 Bonds.

21 **“Parity Conditions”** means the conditions for issuing Future Parity Bonds under the
22 Parity Bond Legislation authorizing the issuance of the Outstanding Parity Bonds.

1 **“Parity Payment Agreement”** means a Payment Agreement under which the City’s
2 obligations are expressly stated to constitute a charge and lien on Net Revenue of the Light
3 System equal in rank with the charge and lien upon such Net Revenue required to be paid into
4 the Parity Bond Fund to pay and secure the payment of the principal of and interest on Parity
5 Bonds.

6 **“Payment Agreement”** means a written contract entered into, for the purpose of
7 managing or reducing the City’s exposure to fluctuations or levels of interest rates or for other
8 interest rate, investment, asset or liability management purposes, by the City and a Qualified
9 Counterparty on either a current or forward basis as authorized by any applicable laws of the
10 State in connection with, or incidental to, the issuance, incurring or carrying of particular bonds,
11 notes, bond anticipation notes, commercial paper or other obligations for borrowed money, or
12 lease, installment purchase or other similar financing agreements or certificates of participation
13 therein, that provides for an exchange of payments based on interest rates, ceilings or floors on
14 such payments, options on such payments, or any combination thereof or any similar device.

15 **“Payment Agreement Payments”** means the amounts periodically required to be paid
16 by the City to the Qualified Counterparty pursuant to a Payment Agreement.

17 **“Payment Agreement Receipts”** means the amounts periodically required to be paid by
18 the Qualified Counterparty to the City pursuant to a Payment Agreement.

19 **“Permitted Investments”** means any investments or investment agreements permitted
20 for the investment of City funds under the laws of the State, as amended from time to time.

21 **“Plan of Additions”** means the system or plan of additions to and betterments and
22 extensions of the Light System adopted by ordinance, including but not limited to the CIP, the
23 Conservation Plan, the High Ross Capital Payments and the Deferred Hydroelectric Project

1 Relicensing Costs. The Plan of Additions includes all amendments, updates, supplements or
2 replacements to the CIP, the Conservation Plan, the High Ross Capital Payments and the
3 Deferred Hydroelectric Project Relicensing Costs, all of which automatically shall constitute
4 amendments to the Plan of Additions upon approval by ordinance. The Plan of Additions
5 includes the purchase and installation of all materials, supplies, appliances, equipment (including
6 but not limited to data processing hardware and software and conservation equipment) and
7 facilities, the acquisition of all permits, licenses, franchises, property and property rights, other
8 capital assets and all engineering, consulting and other professional services and studies (whether
9 performed by the City or by other public or private entities) necessary or convenient to carry out
10 the Plan of Additions. The Plan of Additions also may be modified to include other
11 improvements without amending the CIP, the Conservation Plan, the High Ross Capital
12 Payments and the Deferred Hydroelectric Project Relicensing Costs, if the City determines by
13 ordinance that those amendments or other improvements constitute a system or plan of additions
14 to or betterments or extensions of the Light System.

15 **“Professional Utility Consultant”** means the independent person(s) or firm(s) selected
16 by the City having a favorable reputation for skill and experience with electric systems of
17 comparable size and character to the Light System in such areas as are relevant to the purposes
18 for which they were retained.

19 **“Purchaser”** means the entity or entities who have been selected in accordance with this
20 ordinance to serve as underwriter, purchaser or successful bidder in a sale of any Series of the
21 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 or surety bond,
5 issued by any insurance company licensed to conduct an insurance business in any state of the
6 United States (or by a service corporation acting on behalf of one or more such insurance
7 companies), which insurance company or companies, as of the time of issuance of such policy or
8 surety bond, are rated in one of the two highest rating categories by Moody’s Investors Service,
9 Inc. and Standard & Poor’s Ratings Services, or their comparably recognized business
10 successors.

11 **“Qualified Letter of Credit”** means any letter of credit or other liquidity facility issued
12 by a financial institution for the account of the City in connection with the issuance of Parity
13 Bonds, which institution maintains an office, agency or branch in the United States, and as of the
14 time of issuance of such letter of credit, the financial institution is rated in one of the two highest
15 rating categories by Moody’s Investors Service, Inc. and Standard & Poor’s Ratings Services, or
16 their comparably recognized business successors.

17 **“RBI”** means *The Bond Buyer Revenue Bond Index* or comparable index, or, if no
18 comparable index can be obtained, 80% of the interest rate for actively traded 30-year United
19 States Treasury obligations.

20 **“Rate Stabilization Account”** means the fund of that name originally established in the
21 Light Fund pursuant to Ordinance 121637.

22 **“Rating Agency”** means any nationally recognized rating agency then maintaining a
23 rating on any then outstanding Parity Bonds at the request of the City.

1 **“Record Date”** means, unless otherwise defined in the Bond Resolution, in the case of
2 each interest or principal payment date, the Bond Registrar’s close of business on the 15th day of
3 the month preceding the interest or principal payment date. With regard to redemption of a Bond
4 prior to its maturity, the Record Date shall mean the Bond Registrar’s close of business on the
5 day prior to the date on which the Bond Registrar sends the notice of redemption.

6 **“Refundable Bonds”** means any Parity Bonds that are eligible for refunding under the
7 Omnibus Refunding Bond Ordinance.

8 **“Refunding Parity Bonds”** means Future Parity Bonds issued pursuant to Section 13(h)
9 and the Omnibus Refunding Bond Ordinance, or other Future Parity Bond Legislation, for the
10 purpose of refunding any Refundable Bonds.

11 **“Registered Owner”** means, with respect to a Bond, the person in whose name that
12 Bond is registered on the Bond Register. For so long as the City utilizes the book-entry only
13 system for the Bonds under the Letter of Representations, Registered Owner shall mean the
14 Securities Depository.

15 **“Registration Ordinance”** means City Ordinance 111724 establishing a system of
16 registration for the City’s bonds and other obligations pursuant to Seattle Municipal Code
17 Chapter 5.10, as that chapter now exists or may hereafter be amended.

18 **“Reserve Fund”** means the special fund of the City known as the Municipal Light and
19 Power Bond Reserve Fund established as a separate account within the Light Fund pursuant to
20 Ordinance 71917, as amended.

21 **“Reserve Fund Requirement”** means, for any issue of the Bonds, the Reserve Fund
22 Requirement established in the Bond Resolution approving that issue, consistent with Section
23 13(b). For any issue of Future Parity Bonds, the Reserve Fund Requirement means the

1 requirement specified for that issue. The aggregate Reserve Fund Requirement for all Parity
2 Bonds shall be the sum of the Reserve Fund Requirements for each issue of the Parity Bonds.
3 For purposes of this definition, “issue” means all series of Parity Bonds issued pursuant to a
4 single Bond Resolution.

5 **“Rule 15c2-12”** means Rule 15c2-12 promulgated by the SEC under the Securities
6 Exchange Act of 1934, as amended.

7 **“SEC”** means the United States Securities and Exchange Commission.

8 **“Securities Depository”** means DTC, any successor thereto, any substitute securities
9 depository selected by the City, or the nominee of any of the foregoing. Any successor or
10 substitute Securities Depository must be qualified under applicable laws and regulations to
11 provide the services proposed to be provided by it.

12 **“Serial Bonds”** means Parity Bonds maturing in specified years, for which no Sinking
13 Fund Requirements are mandated.

14 **“Series of the Bonds”** or **“Series”** means a series of the Bonds issued pursuant to this
15 ordinance.

16 **“Sinking Fund Account”** means any account created in the Parity Bond Fund to
17 amortize the principal or make mandatory redemptions of Term Bonds.

18 **“Sinking Fund Requirement”** means, for any calendar year, the principal amount of
19 Term Bonds required to be purchased, redeemed, paid at maturity or paid into any Sinking Fund
20 Account for such calendar year (plus any required redemption premium, if any), as established
21 by the Parity Bond Legislation authorizing the issuance of such Term Bonds.

22 **“State”** means the State of Washington.

1 **“Tax Credit Subsidy Bond”** means any Taxable Bond that is designated by the City as a
2 tax credit bond pursuant to the Code, and which is further designated as a “qualified bond” under
3 Section 6431 or similar provision of the Code, and with respect to which the City is eligible to
4 receive a Tax Credit Subsidy Payment.

5 **“Tax Credit Subsidy Payment”** means a payment by the federal government with
6 respect to a Tax Credit Subsidy Bond.

7 **“Taxable Bond”** means any Parity Bond, the interest on which is not intended on the
8 Issue Date to be excluded from gross income for federal income tax purposes.

9 **“Tax-Exempt Bond”** means any Parity Bond, the interest on which is intended on the
10 Issue Date to be excluded from gross income for federal income tax purposes.

11 **“Term Bond”** means any Parity Bond that is issued subject to mandatory redemption
12 prior to its maturity in Sinking Fund Requirements.

13 **“Undertaking”** means the undertaking to provide continuing disclosure entered into
14 pursuant to Section 18, in substantially the form attached as Exhibit B.

15 **“Valuation Date”** means, with respect to any Capital Appreciation Bonds, the date or
16 dates set forth in any Parity Bond Legislation authorizing such Parity Bonds on which specific
17 Accreted Values are assigned to the Capital Appreciation Bonds.

18 **“Variable Interest Rate”** means any variable interest rate or rates to be borne by the
19 Bonds or any other Parity Bonds. The method of computing such a variable interest rate shall be
20 as specified in the Parity Bond Legislation authorizing or specifying the terms of such Parity
21 Bonds, which Parity Bond Legislation also shall specify either (i) the particular period or periods
22 of time or manner of determining such period or periods of time for which each value of such

1 variable interest rate shall remain in effect or (ii) the time or times upon which any change in
2 such variable interest rate shall become effective.

3 **“Variable Interest Rate Bonds”** means, for any period of time, any Bonds or other
4 Parity Bonds that bear a Variable Interest Rate during that period, except that Bonds or Parity
5 Bonds shall not be treated as Variable Interest Rate Bonds if the net economic effect of interest
6 rates on particular Parity Bonds of an issue and interest rates on other Parity Bonds of the same
7 issue, as set forth in the applicable Parity Bond Legislation, or the net economic effect of a
8 Payment Agreement with respect to particular Parity Bonds, in either case is to produce
9 obligations that bear interest at a fixed interest rate; and Parity Bonds with respect to which a
10 Payment Agreement is in force shall be treated as Variable Interest Rate Bonds if the net
11 economic effect of the Payment Agreement is to produce obligations that bear interest at a
12 Variable Interest Rate.

13 Section 2. **Adoption of System or Plan.** The City specifies, adopts and orders the Plan of
14 Additions to be carried out as generally provided for in the documents comprising the Plan of
15 Additions. The estimated cost of the Plan of Additions, as nearly as may be determined, is
16 declared to be \$2,188,184,000, of which \$264,000,000 is expected to be financed from proceeds
17 of the Bonds and investment earnings thereon.

18 Section 3. **Authorization of Bonds.** The City is authorized to issue revenue bonds
19 payable from the sources described in Section 12, in the maximum principal amount stated in
20 Section 5, to provide funds to (a) pay part of the cost of carrying out the Plan of Additions;
21 (b) provide for the Reserve Fund Requirement; (c) capitalize interest on, if necessary, and pay
22 the costs of issuance of the Bonds; and (d) for other Light System purposes approved by
23 ordinance. The Bonds may be issued in one or more Series and may be combined with other

1 Parity Bonds (including Refunding Parity Bonds) authorized separately. The Bonds shall be
2 designated municipal light and power revenue bonds, shall be numbered separately and shall
3 have any name, year and series or other label as deemed necessary or appropriate by the Director
4 of Finance.

5 Section 4. **Manner of Sale of the Bonds.** The Director of Finance may provide for the
6 sale of each Series by public sale, negotiated sale, limited offering or private placement with one
7 or more Purchasers, or remarketing agent (if the Bonds are issued with Variable Interest Rates),
8 chosen through a selection process acceptable to the Director of Finance. The Director of
9 Finance is authorized to specify a date and time of sale of and a date and time for delivery of
10 each Series of the Bonds; to give notice of that sale; to determine any bid parameters or other bid
11 requirements and criteria for determining the award of the bid; to provide for the use of an
12 electronic bidding mechanism; to determine matters relating to a forward or delayed delivery of
13 the Bonds; and to specify other matters and take other actions as in his or her determination are
14 necessary, appropriate, or desirable to carry out the sale of each Series of the Bonds. Each Series
15 of the Bonds must be sold on Bond Sale Terms in accordance with Section 5.

16 Section 5. **Bond Sale Terms; Bond Resolution.** The Director of Finance is appointed to
17 serve as the City's designated representative in connection with the issuance and sale of the
18 Bonds in accordance with RCW 39.46.040(2) and this ordinance. The Director of Finance is
19 authorized to accept, on behalf of the City, the Bond Purchase Contract, remarketing agreement,
20 if applicable, and other applicable agreements on Bond Sale Terms consistent with the
21 parameters set forth in this section. No such acceptance shall be effective until adoption of a
22 Bond Resolution approving the Bond Sale Terms. Once adopted, the Bond Resolution shall be
23 deemed a part of this ordinance as if set forth herein.

1 (a) **Maximum Principal Amount.** The Bonds may be issued in one or more Series and
2 shall not exceed the aggregate principal amount of \$275 million (which in the case of Variable
3 Rate Bonds means the principal amount outstanding at any one time).

4 (b) **Date or Dates.** Each Bond shall be dated its Issue Date, as determined by the Director
5 of Finance. For fixed rate bonds, the Issue Date may not be later than December 31, 2019. For
6 Variable Rate Bonds, the initial Issue Date may not be later than December 31, 2019, and such
7 Variable Rate Bonds may be reissued from time to time as determined by the Director of
8 Finance.

9 (c) **Denominations.** The Bonds shall be issued in Authorized Denominations.

10 (d) **Interest Rate(s); Payment Dates.** Each Bond shall bear interest from the Issue Date
11 or from the most recent date for which interest has been paid or duly provided for, whichever is
12 later, and shall be payable on dates determined by the Director of Finance. One or more rates of
13 interest shall be established for each maturity of each Series of the Bonds, which rate or rates
14 may be fixed or variable. Fixed interest rates shall be computed on the basis of a 360-day year of
15 twelve 30-day months and the net interest cost shall not exceed a weighted average rate of 10%
16 per annum. Principal payments shall commence on a date and shall be payable at maturity or in
17 accordance with Sinking Fund Requirements on dates determined by the Director of Finance.

18 (e) **Final Maturity.** Each Series of the Bonds shall mature no later than 40 years after its
19 Issue Date.

20 (f) **Redemption Rights.** The Bond Sale Terms may include provisions for the optional
21 and mandatory redemption and optional and mandatory tenders of Bonds determined by the
22 Director of Finance, subject to the following:

1 (i) **Optional Redemption.** Any Bond may be designated as being (A) subject to
2 redemption at the option of the City prior to its maturity date on the dates and at the redemption
3 prices set forth in the Bond Purchase Contract, or (B) not subject to redemption prior to its
4 maturity date. If a Bond is subject to optional redemption prior to its maturity, it must be subject
5 to such redemption on one or more dates occurring not more than 10½ years after the Issue Date.

6 (ii) **Mandatory Redemption.** Any Bond may be designated as subject to
7 mandatory redemption prior to its maturity consistent with Section 8(b). Any Bond may be
8 designated as subject to extraordinary mandatory redemption upon the occurrence of an
9 extraordinary event in accordance with the resolution approving the sale of such Bond.

10 (g) **Price.** The purchase price for each Series of the Bonds shall be acceptable to the
11 Director of Finance.

12 (h) **Other Terms and Conditions.**

13 (i) On the Issue Date of each Series, the average expected life of the capital
14 facilities to be financed with the proceeds of that Series must exceed the weighted average
15 maturity of the Bonds of that Series allocated to financing those capital facilities.

16 (ii) As of the Issue Date of each Series, the City Council must find that (A) the
17 Parity Conditions will have been met or satisfied, so that such Series may be issued as Parity
18 Bonds, and (B) the issuance and sale of the Series is in the best interest of the City and in the
19 public interest. In making its findings, the City Council shall give due regard to the cost of
20 operation and maintenance of the Light System and to any portion of Gross Revenues pledged
21 for the payment of any bonds, warrants or other indebtedness, and shall find and determine that
22 Gross Revenues, at the rates established from time to time consistent with Section 13(d), will be
23 sufficient, in the judgment of the City Council, to meet all expenses of operation and

1 maintenance of the Light System and to provide the amounts previously pledged for the payment
2 of all outstanding obligations payable out of Gross Revenues and pledged for the payment of the
3 Bonds.

4 (iii) Any Series may provide for Qualified Insurance, a Qualified Letter of Credit
5 or other credit enhancement, or for Payment Agreements. To that end, the Director of Finance
6 may include such additional terms, conditions and covenants as may be necessary or desirable,
7 including but not limited to restrictions on investment of Bond proceeds and pledged funds, and
8 requirements to give notice to or obtain the consent of a credit enhancement provider or
9 Qualified Counterparty.

10 (iv) The Bond Resolution must establish the Reserve Fund Requirement, if any,
11 and must set forth the method for satisfying any such requirement, consistent with Section 13(b).

12 (v) Any Series of the Bonds may be designated or qualified as Tax-Exempt
13 Bonds, Tax Credit Subsidy Bonds, or other Taxable Bonds, and may include such additional
14 terms and covenants relating to federal tax matters as the Director of Finance deems necessary or
15 appropriate, consistent with Section 14.

16 Section 6. **Bond Registrar; Registration and Transfer of Bonds.**

17 (a) **Registration of Bonds.** The Bonds shall be issued only in registered form as to both
18 principal and interest and shall be recorded on the Bond Register.

19 (b) **Bond Registrar; Transfer and Exchange of Bonds.** The Bond Registrar shall keep,
20 or cause to be kept, sufficient books for the registration and transfer of the Bonds, which shall be
21 open to inspection by the City at all times. The Bond Register shall contain the name and mailing
22 address of the Registered Owner of each Bond and the principal amount and number of each of
23 the Bonds held by each Registered Owner.

1 The Bond Registrar is authorized, on behalf of the City, to authenticate and deliver Bonds
2 transferred or exchanged in accordance with the provisions of the Bonds and this ordinance, to
3 serve as the City's paying agent for the Bonds and to carry out all of the Bond Registrar's powers
4 and duties under this ordinance and the Registration Ordinance.

5 The Bond Registrar shall be responsible for its representations contained in the Bond
6 Registrar's Certificate of Authentication on the Bonds. The Bond Registrar may become an
7 Owner of Bonds with the same rights it would have if it were not the Bond Registrar and, to the
8 extent permitted by law, may act as depository for and permit any of its officers or directors to
9 act as members of, or in any other capacity with respect to, any committee formed to protect the
10 rights of Owners.

11 Bonds surrendered to the Bond Registrar may be exchanged for Bonds in any Authorized
12 Denomination of an equal aggregate principal amount and of the same Series, interest rate and
13 maturity. Bonds may be transferred only if endorsed in the manner provided thereon and
14 surrendered to the Bond Registrar. Any exchange or transfer shall be without cost to an Owner or
15 transferee. The Bond Registrar shall not be obligated to exchange or transfer any Bond during
16 the period between the Record Date and the corresponding interest or principal payment date or
17 redemption date.

18 (c) **Securities Depository; Book-Entry Form.** The Bonds initially shall be registered in
19 the name of the Securities Depository. The Bonds so registered shall be held fully immobilized
20 in book-entry form by the Securities Depository in accordance with the provisions of the Letter
21 of Representations. Neither the City nor the Bond Registrar shall have any responsibility or
22 obligation to participants of the Securities Depository or the persons for whom they act as
23 nominees with respect to the Bonds regarding accuracy of any records maintained by the

1 Securities Depository or its participants of any amount in respect of principal of or interest on the
2 Bonds, or any notice which is permitted or required to be given to Registered Owners hereunder
3 (except such notice as is required to be given by the Bond Registrar to the Securities
4 Depository). Registered ownership of a Bond initially held in book-entry form, or any portion
5 thereof, may not be transferred except: (i) to any successor Securities Depository; (ii) to any
6 substitute Securities Depository appointed by the City or such substitute Securities Depository's
7 successor; or (iii) to any person if the Bond is no longer held in book-entry form.

8 Upon the resignation of the Securities Depository from its functions as depository, or
9 upon a determination by the City to discontinue services of the Securities Depository, the City
10 may appoint a substitute Securities Depository. If (i) the Securities Depository resigns from its
11 functions as depository and no substitute Securities Depository can be obtained, or (ii) the City
12 determines that the Bonds are to be in certificated form, the ownership of Bonds may be
13 transferred to any person as provided herein and the Bonds no longer shall be held in book-entry
14 form.

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

22 Section 7. **Payment of Bonds.** The Bonds shall be payable solely out of the Parity Bond
23 Fund, in lawful money of the United States, and shall not be general obligations of the City.

1 Principal of and interest on each Bond registered in the name of the Securities Depository is
2 payable in the manner set forth in the Letter of Representations. Interest on each Bond not
3 registered in the name of the Securities Depository is payable by electronic transfer on the
4 interest payment date, or by check or draft of the Bond Registrar mailed on the interest payment
5 date to the Registered Owner at the address appearing on the Bond Register on the Record Date.
6 The City, however, is not required to make electronic transfers except pursuant to a request by a
7 Registered Owner in writing received at least ten days prior to the Record Date and at the sole
8 expense of the Registered Owner. Principal of each Bond not registered in the name of the
9 Securities Depository is payable upon presentation and surrender of the Bond by the Registered
10 Owner to the Bond Registrar. The Bonds are not subject to acceleration under any circumstances.

11 Section 8. **Redemption and Purchase of Bonds.**

12 (a) **Optional Redemption.** All or some of the Bonds may be subject to redemption prior
13 to their stated maturity dates at the option of the City at the times and on the terms approved in
14 accordance with Section 5.

15 (b) **Mandatory Redemption.** If not redeemed or purchased at the City's option prior to
16 maturity, Term Bonds (if any) shall be redeemed, at a price equal to the principal amount thereof
17 to be redeemed plus accrued interest, on the dates and in the years and Sinking Fund
18 Requirements as set forth in the Bond Resolution. If the City redeems or purchases Term Bonds
19 at the City's option prior to maturity, the Term Bonds so redeemed or purchased (irrespective of
20 their redemption or purchase prices) shall be credited at the par amount thereof against the
21 remaining Sinking Fund Requirements, as determined by the Director of Finance. In the absence
22 of a determination by the Director of Finance or other direction in the Bond Resolution, credit
23 shall be allocated on a pro rata basis. In addition, the Bond Resolution may set forth terms under

1 which a Bond may be subject to extraordinary mandatory redemption prior to maturity upon the
2 occurrence of an extraordinary event, at the price, in principal amounts and on the dates set forth
3 therein.

4 (c) **Selection of Bonds for Redemption; Partial Redemption.** If fewer than all of the
5 outstanding Bonds of a Series are to be redeemed at the option of the City, the Director of
6 Finance shall select the Series and maturity or maturities to be redeemed. If fewer than all of the
7 outstanding Bonds of a maturity of a Series are to be redeemed, the Securities Depository shall
8 select Bonds registered in the name of the Securities Depository to be redeemed in accordance
9 with the Letter of Representations and the Bond Registrar shall select all other Bonds of the
10 Series to be redeemed randomly in such manner as the Bond Registrar shall determine. All or a
11 portion of the principal amount of any Bond that is to be redeemed may be redeemed in any
12 Authorized Denomination. If less than all of the outstanding principal amount of any Bond is
13 redeemed, upon surrender of that Bond to the Bond Registrar there shall be issued to the
14 Registered Owner, without charge, a new Bond (or Bonds, at the option of the Registered
15 Owner) of the same Series, maturity and interest rate in any Authorized Denomination in the
16 aggregate principal amount to remain outstanding.

17 (d) **Purchase.** The City reserves the right and option to purchase any or all of the Bonds
18 at any time at any price acceptable to the City plus accrued interest to the date of purchase.

19 Section 9. **Notice of Redemption.** Unless otherwise set forth in the Bond Resolution, the
20 City shall cause notice of any intended redemption of Bonds to be given not less than 20 nor
21 more than 60 days prior to the date fixed for redemption by first-class mail, postage prepaid, to
22 the Registered Owner of any Bond to be redeemed at the address appearing on the Bond Register
23 on the Record Date, and the requirements of this sentence shall be deemed to have been fulfilled

1 when notice has been mailed as so provided, whether or not it is actually received by the
2 Registered Owner of any Bond. Interest on Bonds called for redemption shall cease to accrue on
3 the date fixed for redemption unless the Bond or Bonds called are not redeemed when presented
4 pursuant to the call.

5 In the case of an optional redemption, the notice may state that the City retains the right
6 to rescind the redemption notice and the related optional redemption of Bonds by giving a notice
7 of rescission to the affected Registered Owners at any time prior to the scheduled optional
8 redemption date. Any notice of optional redemption that is rescinded by the Director of Finance
9 shall be of no effect, and the Bonds for which the notice of optional redemption has been
10 rescinded shall remain outstanding.

11 Section 10. **Failure to Pay Bonds.** Except as otherwise provided in the Bond Resolution,
12 if any Bond is not paid when properly presented at its maturity or redemption date, the City shall
13 be obligated to pay, solely from the Parity Bond Fund and the other sources pledged in this
14 ordinance, interest on that Bond at the same rate provided in that Bond from and after its
15 maturity or redemption date until that Bond, principal, premium, if any, and interest, is paid in
16 full or until sufficient money for its payment in full is on deposit in the Parity Bond Fund and
17 that Bond has been called for payment by giving notice of that call to the Registered Owner of
18 that Bond.

19 Section 11. **Form and Execution of Bonds.** The Bonds shall be typed, printed or
20 reproduced in a form consistent with the provisions of this ordinance, the Bond Resolution and
21 State law; shall be signed by the Mayor and Director of Finance, either or both of whose
22 signatures may be manual or in facsimile; and the seal of the City or a facsimile reproduction
23 thereof shall be impressed or printed thereon.

1 Only Bonds bearing a certificate of authentication in substantially the following form
2 (with the designation, year and Series of the Bonds adjusted consistent with this ordinance),
3 manually signed by the Bond Registrar, shall be valid or obligatory for any purpose or entitled to
4 the benefits of this ordinance: “This Bond is one of the fully registered The City of Seattle,
5 Washington, [Municipal Light and Power Improvement Revenue Bonds], [Year], [Series],
6 described in [this ordinance].” The authorized signing of a certificate of authentication shall be
7 conclusive evidence that the Bond so authenticated has been duly executed, authenticated and
8 delivered and is entitled to the benefits of this ordinance.

9 If any officer whose manual or facsimile signature appears on a Bond ceases to be an
10 officer of the City authorized to sign bonds before the Bond bearing his or her manual or
11 facsimile signature is authenticated or delivered by the Bond Registrar or issued by the City, that
12 Bond nevertheless may be authenticated, delivered and issued and, when authenticated, issued
13 and delivered, shall be as binding on the City as though that person had continued to be an
14 officer of the City authorized to sign bonds. Any Bond also may be signed on behalf of the City
15 by any person who, on the actual date of signing of the Bond, is an officer of the City authorized
16 to sign bonds, although he or she did not hold the required office on the date of issuance of the
17 Bonds.

18 Section 12. **Security for the Bonds; Parity with other Bonds.** The Bonds shall be
19 special limited obligations of the City payable from and secured solely by Gross Revenues and
20 by money in the Parity Bond Fund and the Reserve Fund. Gross Revenues are pledged to make
21 the payments into the Parity Bond Fund and the Reserve Fund required by Section 13(a) and
22 Section 13(b), which pledge shall constitute a lien and charge upon such Gross Revenues prior

1 and superior to all other charges whatsoever, save and except reasonable charges for
2 maintenance and operation of the Light System.

3 The Bonds shall be on a parity with the Outstanding Parity Bonds and all Future Parity
4 Bonds, without regard to date of issuance or authorization and without preference or priority of
5 right or lien with respect to participation of special funds in amounts from Gross Revenues for
6 payment thereof. Nothing contained herein shall prevent the City from issuing revenue bonds or
7 other obligations which are a charge or lien upon Gross Revenues subordinate to the payments
8 required to be made from Gross Revenues into the Parity Bond Fund and the accounts therein.

9 The Bonds shall not constitute general obligations of the City, the State or any political
10 subdivision of the State or a charge upon any general fund or upon any money or other property
11 of the City, the State or any political subdivision of the State not specifically pledged by this
12 ordinance.

13 Section 13. **Bond Covenants.**

14 (a) **Parity Bond Fund.** The Parity Bond Fund has been previously created for the sole
15 purpose of paying the principal of and interest on the Parity Bonds as the same shall become due.
16 The Bonds shall be payable (including principal, Sinking Fund Requirements, redemption
17 premium (if any) and interest) out of the Parity Bond Fund. So long as any Parity Bonds or
18 Parity Payment Agreements are outstanding, the Director of Finance shall set aside and pay into
19 the Parity Bond Fund on or prior to the respective dates on which such payments shall become
20 due and payable certain fixed amounts out of Gross Revenues sufficient to make such payments
21 as the same shall become due. Money in the Parity Bond Fund shall, to the fullest extent
22 practicable and reasonable, be invested and reinvested at the direction of the Director of Finance
23 solely in, and obligations deposited in such accounts shall consist of, Permitted Investments.

1 Earnings on money and investments in the Parity Bond Fund shall be deposited in and used for
2 the purposes of that fund.

3 (b) **Reserve Fund.** The Reserve Fund has been previously created for the purpose of
4 securing the payment of the principal of and interest on all Parity Bonds and all amounts due
5 under any Parity Payment Agreements. Money held in the Reserve Fund shall, to the fullest
6 extent practicable and reasonable, be invested and reinvested at the direction of the Director of
7 Finance solely in, and obligations deposited in such accounts shall consist of, Permitted
8 Investments. Earnings on money and investments in the Reserve Fund shall be deposited in that
9 fund and credited against amounts required to be deposited therein until the Reserve Fund is
10 fully funded, and thereafter such earnings shall be deposited in the Parity Bond Fund.

11 (i) **Reserve Fund Requirement.** Each Bond Resolution shall establish the
12 Reserve Fund Requirement, if any, for all Bonds issued thereunder and the method for providing
13 for such Reserve Requirement.

14 (A) In the Parity Bond Legislation authorizing the issuance of any Future
15 Parity Bonds, the City shall provide for deposit into the Reserve Fund out of Gross Revenues (or
16 out of any other legally available funds, including proceeds of Parity Bonds) at one time on the
17 Issue Date or in periodic payments so that by five years from the date of such Future Parity
18 Bonds there will have been paid into the Reserve Fund an amount which, together with the
19 money already on deposit therein, will be at least equal to the Reserve Fund Requirement for all
20 Parity Bonds outstanding at the end of that five-year period.

21 (B) Notwithstanding the foregoing, any Parity Bond Legislation may
22 provide for the City to obtain one or more Alternate Reserve Securities for specific amounts
23 required to be paid into the Reserve Fund. The amount available to be drawn upon under each

1 such Alternate Reserve Security shall be credited against the amounts required to be maintained
2 in the Reserve Fund by paragraph (A) of this subsection.

3 (C) An Alternate Reserve Security may not be cancelable on less than five
4 years' notice. In the event of receipt of any notice of cancellation, the City shall substitute an
5 Alternate Reserve Security in the amount required pursuant to paragraph (A) of this subsection,
6 or in the alternative shall create a special account in the Light Fund and deposit therein, on or
7 before the 25th day of each of the 60 succeeding calendar months, 1/60th of the amount sufficient,
8 together with other money and investments on deposit in the Reserve Fund, to equal the Reserve
9 Fund Requirement on the date any such cancellation shall become effective. Such amounts shall
10 be transferred from money in the Light Fund (after making provision for payment of operating
11 and maintenance expenses and for the required payments into the Parity Bond Fund). Amounts
12 on deposit in such special account shall not be available to pay debt service on Parity Bonds or
13 for any other purpose of the City, and shall be transferred to the Reserve Fund on the effective
14 date of any cancellation of the Alternate Reserve Security to make up the deficiency caused
15 thereby. Amounts in that special account or in the Reserve Fund may be transferred back to the
16 Light Fund and used for any purpose if and when a substitute Alternate Reserve Security is
17 obtained.

18 (D) If the amount in the Reserve Fund is less than the Reserve Fund
19 Requirement (taking into account the five-year period referred to in paragraph (A) of this
20 subsection), the City shall transfer to the Reserve Fund money in an amount sufficient to restore
21 the Reserve Fund to the Reserve Fund Requirement within 12 months after the date of such
22 deficiency. The City shall transfer such amounts first from money in the Light Fund (after
23 making provision for payment of operating and maintenance expenses and for the required

1 payments into the Parity Bond Fund) and only thereafter from money in any construction fund or
2 account established with respect to any issue of Parity Bonds, first taking money from the
3 unrestricted portion thereof, then taking money from the restricted portion thereof. If the amount
4 in the Reserve Fund is greater than the Reserve Fund Requirement, then and only then may the
5 City withdraw such excess from the Reserve Fund and deposit such excess in the Light Fund.

6 (ii) **Use of Reserve Fund for Refunding Bonds.** If any Parity Bonds are
7 refunded, the money set aside in the Reserve Fund to secure the payment of such Parity Bonds
8 may be used to retire such Parity Bonds or may be transferred to any reserve fund or account
9 which may be created to secure the payment of any bonds issued to refund such Parity Bonds, as
10 long as the money left remaining in the Reserve Fund is at least equal, together with all Alternate
11 Reserve Securities, to the Reserve Fund Requirement.

12 (iii) **Use of Reserve Fund for Payment of Debt Service.** If the money in the
13 Parity Bond Fund is insufficient to meet maturing installments of either interest on or principal
14 of and interest on the Parity Bonds (including amounts payable under any Parity Payment
15 Agreements), such deficiency shall be made up from the Reserve Fund by the withdrawal of
16 money or proceeds of Alternate Reserve Securities, as the case may be. Any deficiency created
17 in the Reserve Fund by reason of any such withdrawal or claim against an Alternate Reserve
18 Security shall then be made up out of Net Revenue or out of any other legally available funds of
19 the City.

20 (iv) **Withdrawals From Reserve Fund.** Money in the Reserve Fund may be
21 withdrawn by the City for any lawful purpose as long as the aggregate of any money and
22 Alternate Reserve Securities remaining on deposit in the Reserve Fund is at least equal to the
23 Reserve Fund Requirement for the Parity Bonds then outstanding. The City reserves the right to

1 substitute one or more Alternate Reserve Securities for money previously deposited in the
2 Reserve Fund and to withdraw such excess to the extent described in the preceding sentence.
3 Any withdrawals from subaccounts within the Reserve Fund shall be made on a pro rata basis,
4 except when the terms of an Alternate Reserve Security require all cash and investments in the
5 Reserve Fund to be withdrawn before any draw or claim is made on the Alternate Reserve
6 Security, or unless the City receives an opinion of Bond Counsel to the effect that such pro rata
7 withdrawal is not required to maintain the federal tax benefits (if any) of any then outstanding
8 Parity Bonds issued as Tax-Exempt Bonds or Tax Credit Subsidy Bonds.

9 **(c) Sale or Disposition of the Light System.**

10 (i) The City may dispose of all or substantially all of the Light System if the City
11 simultaneously causes all of the Parity Bonds to be, or be deemed to be, no longer outstanding.

12 (ii) Except as provided below, the City will not dispose of any part of the Light
13 System in excess of 5% of the value of the net utility plant of the Light System in service unless
14 prior to such disposition:

15 (A) there has been filed with the Director of Finance a certificate of the
16 Professional Utility Consultant stating that such disposition will not impair the ability of the City
17 to comply with the rate covenant set forth in Section 13(d); or

18 (B) provision is made for the payment, redemption or other retirement of a
19 principal amount of Parity Bonds equal to the greater of the following amounts: (1) an amount
20 which will be in the same proportion to the net principal amount of Parity Bonds then
21 outstanding (defined as the total principal amount of Parity Bonds then outstanding less the
22 amount of cash and investments in the Parity Bond Fund) that Gross Revenues for the 12
23 preceding months attributable to the part of the Light System sold or disposed of bears to the

1 total Gross Revenues for such period; or (2) an amount which will be in the same proportion to
2 the net principal amount of Parity Bonds then outstanding that the book value of the part of the
3 Light System sold or disposed of bears to the book value of the entire Light System immediately
4 prior to such sale or disposition.

5 (iii) The City may dispose of any portion of the Light System that has become
6 unserviceable, inadequate, obsolete, worn out or unfit to be used or no longer necessary, material
7 to or useful in the operation of the Light System.

8 (iv) If the ownership of all or part of the Light System is transferred from the City
9 through the operation of law, the City shall reconstruct or replace the transferred portion using
10 any proceeds of the transfer unless the City Council determines that such reconstruction or
11 replacement is not in the best interests of the City and the Owners of the Parity Bonds, in which
12 case any proceeds shall be used to retire Parity Bonds prior to maturity.

13 (d) **Rates and Charges.** The City will establish from time to time and maintain such rates
14 for electric energy as will maintain the Light System in sound financial condition and provide
15 sufficient revenues to pay into the Parity Bond Fund the amounts that are required by this
16 ordinance to be applied to the payment of the principal of and interest on the Parity Bonds until
17 the Parity Bonds shall have been paid in full, to pay all costs of operation and maintenance and
18 to pay all bonds, warrants and indebtedness for which any revenues of the Light System shall
19 have been pledged.

20 (e) **Maintenance and Operation of the Light System.** The City will operate the
21 properties of the Light System in an efficient manner and at a reasonable cost; and will maintain,
22 preserve and keep, or cause to be maintained, preserved and kept, the properties of the Light
23 System and every part and parcel thereof in good repair, working order and condition; and from

1 time to time will make or cause to be made all necessary and proper repairs, renewals and
2 replacements thereto so that at all times the business carried on in connection therewith will be
3 properly and advantageously conducted.

4 **(f) Books and Financial Statements.** The City will keep and maintain proper books of
5 account for the Light System in accordance with generally accepted accounting principles
6 applicable to governmental utilities; will generally adhere to the uniform system of accounts
7 prescribed by the State Auditor's Office and the Federal Energy Regulatory Commission (if
8 any); and will prepare, on or before 120 days after each calendar year, annual financial
9 statements showing reasonable detail, including a balance sheet, an income statement and a
10 statement of cash flows or other such statement. Copies of such financial statements shall be
11 placed on file in the office of the Director of Finance and shall be open to inspection at any
12 reasonable time by any owner of any Parity Bonds. A copy of such financial statements shall be
13 sent to any owner of Parity Bonds upon request in writing setting forth the name and address to
14 which such financial statements may be sent.

15 **(g) Issuance of Future Parity Bonds.** Except as provided in Section 13(h) for the
16 issuance of Refunding Parity Bonds, Future Parity Bonds may be issued (and Parity Payment
17 Agreements may be entered into), from time to time in one or more series for any lawful purpose
18 of the City's Light Department, only if at the time of delivery of each series of Future Parity
19 Bonds to the initial purchasers thereof (or on the effective date of the Parity Payment
20 Agreement):

21 **(i)** There is no deficiency in the Parity Bond Fund or in any of the accounts
22 therein and provision has been made to meet the Reserve Fund Requirement for all Parity Bonds
23 then outstanding plus such proposed series of Parity Bonds; and

1 (ii) There shall have been filed with the City either:

2 (A) a certificate of the Director of Finance stating that Net Revenue in any
3 12 consecutive months out of the most recent 24 months preceding the delivery of the proposed
4 series of Parity Bonds (the "Base Period") was not less than 125% of maximum Annual Debt
5 Service in any future calendar year on all Parity Bonds then outstanding and the proposed series
6 of Parity Bonds (except that if any adjustment in the rates, fees and charges for the services of
7 the Light System will be effective at any time prior to or within six months after the delivery of
8 the proposed Parity Bonds, the Director of Finance shall reflect in his or her certificate the Net
9 Revenue he or she calculates would have been collected in the Base Period if such new rates,
10 fees and charges had been in effect for the entire Base Period), or

11 (B) a certificate of the Professional Utility Consultant setting forth: (1) the
12 amount of the Adjusted Net Revenue computed as provided in paragraph (iii) below; (2) the
13 amount of maximum Annual Debt Service in any calendar year thereafter on account of all
14 Parity Bonds to be outstanding in such calendar year, including the Parity Bonds proposed to be
15 issued, and stating that the amount shown in subparagraph (B)(1) above is not less than 125% of
16 the amount shown in this subparagraph (B)(2).

17 (iii) For the purposes of the certificate required by paragraph (ii) above, Adjusted
18 Net Revenue shall be computed by the Professional Utility Consultant by adjusting the Net
19 Revenue for the Base Period by any or all of the following conditions and requirements as may
20 be appropriate to the circumstances:

21 (A) If the Parity Bonds are being issued for the purpose of acquiring
22 operating electric utility properties having an earnings record, the Professional Utility Consultant
23 shall estimate the effect on the Net Revenue for the Base Period of the acquisition of such

1 electric utility properties and the integration thereof into the Light System, and shall adjust the
2 Net Revenue for the Base Period to give effect to such estimate. Any such estimate shall be
3 based upon the operating experience and records of the City and upon any available financial
4 statements and records relating to the earnings of such electric utility properties to be acquired.

5 (B) If any changes have been adopted by the City Council and are in effect
6 on the date of sale of the Parity Bonds or are to go into effect not later than 12 months after such
7 date, in any rates and charges imposed by the City on sales of power and energy and other
8 services furnished by the Light System, which were not in effect during the entire Base Period,
9 the Professional Utility Consultant may, if such changes resulted in increases in such rates and
10 charges, and shall, if such changes resulted in reductions in such rates and charges, adjust Net
11 Revenue for the Base Period to reflect any change in such Net Revenue that would have occurred
12 if the changed rates and charges had been in effect during the entire Base Period.

13 (C) If the purpose for which the Parity Bonds are being issued is to acquire
14 or construct generation or transmission facilities required to furnish or make available to the
15 Light System additional power and energy, or transmission facilities required to enable the City
16 to sell additional power and energy, the Professional Utility Consultant may adjust Net Revenue
17 for the Base Period by (1) deducting the amount of the estimated increase in operating and
18 maintenance expenses resulting from the acquisition or construction of such facilities in their
19 first year of full operation, (2) adding any additional revenues to be derived from the sale or
20 transmission of such additional power and energy pursuant to executed power sales contracts,
21 and (3) adding an amount equal to the estimated cost of the power and energy which would have
22 been replaced or displaced by such facilities had such additional power and energy in excess of

1 the power and energy to be sold pursuant to clause (2) above been used in the Light System
2 during the Base Period.

3 (D) If there were any customers added to the Light System during the
4 Base Period or thereafter and prior to the date of the Professional Utility Consultant's certificate,
5 Net Revenue may be adjusted on the basis that such added customers were customers of the
6 Light System during the entire Base Period.

7 (E) If extensions of or additions to the Light System (not described in
8 subparagraph (C) above) are in the process of construction on the date of the Professional Utility
9 Consultant's certificate, or if the proceeds of the Parity Bonds being issued are to be used to
10 acquire or construct extensions of or additions to the Light System (not described in
11 subparagraph (C) above), the Net Revenue for the Base Period may be adjusted by adding any
12 additional revenues not included in the preceding paragraphs that will be derived from such
13 additions and extensions and deducting the estimated increase in operating and maintenance
14 expenses resulting from such additions and extensions.

15 (F) The Net Revenue for the Base Period may be adjusted by excluding
16 from the determination of expenses of operation, maintenance and repair of the Light System any
17 extraordinary, nonrecurring expenses of the Light System or any judgments or amounts to be
18 paid in settlement of claims against the Light System.

19 (iv) In rendering any certificate under this Section 13(g), the Professional Utility
20 Consultant may rely upon, and such certificate shall have attached thereto, (A) financial
21 statements of the Light System, certified by the Director of Finance, showing income and
22 expenses for the period upon which the same are based and a balance sheet as of the end of such
23 period, (B) similar certified statements by the Division of Municipal Corporations of the Office

1 of the State Auditor of the State (or any successor thereto), or (C) similar certified statements by
2 a Certified Public Accountant for as much of such period as any examination by them has been
3 made and completed. If two or more of such statements are inconsistent with each other, the
4 Professional Utility Consultant shall rely on the statement described under clause (A) in this
5 Section 13(g)(iv).

6 **(h) Issuance of Refunding Parity Bonds.**

7 (i) Without complying with the provisions of Section 13(g), the City may at any
8 time and from time to time issue one or more series of Refunding Parity Bonds, but only if there
9 shall have been filed with the City a certificate of the Director of Finance stating that Annual
10 Debt Service immediately after the issuance of such Refunding Parity Bonds (calculated by
11 including debt service on the Refunding Parity Bonds but excluding debt service on the bonds to
12 be refunded with the proceeds thereof) does not exceed the Annual Debt Service immediately
13 prior to the issuance of the Refunding Parity Bonds (calculated by including debt service on the
14 bonds to be refunded but excluding debt service on the Refunding Parity Bonds) by more than
15 \$5,000 in any calendar year that any then-outstanding Parity Bonds are anticipated to be
16 outstanding.

17 (ii) Parity Bonds of any one or more series or one or more maturities within a
18 series may be refunded by a single series of Refunding Parity Bonds, which Refundable Bonds
19 shall be specified in the Parity Bond Legislation providing for the issuance of the Refunding
20 Parity Bonds, and the principal amount of such Refunding Parity Bonds may include amounts
21 necessary to pay the principal of the Parity Bonds to be refunded, interest thereon to the date of
22 payment or redemption thereof, any premium payable thereon upon such payment or redemption
23 and the costs of issuance of such Refunding Parity Bonds. The proceeds of the Refunding Parity

1 Bonds shall be held and applied in such manner as is provided in the Parity Bond Legislation
2 providing for the issuance of such Refunding Parity Bonds, so that upon the delivery of such
3 Refunding Parity Bonds the Parity Bonds to be refunded thereby shall be deemed to be no longer
4 outstanding in accordance with the provisions of the Parity Bond Legislation providing for the
5 issuance of those Parity Bonds.

6 (iii) Refunding Parity Bonds may also be issued upon compliance with the
7 provisions of Section 13(g).

8 (iv) Nothing contained in this ordinance shall prohibit or prevent, or be deemed or
9 construed to prohibit or prevent, the City from issuing Refunding Parity Bonds to fund or refund
10 maturing Parity Bonds of the City for the payment of which money is not otherwise available.

11 Section 14. **Provisions Relating to Certain Federal Tax Consequences of the Bonds.**

12 (a) **Tax-Exempt Bonds.** The City covenants that it will take all actions consistent with
13 the terms of any Series issued as Tax-Exempt Bonds, this ordinance and the Bond Resolution,
14 reasonably within its power and necessary to prevent interest on that Series from being included
15 in gross income for federal income tax purposes, and the City will neither take any action nor
16 make or permit any use of proceeds of such Series or other funds of the City treated as proceeds
17 of the Series at any time during the term of the Series that will cause interest on the Series to be
18 included in gross income for federal income tax purposes. The City also covenants that it will, to
19 the extent the arbitrage rebate requirement of Section 148 of the Code is applicable to any Series
20 issued as Tax-Exempt Bonds, take all actions necessary to comply (or to be treated as having
21 complied) with that requirement in connection with that Series, including the calculation and
22 payment of any penalties that the City has elected to pay as an alternative to calculating rebatable
23 arbitrage, and the payment of any other penalties if required under Section 148 of the Code to

1 prevent interest on such Series from being included in gross income for federal income tax
2 purposes.

3 (b) **Tax Credit Subsidy Bonds or other Taxable Bonds.** The Director of Finance may,
4 without further action by the City Council, make provision in the Bonds or other written
5 document for such additional covenants of the City as may be necessary or appropriate in order
6 for the City to receive from the United States Treasury the applicable Tax Credit Subsidy
7 Payments in respect of any Series of the Bonds issued as Tax Credit Subsidy Bonds or otherwise
8 become and remain eligible for tax benefits under the Code.

9 Section 15. **Refunding or Defeasance of Bonds.** The Bonds are hereby designated
10 “Refundable Bonds” for purposes of the Omnibus Refunding Bond Ordinance. The City may
11 issue refunding bonds pursuant to the laws of the State or use money available from any other
12 lawful source to pay when due the principal of and premium, if any, and interest on any Bond, or
13 any portion thereof, included in a refunding or defeasance plan, and to redeem and retire, release,
14 refund or defease those Bonds (the “Defeased Bonds”) and to pay the costs of such refunding or
15 defeasance. If money and/or Government Obligations maturing at a time or times and in an
16 amount sufficient, together with known earned income from the investments thereof, to redeem
17 and retire, release, refund or defease the Defeased Bonds in accordance with their terms, are set
18 aside in a special trust fund or escrow account irrevocably pledged to such redemption,
19 retirement or defeasance (the “Trust Account”), then all right and interest of the Owners of the
20 Defeased Bonds in the covenants of this ordinance and in Gross Revenues and the funds and
21 accounts pledged to the payment of such Defeased Bonds, other than the right to receive the
22 funds so set aside and pledged, thereafter shall cease and become void. Such Owners thereafter
23 shall have the right to receive payment of the principal of and interest or redemption price on the

1 Defeased Bonds from the Trust Account. Unless otherwise specified in the Bond Resolution,
2 notice of refunding or defeasance shall be given, and selection of Bonds for any partial refunding
3 or defeasance shall be conducted, in the manner set forth in this ordinance for the redemption of
4 Bonds. After establishing and fully funding such a Trust Account, the Defeased Bonds shall be
5 deemed no longer outstanding and the City may apply any money in any other fund or account
6 established for the payment or redemption of the Defeased Bonds to any lawful purposes, subject
7 only to the rights of the Owners of any other Parity Bonds.

8 Section 16. **Amendments.**

9 (a) **Amendments Without Bond Owners' Consent.** The City Council from time to time
10 and at any time may pass supplemental resolutions or ordinances, which shall become a part of
11 this ordinance, for any one or more of the following purposes:

12 (i) To add other covenants and agreements that do not adversely affect the
13 interests of the owners of any Parity Bonds then outstanding, or to surrender any right or power
14 reserved to or conferred upon the City.

15 (ii) To cure any ambiguities or to cure, correct or supplement any defective
16 provision contained in this ordinance in regard to matters or questions arising under this
17 ordinance as the City Council may deem necessary or desirable and not inconsistent with this
18 ordinance and which do not materially adversely affect the interests of owners of any Parity
19 Bonds then outstanding.

20 (iii) To make such changes as are necessary to permit the Bonds to be held in
21 registered certificate form or in fully immobilized form by a Securities Depository.

22 Any such supplemental resolution or ordinance may be passed without the consent of the
23 registered owners of the Parity Bonds at the time outstanding, notwithstanding any of the

1 provisions of subsection (b) of this section, but only upon receipt by the City of an opinion of
2 Bond Counsel to the effect that the amendment is permitted by the terms of this ordinance. The
3 City shall deliver a copy of any such supplemental resolution or ordinance to each Rating
4 Agency prior to its passage by the City.

5 **(b) Amendments With Bond Owners' Consent.** The City Council may, with the
6 consent of the registered owners representing not less than 60% in aggregate principal amount of
7 the Parity Bonds then outstanding, pass supplemental resolutions or ordinances to add to, change,
8 or eliminate any provision of this ordinance or of any supplemental resolution or ordinance,
9 except no such supplemental resolution or ordinance may:

10 (i) Extend the fixed maturity of any Parity Bond, reduce the rate of interest on any
11 Parity Bond, extend the times of payment of interest from their respective due dates, reduce the
12 principal amount of any Parity Bond, or reduce any redemption premium, without consent from
13 the registered owners of or on behalf of all Parity Bonds so affected; or

14 (ii) Reduce the percentage of ownership required to approve any such
15 supplemental resolution or ordinance without the consent from the registered owners of or on
16 behalf of all of the Parity Bonds then outstanding.

17 For purposes of determining whether consents representing the requisite percentage of
18 principal amount of Parity Bonds have been obtained, the Accreted Value of Capital
19 Appreciation Bonds shall be deemed to be the principal amount. It shall not be necessary to
20 obtain approval of the particular form of any proposed supplemental resolution or ordinance, but
21 it shall be sufficient if the consent shall approve the substance thereof.

22 **(c) Special Amendments.** The Registered Owners from time to time of the Bonds, by
23 taking and holding the same, shall be deemed to have consented to the passage by the City

1 Council of any supplemental resolution or ordinance, which shall become a part of this
2 ordinance, for any one or more of the following purposes if and to the extent such consent is
3 determined to be necessary:

4 (i) Permit the reimbursement obligations of the City under any Qualified
5 Insurance or Qualified Letter of Credit (other than Qualified Insurance or a Qualified Letter of
6 Credit obtained to satisfy all or a part of the Reserve Fund Requirement) to be secured by a
7 charge and lien on Net Revenue of the Light System equal in rank with the charge and lien upon
8 such Net Revenue required to be paid into the Parity Bond Fund to pay and secure the payment
9 of the principal of and interest on Parity Bonds;

10 (ii) Permit the reimbursement obligations of the City under any Alternate Reserve
11 Security to be made by transfers from money in the Light Fund on a parity with the transfers to
12 be made to upon receipt of any notice of cancellation of an Alternate Reserve Security;

13 (iii) Provide, in calculating Annual Debt Service with respect to any series of
14 Parity Bonds, the aggregate principal amount of which becomes due and payable, either at
15 maturity for Serial Bonds or as a Sinking Fund Requirement for Term Bonds, in any calendar
16 year in an amount that constitutes 25% or more of the initial aggregate principal amount of such
17 series of Parity Bonds, that the principal of such series of Parity Bonds, together with interest
18 thereon at the rate or rates applicable to such series of Parity Bonds, may be amortized in equal
19 annual installments over a period equal to the longer of 30 years or the remaining term of such
20 series of Parity Bonds;

21 (iv) Provide that the amount of interest deemed to be payable on any series of
22 Variable Interest Rate Bonds shall be calculated on the assumption that the interest rate on those

1 Parity Bonds is equal to the highest 12-month rolling average of the SIFMA Municipal Swap
2 Index over the preceding 10 years.

3 (d) **Effect of Amendment.** Upon the passage of any supplemental resolution or
4 ordinance pursuant to the provisions of this section, this ordinance shall be deemed to be
5 modified and amended in accordance therewith, and the respective rights, duties and obligations
6 of the City under this ordinance shall thereafter be determined, exercised and enforced, subject in
7 all respects to such modification and amendments, and all the terms and conditions of any such
8 supplemental resolution or ordinance shall be deemed to be a part of the terms and conditions of
9 this ordinance for any and all purposes.

10 (e) **Notation on Bonds.** Parity Bonds executed and delivered after the execution of any
11 supplemental resolution or ordinance passed pursuant to the provisions of this section may have
12 a notation as to any matter provided for in such supplemental resolution or ordinance, and if such
13 supplemental resolution or ordinance shall so provide, new bonds modified to conform, in the
14 opinion of the City Council, to any modification of this ordinance contained in any such
15 supplemental resolution or ordinance may be prepared by the City and delivered without cost to
16 the owners of any affected Parity Bonds then outstanding, upon surrender for cancellation of
17 such bonds in equal aggregate principal amounts.

18 Section 17. **Rate Stabilization Account.** The City may at any time deposit in the Rate
19 Stabilization Account, Gross Revenues and any other money received by the Light System and
20 available to be used therefor. Thereafter, the City may withdraw any or all of the money from the
21 Rate Stabilization Account for inclusion in Net Revenue for any applicable year of the City.
22 Such deposits or withdrawals may be made up to and including the date 90 days after the end of
23 the applicable year for which the deposit or withdrawal will be included as Net Revenue.

1 Section 18. **Official Statement; Continuing Disclosure.**

2 (a) **Preliminary Official Statement.** The Director of Finance and other appropriate City
3 officials are directed to cause the preparation of and review the form of a preliminary official
4 statement in connection with each sale of one or more Series of the Bonds to the public. For the
5 sole purpose of the Purchaser's compliance with paragraph (b)(1) of Rule 15c2-12, the Director
6 of Finance is authorized to deem that preliminary official statement final as of its date, except for
7 the omission of information permitted to be omitted by Rule 15c2-12. The City approves the
8 distribution to potential purchasers of the Bonds of a preliminary official statement that has been
9 deemed final in accordance with this substitution.

10 (b) **Final Official Statement.** The City approves the preparation of a final official
11 statement for each sale of one or more Series of the Bonds to be sold to the public in the form of
12 the preliminary official statement with such modifications and amendments as the Director of
13 Finance deems necessary or desirable, and further authorizes the Director of Finance to execute
14 and deliver such final official statement to the Purchaser. The City authorizes and approves the
15 distribution by the Purchaser of that final official statement to purchasers and potential
16 purchasers of the Bonds.

17 (c) **Undertaking to Provide Continuing Disclosure.** To meet the requirements of
18 paragraph (b)(5) of Rule 15c2-12, as applicable to a participating underwriter for a Series of the
19 Bonds, the Director of Finance is authorized to execute a written Undertaking in substantially the
20 form attached as Exhibit B.

21 Section 19. **General Authorization.** In addition to the specific authorizations in this
22 ordinance, the Mayor and the Director of Finance and each of the other appropriate officers of
23 the City are each authorized and directed to do everything as in his or her judgment may be

1 necessary, appropriate, or desirable in order to carry out the terms and provisions of, and
2 complete the transactions contemplated by, this ordinance. In particular and without limiting the
3 foregoing:

4 (a) the Director of Finance may, in his or her discretion and without further action by the
5 City Council, (i) issue requests for proposals for underwriting or financing facilities and execute
6 engagement letters with underwriters, bond insurers or other financial institutions based on
7 responses to such requests; (ii) change the Bond Registrar or Securities Depository for the
8 Bonds; and (iii) take such actions on behalf of the City as are necessary or appropriate for the
9 City to designate, qualify or maintain the tax-exempt treatment with respect to any Series issued
10 as Tax-Exempt Bonds, to receive from the United States Treasury the applicable federal credit
11 payments in respect of any Series issued as Tax Credit Subsidy Bonds and to otherwise receive
12 any other federal tax benefits relating to the Bonds that are available to the City; and

13 (b) each of the Mayor and the Director of Finance is separately authorized to execute and
14 deliver (i) any and all contracts or other documents as are consistent with this ordinance and for
15 which the City's approval is necessary or to which the City is a party (including but not limited
16 to agreements with escrow agents, refunding trustees, liquidity or credit support providers, bond
17 insurers, remarketing agents, underwriters, lenders, fiscal agents, counterparties to Payment
18 Agreements, custodians, and the Bond Registrar); and (ii) such other contracts or documents
19 incidental to the issuance and sale of a Series of the Bonds; the establishment of the initial
20 interest rate or rates on a Bond; or the tender, purchase, remarketing, or redemption of a Bond, as
21 may in his or her judgment be necessary or appropriate.

22 Section 20. **Severability**. The provisions of this ordinance are declared to be separate and
23 severable. If a court of competent jurisdiction, all appeals having been exhausted or all appeal

1 periods having run, finds any provision of this ordinance to be invalid or unenforceable as to any
2 person or circumstance, such offending provision shall, if feasible, be deemed to be modified to
3 be within the limits of enforceability or validity. However, if the offending provision cannot be
4 so modified, it shall be null and void with respect to the particular person or circumstance, and
5 all other provisions of this ordinance in all other respects, and the offending provision with
6 respect to all other persons and all other circumstances, shall remain valid and enforceable.

7 Section 21. **Ratification of Prior Acts.** Any action taken after passage of this ordinance
8 but prior to its effective date, that is consistent with the authority of this ordinance, is ratified,
9 approved and confirmed.

10 Section 22. **Headings.** Section headings in this ordinance are used for convenience only
11 and shall not constitute a substantive portion of this ordinance.

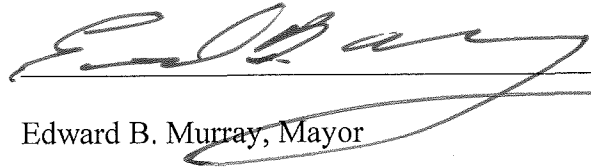
1 Section 23. **Effective Date.** This ordinance shall take effect and be in force 30 days after
2 its approval by the Mayor, but if not approved and returned by the Mayor within ten days after
3 presentation, it shall take effect as provided by Seattle Municipal Code Section 1.04.020.

4 Passed by the City Council the 21st day of November, 2016,
5 and signed by me in open session in authentication of its passage this 21st day of
6 November, 2016.

7 

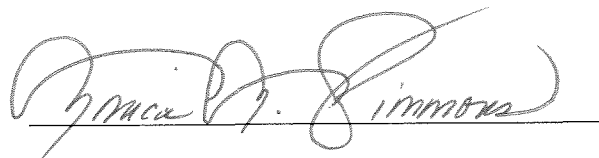
8 President _____ of the City Council

9 Approved by me this 28th day of November, 2016.

10 

11 Edward B. Murray, Mayor

12 Filed by me this 28th day of NOVEMBER, 2016.

13 

14 Monica Martinez Simmons, City Clerk

15 (Seal)

16
17 Attachments:

18 Exhibit A: Outstanding City Light Parity Bonds

19 Exhibit B: Form of Undertaking to Provide Continuing Disclosure

1
2

EXHIBIT A

OUTSTANDING CITY LIGHT PARITY BONDS

Issue Name	Dated Date	Original Par Amount	Bond Legislation		
			New Money Ord.	Refunding Ord.	Bond Sale Res.
Municipal Light and Power Improvement and Refunding Revenue Bonds, 2008	12/30/2008	\$257,375,000	Ord. 122807	Ord. 121941 (as amended by Ord. 122838)	Res. 31105
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 Improvement and Refunding Revenue Bonds, 2010B	5/26/2010	\$596,870,000	Ord. 123169	Ord. 121941 (as amended by Ord. 122838)	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

Issue Name	Dated Date	Original Par Amount	Bond Legislation		
			New Money Ord.	Refunding Ord.	Bond Sale Res.
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, 2015B-1 (SIFMA Index)	7/23/2015	\$50,000,000	Ord. 124633	--	Res. 31593
Municipal Light and Power Revenue Bonds, 2015B-2 (SIFMA Index)	7/23/2015	\$50,000,000	Ord. 124633	--	Res. 31593
Municipal Light and Power Revenue Bonds, 2016A (Taxable New Clean Renewable Energy Bonds – Direct Payment)	01/28/2016	\$31,870,000	124916	--	31646
Municipal Light and Power Refunding Revenue Bonds, 2016B	01/28/2016	\$116,875,000	124916	124335 (amending and restating Ord. 121941) as amended by Ord. 124916	31646

1

EXHIBIT B

FORM OF UNDERTAKING TO PROVIDE CONTINUING DISCLOSURE

The City of Seattle, Washington (the “City”) makes the following written Undertaking for the benefit of the Owners of the City’s [Municipal Light and Power Revenue Bonds, 2017][Series Designation] (the “Bonds”), for the sole purpose of assisting the Purchaser in meeting the requirements of paragraph (b)(5) of Rule 15c2-12, as applicable to a participating underwriter for the Bonds. Capitalized terms used but not defined below shall have the meanings given in Ordinance _____ and Resolution _____ (together, the “Bond Legislation”).

(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 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 subsection (b), so long as audited financial statements are 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

1 proposed or final determinations of taxability, Notice of Proposed Issue (IRS Form 5701 – TEB)
2 or other material notices or determinations with respect to the tax status of the Bonds, or other
3 material events affecting the tax status of the Bonds; (7) modifications to rights of holders of the
4 Bonds, if material; (8) bond calls (other than scheduled mandatory redemptions of Term Bonds),
5 if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property
6 securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency,
7 receivership or similar event of the City, as such “Bankruptcy Events” are defined in Rule 15c2-
8 12; (13) the consummation of a merger, consolidation, or acquisition involving the City or the sale
9 of all or substantially all of the assets of the City other than in the ordinary course of business, the
10 entry into a definitive agreement to undertake such an action or the termination of a definitive
11 agreement relating to any such actions, other than pursuant to its terms, if material; and (14)
12 appointment of a successor or additional trustee or the change of name of a trustee, if material.

13 (iii) Timely notice of a failure by the City to provide required annual financial
14 information on or before the date specified in subsection (b) of this section.

15 (b) Type of Annual Financial Information Undertaken to be Provided. The annual
16 financial information that the City undertakes to provide in subsection (a) of this section:

17 (i) Shall consist of (1) annual financial statements of the Light System
18 prepared in accordance with applicable generally accepted accounting principles applicable to
19 governmental units (except as otherwise noted herein), as such principles may be changed from
20 time to time and as permitted by State law; (2) a statement of outstanding bonded debt secured by
21 Gross Revenues of the Light System; (3) debt service coverage ratios for the bond debt secured by
22 Gross Revenues of the Light System; (4) sources of Light System power and the MWh produced

1 by those sources; and (5) the average number of customers, revenues, and energy sales by customer
2 class;

3 (ii) Shall be provided not later than the last day of the ninth month after the end
4 of each fiscal year of the City (currently, a fiscal year ending December 31), as such fiscal year
5 may be changed as required or permitted by State law, commencing with the City's fiscal year
6 ending December 31, 20__; and

7 (iii) May be provided in a single document or multiple documents, and may be
8 incorporated by specific reference to documents available to the public on the Internet website of
9 the MSRB or filed with the SEC.

10 (c) Amendment of Undertaking. This Undertaking is subject to amendment after the
11 primary offering of the Bonds without the consent of any Owner or holder of any Bond, or of any
12 broker, dealer, municipal securities dealer, participating underwriter, rating agency or the MSRB,
13 under the circumstances and in the manner permitted by Rule 15c2-12. The City will give notice
14 to the MSRB of the substance (or provide a copy) of any amendment to this Undertaking and a
15 brief statement of the reasons for the amendment. If the amendment changes the type of annual
16 financial information to be provided, the annual financial information containing the amended
17 financial information will include a narrative explanation of the effect of that change on the type
18 of information to be provided.

19 (d) Beneficiaries. The Undertaking evidenced by this section shall inure to the benefit
20 of the City and any Beneficial Owner of Bonds, and shall not inure to the benefit of or create any
21 rights in any other person.

22 (e) Termination of Undertaking. The City's obligations under this Undertaking shall
23 terminate upon the legal defeasance, prior redemption, or payment in full of all of the Bonds. In

1 addition, the City's obligations under this Undertaking shall terminate if those provisions of
2 Rule 15c2-12 which require the City to comply with this Undertaking become legally inapplicable
3 in respect of the Bonds for any reason, as confirmed by an opinion of nationally recognized bond
4 counsel or other counsel familiar with federal securities laws delivered to the City, and the City
5 provides timely notice of such termination to the MSRB.

6 (f) Remedy for Failure to Comply with Undertaking. As soon as practicable after the
7 City learns of any material failure to comply with the Undertaking, the City will proceed with due
8 diligence to cause such noncompliance to be corrected. No failure by the City or other obligated
9 person to comply with this Undertaking shall constitute a default in respect of the Bonds. The sole
10 remedy of any Owner of a Bond shall be to take such actions as that Owner deems necessary,
11 including seeking an order of specific performance from an appropriate court, to compel the City
12 or other obligated person to comply with the Undertaking.

13 (g) Designation of Official Responsible to Administer Undertaking. The Director of
14 Finance of the City (or such other officer of the City who may in the future perform the duties of
15 that office) or his or her designee is the person designated, in accordance with the Bond
16 Legislation, to carry out the Undertaking of the City in respect of the Bonds set forth in this section
17 and in accordance with Rule 15c2-12, including, without limitation, the following actions:

18 (i) Preparing and filing the annual financial information undertaken to be
19 provided;

20 (ii) Determining whether any event specified in subsection (a) has occurred,
21 assessing its materiality, where necessary, with respect to the Bonds, and preparing and
22 disseminating any required notice of its occurrence;

1 (iii) Determining whether any person other than the City is an “obligated
2 person” within the meaning of Rule 15c2-12 with respect to the Bonds, and obtaining from such
3 person an undertaking to provide any annual financial information and notice of listed events for
4 that person in accordance with Rule 15c2-12;

5 (iv) Selecting, engaging and compensating designated agents and consultants,
6 including but not limited to financial advisors and legal counsel, to assist and advise the City in
7 carrying out the Undertaking; and

8 (v) Effecting any necessary amendment of the Undertaking.
9

APPENDIX B
FORM OF BOND COUNSEL OPINION

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SANTA BARBARA
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RENO
WASHINGTON
SEATTLE

[Date of Approving Opinion]

The City of Seattle, Washington

Re: The City of Seattle, Washington, \$385,530,000
Municipal Light and Power Improvement and Refunding Revenue Bonds, 2017C

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 “2017C 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 2017C 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 2017C Bonds are issued pursuant to the laws of the State of Washington and Ordinance 125198, Ordinance 124335, as amended by Ordinance 124916, and Resolution 31771 (collectively, the “Bond Legislation”) to provide the funds (i) to finance certain capital improvements to the Light System; (ii) to refund certain of the City’s outstanding Municipal Light and Power bonds, (iii) to fund a deposit to the Reserve Fund (if necessary), and (iv) to pay the costs of issuing the 2017C Bonds and the administrative costs of the refunding, all as set forth in the Bond Legislation.

Reference is made to the Bond Legislation for the definitions of capitalized terms used and not otherwise defined herein.

The 2017C Bonds are special limited obligations of the City payable from and secured solely by the Gross Revenues 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 Gross Revenues have been pledged to make the required payments into the Parity Bond Fund and the Reserve Fund, which pledge constitutes a charge on the Gross Revenues prior and superior to all other charges whatsoever, except reasonable charges for maintenance and operation of the Light System, and except that the 2017C Bonds shall have a lien and charge upon such Gross Revenues 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 2017C Bonds in order to maintain the exclusion of the interest on the 2017C Bonds from gross income for federal income tax purposes,

including, without limitation, requirements concerning the qualified use of 2017C Bond proceeds and the facilities financed or refinanced with 2017C Bond proceeds, limitations on investing gross proceeds of the 2017C Bonds in higher yielding investments in certain circumstances and the arbitrage rebate requirement to the extent applicable to the 2017C Bonds. The City has covenanted in the Bond Legislation to comply with those requirements, but if the City fails to comply with those requirements, interest on the 2017C Bonds could become taxable retroactive to the date of issuance of the 2017C 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 2017C 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 Legislation and the 2017C 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 Legislation and other ordinances and resolutions of the City relating thereto;
3. The 2017C 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 2017C Bonds are not general obligations of the City; and
5. Assuming compliance by the City after the date of issuance of the 2017C Bonds with applicable requirements of the Code, the interest on the 2017C Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the alternative minimum tax applicable to individuals; however, while interest on the 2017C Bonds also is not an item of tax preference for purposes of the alternative minimum tax applicable to corporations, interest on the 2017C Bonds received by corporations is to be taken into account in the computation of adjusted current earnings for purposes of the alternative minimum tax applicable to corporations, interest on the 2017C Bonds received by certain S corporations may be subject to tax, and interest on the 2017C Bonds received by foreign corporations with United States branches may be subject to a foreign branch profits tax. We express no opinion regarding any other federal tax consequences of receipt of interest on the 2017C Bonds.

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.

The City of Seattle
[Date]
Page 3

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 2017C Bonds or otherwise used in connection with the 2017C 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,

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APPENDIX C
2016 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, 2016 and 2015,
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 Energy and Environment Committee
The City of Seattle – City Light Department
Seattle, Washington

Report on the Financial Statements

We have audited the accompanying financial statements of The City of Seattle – City Light Department (the “Department”), an enterprise fund of The City of Seattle, Washington, as of and for the years ended December 31, 2016 and 2015, and the related notes to the financial statements, as listed in the table of contents.

Management’s Responsibility for the Financial Statements

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

Auditors’ Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors’ judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal 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, 2016 and 2015, 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.

To the Energy Committee
The City of Seattle – City Light Department

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, 2016 and 2015 and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Information

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

Other Reporting Required by Government Auditing Standards

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

Baker Tilly Veitchau Krause, LLP

Madison, Wisconsin
April 28, 2017

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2016 and 2015

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, 2016, and 2015. 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 448,000 customers in Seattle and certain surrounding communities. The Department also provides electrical energy to other City agencies at rates prescribed by City ordinances.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2016 and 2015**

CONDENSED BALANCE SHEETS

(\$ in millions)	December 31		
	2016	2015	2014
Assets:			
Utility plant—net	\$ 3,214.7	\$ 2,961.5	\$ 2,728.3
Restricted assets	222.0	265.1	298.4
Current assets	286.5	339.6	298.8
Other assets	<u>396.2</u>	<u>339.5</u>	<u>319.7</u>
Total assets	<u>4,119.4</u>	<u>3,905.7</u>	<u>3,645.2</u>
Total deferred outflows of resources	<u>94.9</u>	<u>49.8</u>	<u>19.3</u>
Total assets and deferred outflows of resources	<u>\$ 4,214.3</u>	<u>\$ 3,955.5</u>	<u>\$ 3,664.5</u>
Liabilities:			
Long-term debt	\$ 2,165.3	\$ 2,090.8	\$ 1,925.2
Noncurrent liabilities	433.6	341.5	67.3
Current liabilities	266.5	271.4	258.3
Other liabilities	<u>37.2</u>	<u>29.7</u>	<u>26.7</u>
Total liabilities	<u>2,902.6</u>	<u>2,733.4</u>	<u>2,277.5</u>
Total deferred inflows of resources	<u>94.2</u>	<u>89.9</u>	<u>111.5</u>
Net position:			
Net investment in capital assets	1,310.5	1,169.6	1,100.8
Restricted:			
Rate stabilization account	25.0	25.0	25.0
Special deposits and other purposes	<u>-</u>	<u>-</u>	<u>-</u>
Total restricted	<u>25.0</u>	<u>25.0</u>	<u>25.0</u>
Unrestricted—net	<u>(118.0)</u>	<u>(62.4)</u>	<u>149.7</u>
Total net position	<u>1,217.5</u>	<u>1,132.2</u>	<u>1,275.5</u>
Total liabilities, deferred inflows, and net position	<u>\$ 4,214.3</u>	<u>\$ 3,955.5</u>	<u>\$ 3,664.5</u>

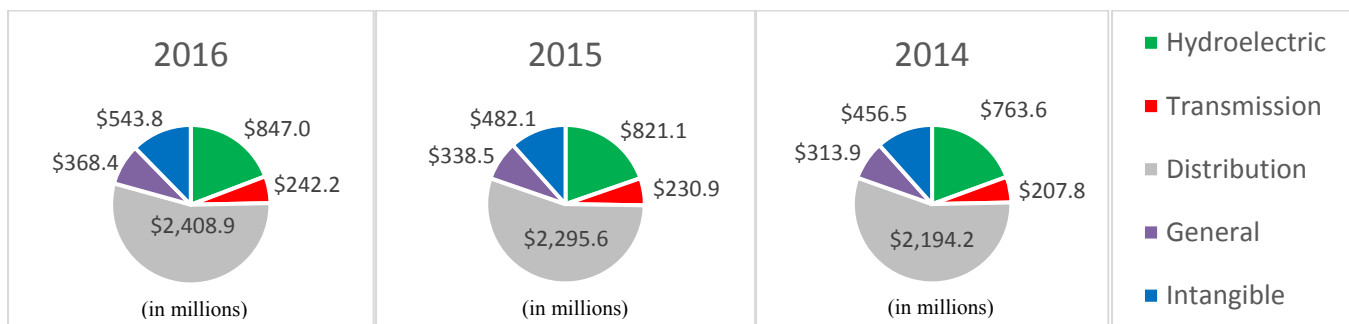
THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2016 and 2015

ASSETS

Utility Plant—Net

2016 Compared to 2015 Utility plant assets net of accumulated depreciation and amortization increased \$253.2 million to \$3,214.7 million in 2016. Utility plant assets were comprised of hydroelectric production plant \$847.0 million which increased \$25.9 million, transmission plant, \$242.2 million, which increased \$11.3 million, distribution plant, \$2,408.9 million, which increased \$113.3 million, general plant, \$368.4 million, which increased \$29.9 million, and intangible assets, \$543.8 million which increased \$61.7 million. The net increase in utility plant assets were partially offset by a \$63.5 million increase in Accumulated depreciation and amortization to \$1,735.3 million.



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

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

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

See Note 3 Utility Plant of the accompanying financial statements.

2015 Compared to 2014 Utility plant assets net of accumulated depreciation and amortization increased \$233.2 million to \$2,961.5 million in 2015. Utility plant assets were comprised of hydroelectric production plant \$821.1 million which increased \$57.5 million, transmission plant \$230.9 million which increased \$23.1 million, distribution plant \$2,295.6 million which increased \$101.4 million, general plant \$338.5 million which increased \$24.6 million, and intangible assets \$482.1 million which increased \$25.6 million. The net increase in utility plant

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2016 and 2015

assets were partially offset by a \$58.9 million increase in Accumulated depreciation and amortization to \$1,671.8 million.

The \$101.4 million increase in distribution plant is primarily due to \$45.0 million for underground system, \$17.9 million for transformers, \$15.9 million for stations, \$11.4 million for poles, \$5.5 million for overhead system, and \$5.4 million for streetlights. In hydroelectric production, an increase of \$40.4 million was due to continued improvements for generation units at the Boundary project.

Other components of utility plant include Construction work-in-progress \$319.8 million which increased \$67.4 million, Nonoperating property \$11.8 million which increased \$1.3 million, Assets held for future use \$60.8 million which decreased \$11.0 million, and Land and land rights \$72.7 million, which increased \$2.2 million. The \$67.5 million increase in Construction work-in-progress is primarily due to increases in the following projects: \$16.5 million for the new customer billing system, \$16.0 million for Seattle Seawall, \$15.7 million for Denny Substation, and \$8.1 million for replacement of the energy management system. The decrease in Assets held for future use is primarily due to distribution assets being placed in service.

Restricted Assets

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

Construction funds decreased by \$60.3 million to \$28.4 million, and represent the balance of unspent proceeds from the 2016A Clean Renewable Energy Bonds issued in January. All proceeds from bonds issued prior to 2016 and from additional bonds issued during 2016, were fully spent and used for funding a significant portion of the ongoing capital improvement program.

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

The Rate Stabilization Account (RSA) increased by a net \$0.1 million to \$91.1 million. A surcharge on electric rates of 1.5% remains in effect implemented in August 2016 until the RSA is funded to \$100.0 million. Additions from the rate surcharge of \$4.4 million and interest earnings of \$1.2 million were offset by transfer of funds to operating cash of \$5.5 million because actual net wholesale revenues were less than budgeted. See Note 4 Rate Stabilization Account of the accompanying financial statements.

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

2015 Compared to 2014 Restricted assets consisting of restricted cash decreased by \$33.3 million to \$265.1 million.

Construction funds decreased by \$35.1 million to \$88.7 million, and represent the balance of unspent proceeds from the variable rate 2015B bonds issued in July. Proceeds from the 2014 bonds and from the 2015A bonds issued in May 2015 were fully spent during the year funding a significant portion of the ongoing capital improvement program.

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Bond reserve account deposits increased by \$25.8 million to \$73.7 million from operating cash, bond proceeds, and interest earnings. Funding from operating cash of \$20.0 million continued accumulation of the reserve account ahead of the existing surety bond 2029 expiration.

The Rate Stabilization Account (RSA) decreased by a net \$23.4 million to \$91.0 million as funds of \$24.7 million were transferred to operating cash during the year because net wholesale revenues were less than budgeted. Interest earnings in the amount of \$1.3 were transferred to the RSA.

Other restricted assets declined by \$0.6 million to \$11.7 million.

Current Assets

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

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

Accounts receivable, net, increased by \$15.6 million to \$97.8 million. A total of \$17.8 million net increase in receivables were for retail electric due to rate increases noted above of \$5.4 million, reclassification of customer overpayments to a liability at implementation of the new billing system of \$4.8 million, large service connections in progress of \$3.0 million, billings to other City departments of \$1.6 million, wholesale power receivables of \$2.0 million, and other. These were offset by a net increase of \$2.2 million in the allowance for bad debt for retail electric and sundry billings.

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

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

2015 Compared to 2014 Current assets increased by \$40.8 million to \$339.6 million at the end of 2015.

Operating cash increased by \$24.2 million to \$152.5 million at the end of the year. Increased inflows to cash derived from a 4.2% system average rate increase effective in January, Bonneville Power Administration (Bonneville) 0.9% pass-through rate adjustment effective in October, transfers from the RSA, and reimbursement from the Construction account for capital expenditures. Cash inflows were offset by payments for higher debt service, capital construction projects, and ongoing operations.

Accounts receivable, net, increased by \$7.6 million to \$82.2 million. A total of \$12.6 million net increase in receivables were for retail electric due to rate increases, large service connections in progress, a grant from the Model Toxics Control Act, damage billings, and other. These were offset by a net decrease in short-term wholesale power sales of \$5.0 million because of lower surplus sales compared to December 2014.

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Unbilled revenues increased by \$5.9 million to \$70.5 million mainly because of the rate increases and higher customer loads during the 4th quarter compared to same comparable period of 2014.

Other current assets increased by \$3.1 million to \$34.4 million. Materials and supplies inventory was higher by \$2.0 million due to the purchase of additional spare parts for generating facilities and an increase in the unallocated material handling costs that will be allocated in the following year.

Other Assets

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

Conservation costs, net, increased by \$8.6 million. Decreases totaled \$3.8 million of which \$2.8 million was for over allocation of labor benefits costs from actual retro pay and COLA costs paid. Accordingly, labor benefits costs will be allocated in the following year. The remaining decrease of \$1.1 million was for Long term environmental receivables to be paid by other responsible parties for cleanup costs incurred by the Department. See Note 7 Other Assets of the accompanying financial statements.

2015 Compared to 2014 Other assets increased by \$19.8 million to \$339.5 million. Conservation costs, net, increased by \$15.7 million. The regulatory asset for environmental cleanup costs decreased by \$3.3 million and are mostly associated with cleanup of the Lower Duwamish Waterway Superfund Site.

The balance of Other assets increased by \$7.4 million. Long term receivables increased \$10.1 million as the result of completion of Shoreline underground electrical infrastructure. This was partly offset by a net \$2.1 million decrease in damage repair costs awaiting billing to other parties. Other deferred charges decreased by a net \$0.6 million.

Deferred Outflows of Resources

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

In 2015, the Department implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27* concerning accounting for pension plans. For 2016, the net increase of \$31.2 million was primarily for losses related to differences between projected and actual investment earnings. See Note 12 Seattle City Employees' Retirement System of the accompanying financial statements.

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

2015 Compared to 2014 Deferred outflows of resources increased by \$30.5 million to \$49.8 million.

The Department deferred 2015 employer pension contributions and losses related to differences between projected and actual investment earnings totaling \$33.4 million.

Charges on advance refunding decreased a net \$2.9 million to \$16.4 million.

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LIABILITIES

Long-Term Debt

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

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

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

See Note 8 Long-Term Debt of the accompanying financial statements.

2015 Compared to 2014 Long-term debt increased a net \$165.6 million to \$2,090.8 million in 2015. In June, the Department issued \$171.9 million of fixed rate revenue bonds and in July, the Department issued \$100.0 million of variable rate revenue bonds to fund the ongoing capital improvement program.

Debt to capitalization ratio was 64.7% at the end of 2015, an increase from the 59.9% ratio of 2014 because of the additional bonds and the \$233.8 million reduction of net position recorded at the beginning of the year due to implementation of GASB Statement No. 68. See Note 12 Seattle City Employees' Retirement System of the accompanying financial statements.

Net revenues available to pay debt service were equal to 1.62 times principal and interest on all bonds for 2015.

Noncurrent Liabilities

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

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

Environmental liabilities increased by a net \$48.4 million to \$82.0 million. Environmental liabilities are primarily attributable to the estimated cost of remediating contaminated sediments in the lower Duwamish Waterway, a designated federal Superfund site. The Department is considered a potentially responsible party for contamination in the Duwamish River due to land ownership or use of property located along the river. In 2016, an additional liability in the amount of \$45.0 million was recorded for the Department's estimated share of cleaning the East Waterway Superfund Site. The Department is considered a potentially responsible party because of transformers sold to a local company that most likely drained contaminants into this site. More information on environmental liabilities is found in Note 14 Environmental Liabilities of the accompanying financial statements.

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

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2015 Compared to 2014 Total non-current liabilities increased by \$274.2 million to \$341.5 million at the end of 2015.

The significant area of increase was the result of recording Net Pension Liability totaling \$271.8 million due to the implementation of GASB Statement No. 68 concerning pensions.

Compensated absences increased by \$2.7 million to \$19.4 million primarily due to additional days off negotiated by union contracts that restore to affected employees the value of unpaid furlough days taken in 2010.

The balance net decrease of \$0.3 million to \$50.3 million was for minimal changes within environmental liabilities, risk management liabilities, and other.

Environmental liabilities decreased by \$0.4 million to \$33.6 million at the end of 2015.

Current Liabilities

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

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

2015 Compared to 2014 Current liabilities increased by \$13.1 million for a total of \$271.4 million at the end of 2015.

Current liability increases of \$24.4 million were for vouchers payable for ongoing operations, debt service, furlough days restored, taxes, power, and other. These were offset by decreases of \$11.3 million in part due to payment for Terminal 117 and Cedar Falls Bridge remediation environmental projects during the year. In addition, current environmental liabilities were adjusted downward from the 2014 estimate that was inadvertently recorded.

Other Liabilities

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

2015 Compared to 2014 Other liabilities increased by \$3.0 million to \$29.7 million in 2015. The major increase was for unearned revenue for large service connections in progress due in part to the improving local economy.

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Deferred Inflows of Resources

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

The significant activity occurring since 2010 has been principally the result of implementing, funding, and related activity of the RSA. Funding of the RSA from operating cash has the corresponding effect of deferring operating revenues in the rate stabilization unearned revenue account and vice versa. During 2016, a 1.5% surcharge on electric rates was in effect since August that contributed \$4.4 million, with an offset of \$5.5 million transferred to operating revenues for actual net wholesale revenues being lower than budget. \$1.2 million in interest income was also earned, adding to the unearned revenue account, and leaving an ending balance of \$66.1 million in the rate stabilization unearned revenue account. See Note 4 Rate Stabilization Account of the accompanying financial statements.

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

2015 Compared to 2014 Deferred inflows of resources decreased by \$21.6 million for a total of \$89.9 million at the end of 2015.

The significant activity occurring since 2010 has been principally the result of implementing, funding, and related activity of the RSA. Funding of the RSA from operating cash has the corresponding effect of deferring operating revenues in the rate stabilization unearned revenue account and vice versa. During 2015, \$23.4 million net was transferred to operating revenues as a result of lower actual net wholesale revenues than budget. The ending balance of the rate stabilization unearned revenue account was \$66.0 million.

Other deferred inflows of resources increased by \$1.8 million to \$23.9 million. The increase was mostly due to payments received from Bonneville in accordance with the Department's Energy Conservation Agreement, net of earned revenue.

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RESULTS OF OPERATIONS

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

(\$ in millions)	Year Ended December 31		
	2016	2015	2014
Operating revenues	\$ 903.2	\$ 882.9	\$ 886.4
Nonoperating revenues	14.6	16.7	18.5
Total revenues	<u>917.8</u>	<u>899.6</u>	<u>904.9</u>
Operating expenses	795.8	772.0	734.1
Nonoperating expenses	75.1	76.5	77.9
Total expenses	<u>870.9</u>	<u>848.5</u>	<u>812.0</u>
Income before capital contributions and grants	<u>46.9</u>	<u>51.1</u>	<u>92.9</u>
Capital contributions	37.9	39.0	27.7
Capital grants	0.5	0.4	0.7
Total capital contributions and grants	<u>38.4</u>	<u>39.4</u>	<u>28.4</u>
Change in net position	<u>\$ 85.3</u>	<u>\$ 90.5</u>	<u>\$ 121.3</u>

SUMMARY

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

2015 Compared to 2014 Change in net position for 2015 was \$90.5 million, a decrease of \$30.8 million or 25.4% from 2014 change in net position of \$121.3 million due in large part to lower net Short-term wholesale power revenues compared to 2014. Higher retail electric sales, transfers from/(to) RSA, and capital contributions were offset by lower power related revenues, net, and higher distribution, administrative and general, taxes, and depreciation, in addition to the lower net Short-term wholesale power revenues.

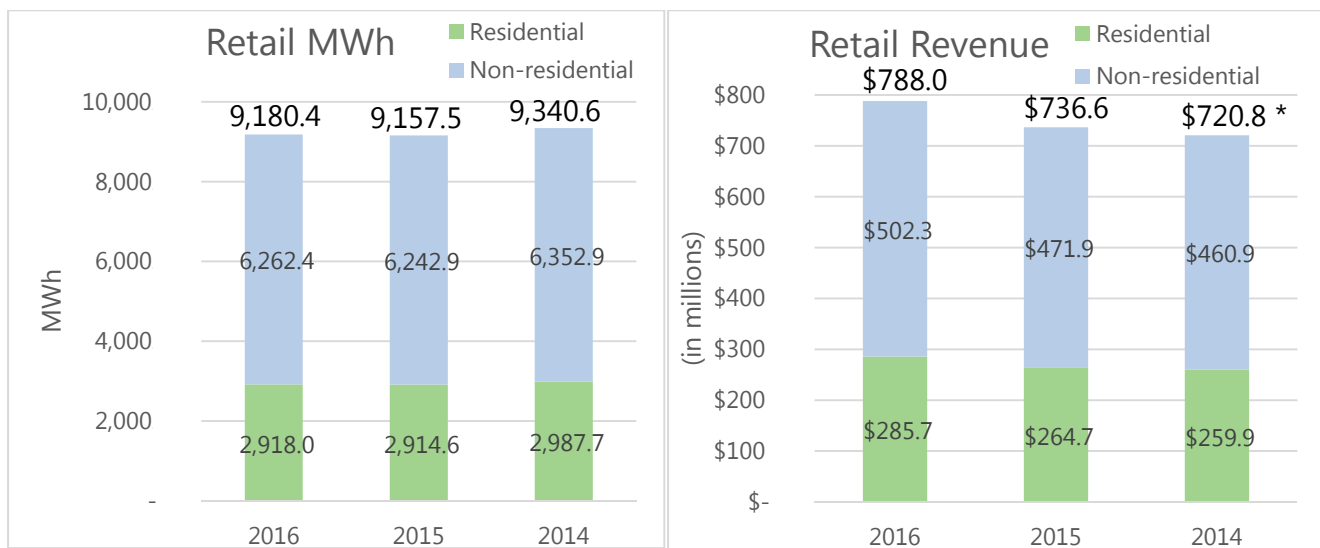
REVENUES

2016 Compared to 2015 Total operating revenues were \$903.2 million, an increase of \$20.3 million or 2.3% from 2015. Retail power revenues at \$788.0 million increased \$51.4 million, Short-term wholesale power revenues at \$62.9 million increased \$1.7 million, Other power-related revenues at \$32.6 million decreased \$4.2 million, Transfers from/(to) RSA at (\$.01) million decreased \$23.5 million, and Other operating revenues at \$19.8 million decreased \$5.1 million. Retail power revenues were higher due to the 4.9% across-the-board rate increase effective January 1, 2016, the 0.9% Bonneville pass-through rate adjustment effective in October 2015, and the RSA rate surcharge, effective August 1, 2016 even with lower consumption from another year with overall warmer weather.

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Transactions within Transfers from/(to) rate stabilization account are affected in part by actual net wholesale power revenues compared to budget. In 2016, actual net wholesale power revenues were lower than budget by \$5.5 million and this amount was transferred from the rate stabilization unearned revenue account. This was offset by the RSA rate surcharge revenues of \$4.4 million and interest earnings of \$1.2 million for a net (\$0.1) million transferred to the rate stabilization unearned revenue account. In 2015, actual net wholesale power revenues were lower than budget and \$23.4 million net was transferred to operating revenues. The net effect to the Transfers from/(to) RSA between years was a decrease of \$23.5 million. Other operating revenues declined for damage billings of \$1.9 million, salvage sales of \$1.6 million, and new retail billing system interest charges of \$0.6 million, and were offset by other net increases of \$1.0 million.

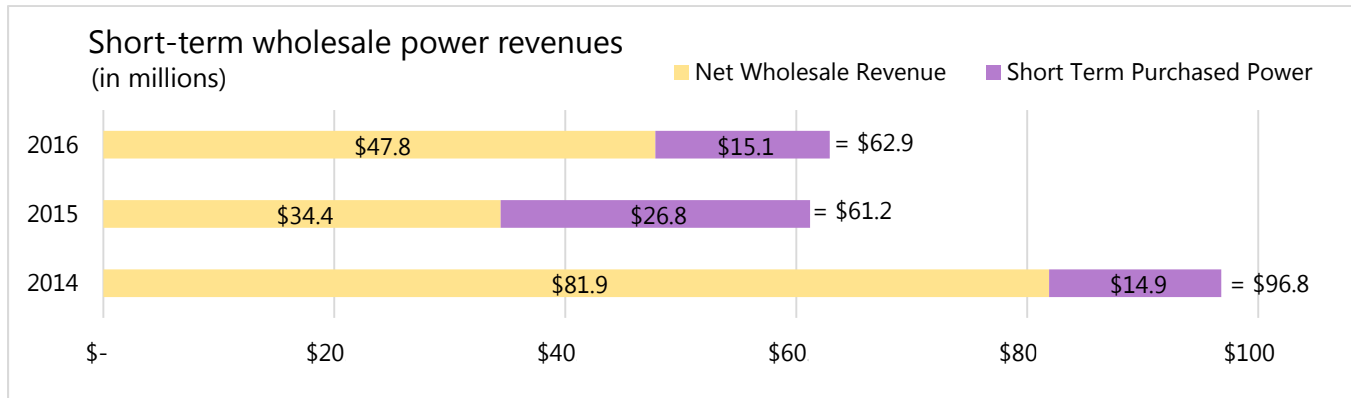


*Operating revenues adjusted by \$4.1 million for prior years one-time true-up downward adjustment to unbilled revenue, a noncash item recorded in 2014.

Net Short-term wholesale power revenues were \$47.8 million, an increase of \$13.4 million or 39.0% from net Short-term wholesale power revenues of \$34.4 million in 2015. On an annual basis, the Department expects to be a net seller in the wholesale energy market. Water conditions in the Northwest improved in 2016 resulting in more power generated than in 2015 which was used to meet the Department’s load leading to lower short-term power purchased in the spot market. Average wholesale power prices were again lower in 2016 because of the low natural gas prices. Other net power-related revenues, including valuation of energy exchange revenues were lower by a net \$2.9 million due to lower average wholesale power prices.

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2015 Compared to 2014 Total operating revenues were \$882.9 million, a decrease of \$3.5 million or (0.4%) from 2014. Retail power revenues at \$736.6 million increased \$15.8 million, Short-term wholesale power revenues at \$61.2 million decreased \$35.6 million, Other power-related revenues at \$36.8 million decreased \$14.0 million, Transfers from/(to) RSA at \$23.4 million increased \$27.8 million, and Other operating revenues at \$24.9 million increased \$2.5 million. Retail power revenues were higher due to the 4.2% across-the-board rate increase effective January 1, 2015 and the 0.9% Bonneville pass-through rate adjustment effective in October 2015 despite lower consumption from warmer weather during most of 2015. Actual net wholesale power revenues were lower than budget and as a consequence, \$23.4 million net was transferred to operating revenues. In 2014, \$4.4 million net was transferred to the rate stabilization unearned revenue account as a result of actual net wholesale energy revenues being higher than budget. The net effect of Transfers from/(to) RSA between years was an increase of \$27.8 million.

Net Short-term wholesale power revenues were \$34.4 million, a substantial decrease of \$47.5 million or (58.0%) from net Short-term wholesale power revenues of \$81.9 million in 2014. During 2015, earlier snow melt in the mountains, lower than normal spring precipitation, and above average temperatures since May contributed to the lower wholesale energy sales. The resulting less power generated along with lower average wholesale prices also influenced the unfavorable surplus energy revenues. Wholesale power prices remained historically low throughout most of 2015, mainly driven by depressed natural gas prices. Additionally, compared to the average of the last five years, 2015 hydro generation was around 88% and prices were around 80%. Other power-related revenues were lower by a net \$8.1 million from 2014, also affected by lower average wholesale power prices along with lower volume available, and thereby causing lower valuation of net power exchange revenues.

EXPENSES

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

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

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

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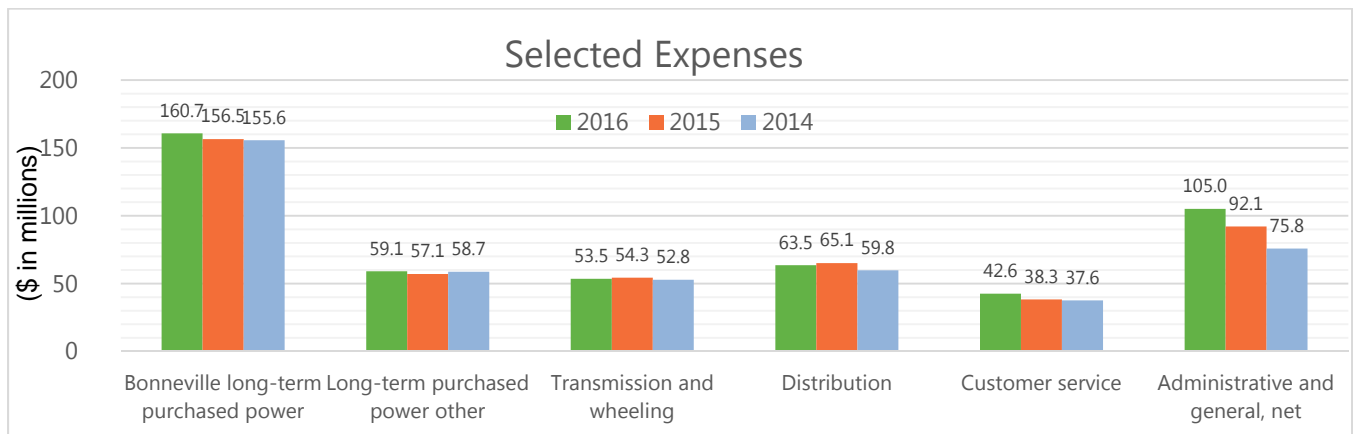
generation, and subject to weather dependency. Other power related variances were minimal and part of normal operations.

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

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

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

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



2015 Compared to 2014 Operating expenses totaled \$772.0 million, an increase of \$37.9 million or 5.2% from \$734.1 million in 2014.

Power-related operating expenses at \$354.3 million were higher by \$6.4 million or 1.8%. These expenses were comprised of Long-term purchased power - Bonneville and other of \$219.8 million, which increased \$6.2 million, Short-term wholesale power purchases of \$15.0 million, which decreased \$11.8 million, Other power expenses of \$60.1 million, which increased \$0.5 million, and Transmission of \$53.5 million, which decreased \$0.8 million.

Short-term wholesale power purchases were affected by the earlier snow melt in the region and related consequences, and along with higher average purchase power prices led to increased short-term power purchases to manage load. The aftermath of a major wildfire near one of the Department's generating facilities triggered

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additional short-term power purchases of \$1.0 million. In general, lower average wholesale power prices and lower volume led to lower valuation of power exchange purchases within Other power expenses.

Non-power operating expenses increased by \$24.2 million to \$224.6 million or 12.1% from \$200.4 million in 2014. These expenses included Distribution expenses of \$65.1 million, which increased \$5.4 million, Customer service of \$38.3 million, which increased \$0.7 million, Conservation of \$29.1 million, which increased \$1.8 million, and Administrative and general, net, of \$92.1 million which increased \$16.3 million.

Distribution expenses increased due to higher labor and benefits for system maintenance, tree trimming, outage maintenance, COLA accruals, and an increase in costs to repair damage billable to other parties.

The implementation of GASB Statement No. 68 increased pension expenses by \$7.5 million within Administrative and general, net. Other increases were for salaries and related benefits due to lower vacancies, COLA accruals, city general fund cost allocations, NERC administration, and other. These were offset by higher overhead applied to capital work generally due to higher labor charges and related higher overhead rates, plus a higher allocation of pension costs from GASB Statement No. 68.

Taxes at \$81.1 million increased incrementally \$1.1 million due to higher revenues. Depreciation and amortization at \$112.0 million increased by \$6.2 million as a result of additional plant assets placed in service.

NONOPERATING REVENUES AND (EXPENSES), CAPITAL CONTRIBUTIONS AND GRANTS

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

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

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

2015 Compared to 2014 Nonoperating revenues decreased by \$1.8 million to \$16.7 million in 2015. Major causes were lower market performance for the Department's share of investments in the city cash pool and less sales of properties. There was an increase in FEMA grants and specifically related to a fire near one of the Department's generating facilities.

Nonoperating expenses were slightly lower by \$1.4 million to \$76.5 million. Higher interest on outstanding bonds were offset primarily by higher interest charged to construction projects as the focus on capital work continued during the year.

Capital contributions and grants increased by \$11.0 million to \$39.4 million in 2015. Capital contributions were higher mostly due to energization of underground electrical infrastructure for Shoreline, a local suburban jurisdiction within the Department's service territory; and to a lesser extent, for service connections for larger construction projects.

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RISK MANAGEMENT

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

Risk Oversight Council (ROC) oversees wholesale power marketing activities. It is comprised of the Chief Financial Officer (Chair), Power Supply & Environmental Affairs Officer, Director of Risk Oversight, Director of Power Operations and Marketing (non-voting), Director of Power Contracts & Resource Acquisition (non-voting), and Manager of Financial Planning (non-voting). The ROC guides the continuous improvement of energy risk management activities and capabilities, approves hedging strategies, hedging plans, and approves changes to relevant operating procedures.

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

Hydro Risk

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

Energy Market Risk

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

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

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

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2016 and 2015

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 counterparties 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 is actively reducing 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 on a daily basis. Despite such efforts, there is potential for default, however the Department has not had a counterparty default in the last 10 years. The Department transacts with counterparties on an uncollateralized and collateralized basis. Posted collateral may be in the form of cash, letters of credit, or parental guarantees.

REQUESTS FOR INFORMATION

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

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THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

BALANCE SHEETS - ASSETS AND DEFERRED OUTFLOWS OF RESOURCES AS OF DECEMBER 31, 2016 AND 2015

(\$ in millions)	2016	2015
ASSETS		
UTILITY PLANT—At original cost:		
Plant-in-service—excluding land	\$ 4,410.3	\$ 4,168.2
Less accumulated depreciation and amortization	<u>(1,735.3)</u>	<u>(1,671.8)</u>
Total plant-in-service—net	2,675.0	2,496.4
Construction work-in-progress	392.5	319.8
Nonoperating property—net of accumulated depreciation	12.7	11.8
Assets held for future use	59.5	60.8
Land and land rights	<u>75.0</u>	<u>72.7</u>
Total utility plant—net	<u>3,214.7</u>	<u>2,961.5</u>
RESTRICTED ASSETS:		
Rate stabilization account	91.1	91.0
Municipal light and power bond reserve account	87.0	73.7
Construction account	28.4	88.7
Special deposits and other restricted assets	<u>15.5</u>	<u>11.7</u>
Total restricted assets	<u>222.0</u>	<u>265.1</u>
CURRENT ASSETS:		
Cash and equity in pooled investments	72.9	152.5
Accounts receivable (includes \$2.1 and \$1.5 at fair value), net of allowance of \$10.7 and \$8.4	92.7	78.7
Interfund receivables	5.1	3.5
Unbilled revenues	76.6	70.5
Materials and supplies at average cost	36.0	32.8
Prepayments and other current assets	<u>3.2</u>	<u>1.6</u>
Total current assets	<u>286.5</u>	<u>339.6</u>
OTHER ASSETS:		
Conservation costs—net	252.4	243.8
Environmental costs—net	83.1	31.2
Other charges and assets—net	<u>60.7</u>	<u>64.5</u>
Total other assets	<u>396.2</u>	<u>339.5</u>
TOTAL ASSETS	<u>4,119.4</u>	<u>3,905.7</u>
DEFERRED OUTFLOWS OF RESOURCES		
Unrealized contributions and losses related to Pension	64.6	33.4
Charges on advance refunding	<u>30.3</u>	<u>16.4</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>94.9</u>	<u>49.8</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 4,214.3</u>	<u>\$ 3,955.5</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, 2016 AND 2015

<i>(\$ in millions)</i>	2016	2015
LIABILITIES		
LONG-TERM DEBT:		
Revenue bonds	\$ 2,118.1	\$ 2,070.8
Plus bond premium—net	158.4	125.9
Less revenue bonds—current portion	<u>(111.2)</u>	<u>(105.9)</u>
Total long-term debt	<u>2,165.3</u>	<u>2,090.8</u>
NONCURRENT LIABILITIES:		
Net pension liability	317.8	271.8
Accumulated provision for injuries and damages	92.0	42.3
Compensated absences	15.8	19.4
Other noncurrent liabilities	<u>8.0</u>	<u>8.0</u>
Total noncurrent liabilities	<u>433.6</u>	<u>341.5</u>
CURRENT LIABILITIES:		
Accounts payable and other current liabilities	99.5	106.6
Interfund payables	11.1	11.0
Accrued payroll and related taxes	10.8	10.3
Compensated absences	2.5	3.6
Accrued interest	31.4	34.0
Long-term debt—current portion	<u>111.2</u>	<u>105.9</u>
Total current liabilities	<u>266.5</u>	<u>271.4</u>
OTHER LIABILITIES	<u>37.2</u>	<u>29.7</u>
TOTAL LIABILITIES	<u>2,902.6</u>	<u>2,733.4</u>
DEFERRED INFLOWS OF RESOURCES		
Rate stabilization unearned revenue	66.1	66.0
Unrealized gains related to pension	0.8	-
Other deferred inflows of resources (includes \$1.2 and \$0.6 at fair value)	<u>27.3</u>	<u>23.9</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>94.2</u>	<u>89.9</u>
NET POSITION		
Net investment in capital assets	1,310.5	1,169.6
Restricted:		
Rate stabilization account	25.0	25.0
Special deposits and other purposes	<u>-</u>	<u>-</u>
Total restricted	<u>25.0</u>	<u>25.0</u>
Unrestricted—net	<u>(118.0)</u>	<u>(62.4)</u>
Total net position	<u>1,217.5</u>	<u>1,132.2</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	<u>\$ 4,214.3</u>	<u>\$ 3,955.5</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, 2016 AND 2015

(\$ in millions)	2016	2015
OPERATING REVENUES:		
Retail power revenues	\$ 788.0	\$ 736.6
Short-term wholesale power revenues	62.9	61.2
Other power-related revenues	32.6	36.8
Transfers from/(to) rate stabilization account	(0.1)	23.4
Other operating revenues	<u>19.8</u>	<u>24.9</u>
Total operating revenues	<u>903.2</u>	<u>882.9</u>
OPERATING EXPENSES:		
Long-term purchased power—Bonneville and other	219.8	213.6
Short-term wholesale power purchases	15.1	26.8
Other power expenses	60.1	59.6
Transmission	53.5	54.3
Distribution	63.5	65.1
Customer service	42.6	38.3
Conservation	30.2	29.1
Administrative and general	105.0	92.1
Taxes	85.2	81.1
Depreciation and amortization	<u>120.8</u>	<u>112.0</u>
Total operating expenses	<u>795.8</u>	<u>772.0</u>
OPERATING INCOME	<u>107.4</u>	<u>110.9</u>
NONOPERATING REVENUES AND (EXPENSES):		
Other revenues and (expenses)—net	14.6	16.7
Interest expense		
Interest expense—net	(85.8)	(85.7)
Amortization of bond costs—net	<u>10.7</u>	<u>9.2</u>
Total interest expense	<u>(75.1)</u>	<u>(76.5)</u>
Total nonoperating expenses	<u>(60.5)</u>	<u>(59.8)</u>
INCOME BEFORE CAPITAL CONTRIBUTIONS AND GRANTS	<u>46.9</u>	<u>51.1</u>
CAPITAL CONTRIBUTIONS AND GRANTS:		
Capital contributions	37.9	39.0
Capital grants	<u>0.5</u>	<u>0.4</u>
Total capital contributions and grants	<u>38.4</u>	<u>39.4</u>
CHANGE IN NET POSITION	85.3	90.5
NET POSITION:		
Beginning of year	1,132.2	1,275.5
Adjustment for the implementation of GASB Statement No. 68, <i>Accounting and Financial Reporting for Pensions</i>	<u>-</u>	<u>(233.8)</u>
Beginning of year, as adjusted	<u>1,132.2</u>	<u>1,041.7</u>
End of year	<u>\$ 1,217.5</u>	<u>\$ 1,132.2</u>

See notes to financial statements.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

<i>(\$ in millions)</i>	2016	2015
OPERATING ACTIVITIES:		
Cash received from customers and counterparties	\$ 869.9	\$ 836.6
Interfund operating cash received	1.9	1.9
Cash paid to suppliers and counterparties	(322.7)	(326.5)
Cash paid to employees	(181.0)	(177.0)
Interfund operating cash paid	(30.4)	(28.4)
Taxes paid	<u>(86.9)</u>	<u>(78.5)</u>
Net cash provided by operating activities	<u>250.8</u>	<u>228.1</u>
NONCAPITAL FINANCING ACTIVITIES:		
Principal paid on long-term debt	(10.4)	(12.3)
Interest paid on long-term debt	(9.1)	(10.5)
Noncapital grants received	2.5	4.6
Bonneville receipts for conservation	9.4	2.2
Payment to vendors on behalf of customers for conservation	<u>(32.2)</u>	<u>(35.2)</u>
Net cash used in noncapital financing activities	<u>(39.8)</u>	<u>(51.2)</u>
CAPITAL AND RELATED FINANCING ACTIVITIES:		
Proceeds from long-term debt	309.6	271.8
Proceeds from long-term debt premiums	50.7	11.9
Payment to trustee for defeased bonds	(178.8)	-
Bond issue costs paid	(1.4)	(1.0)
Principal paid on long-term debt	(97.1)	(92.6)
Interest paid on long-term debt	(85.5)	(79.2)
Acquisition and construction of capital assets	(348.2)	(306.1)
Interfund payments for acquisition and construction of capital assets	(26.2)	(23.0)
Capital contributions	38.9	38.0
Interfund receipts for capital contributions	0.6	0.3
Capital grants received/(paid)	(2.0)	(3.6)
Interest received for suburban infrastructure improvements	2.5	2.1
Proceeds on sale of property	0.4	1.1
(Increase) Decrease in other assets	<u>(0.8)</u>	<u>(9.8)</u>
Net cash used in capital and related financing activities	<u>(337.3)</u>	<u>(190.1)</u>
INVESTING ACTIVITIES:		
Interest received (paid) on cash and equity in pooled investments	<u>3.6</u>	<u>4.1</u>
Net cash provided by (used in) investing activities	<u>3.6</u>	<u>4.1</u>
NET INCREASE (DECREASE) IN CASH AND EQUITY IN POOLED INVESTMENTS	(122.7)	(9.1)
CASH AND EQUITY IN POOLED INVESTMENTS:		
Beginning of year	<u>417.6</u>	<u>426.7</u>
End of year	<u>\$ 294.9</u>	<u>\$ 417.6</u>

See notes to financial statements.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

STATEMENTS OF CASH FLOWS - RECONCILIATION FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

<i>(\$ in millions)</i>	2016	2015
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	\$ 107.4	\$ 110.9
Adjustments to reconcile operating income to net cash provided by operating activities:		
Non-cash items included in operating income:		
Depreciation	127.3	118.3
Amortization of other liabilities	(1.1)	(0.9)
Amortization of other assets	26.7	24.3
Bad debt expense	7.0	3.0
Power revenues	(28.5)	(31.5)
Power expenses	28.7	32.9
Provision for injuries and damages	(1.6)	0.6
Other non-cash items	21.3	7.6
Change in:		
Accounts receivable	(24.0)	(5.6)
Unbilled revenues	(6.1)	(5.9)
Materials and supplies	(3.1)	(7.6)
Prepayments, interest receivable, and other receivables	(1.9)	(0.8)
Other assets	6.1	2.7
Provision for injuries and damages and claims payable	(1.1)	1.4
Accounts payable and other payables	(6.4)	2.1
Rate stabilization unearned revenue	0.1	(23.4)
Total adjustments	143.4	117.2
Net cash provided by operating activities	\$ 250.8	\$ 228.1
SUPPLEMENTAL DISCLOSURES OF NONCASH ACTIVITIES:		
In-kind capital contributions	\$ 1.5	\$ 1.4
Amortization of debt related costs—net	10.7	9.2
Allowance for funds used during construction	10.2	8.9
Power exchange revenues	15.8	17.0
Power exchange expenses	(15.8)	(17.6)
Power revenue netted against power expenses	6.6	6.5
Power expense netted against power revenues	(5.9)	(8.5)

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, 2016 AND 2015

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 448,000 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 \$20.1 million and \$18.0 million in 2016 and 2015, respectively, and \$2.4 million and \$2.2 million for non-energy services, respectively.

The Department receives certain services from other City departments and paid \$86.6 million in 2016 and \$64.8 million in 2015, 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 \$5.1 million and \$3.5 million at December 31, 2016, and 2015, respectively. The Department's payables to other City departments totaled \$11.1 million and \$11.0 million at December 31, 2016, and 2015, 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 2016 with all applicable GASB pronouncements.

Effective January 1, 2015, the Department adopted 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*. Statement Nos. 68 and 71 establish new accounting and financial reporting requirements for state and local governments related to pensions, including changes to the recognition of liabilities, expenses, deferred outflows of resources, and deferred inflows of resources. See Note 12 Seattle City Employees' Retirement System for more information related to Statement Nos. 68 and 71.

Effective January 1, 2016, the Department adopted GASB Statement No. 72, *Fair Value Measurement and Application*, which defines fair value 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 a measurement date. Statement No 72 requires that investments should be measured at fair value, with the exception of certain

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

investments such as short-term money market instruments, and requires disclosures that include a description of the inputs and the methods used to measure fair value. These new disclosures describing Department assets and liabilities reported at fair value and the valuation techniques used to determine fair value are available in Note 2 Fair Value Measurement.

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

Fair Value Measurements—Descriptions of the Department’s accounting policies on fair value measurements for items reported on the balance sheets at December 31, 2016 and 2015, are as noted in Note 2 Fair Value Measurement, Note 5 Cash and Equity in Pooled Investments and Investments, Note 6 Accounts Receivable and Note 18 Long-Term Purchased Power, Exchanges, and Transmission.

Fair Value of Financial Instruments—The Department’s financial instruments reported on the balance sheets at December 31, 2016 and 2015, as Restricted assets and Cash and equity in pooled investments are measured at fair value. These instruments consist primarily of the Department’s share of the City-wide pool of investments (see Note 5 Cash and Equity in Pooled Investments and Investments). Gains and losses on these financial instruments are reflected in Investment income in the statements of revenues, expenses, and changes in net position. Long-term debt at December 31, 2016 and 2015, is disclosed at fair value (see Note 9 Long-Term Debt).

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

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

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

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

of December 31, 2016 and 2015, Assets held for future use included the following electrical plant assets: land for future substations, ducts and vaults, transmission lines, and plans for additional hydraulic generating capacity totaling \$59.5 million and \$60.8 million, respectively.

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

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

The Department's customer base accounted for electric energy sales at December 31, 2016 and 2015, as follows:

	2016	2015
Residential	36.3 %	35.9 %
Nonresidential	<u>63.7 %</u>	<u>64.1 %</u>
Total	100.0 %	100.0 %

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

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

Administrative and General Overhead Costs Applied—Certain administrative and general overhead costs are allocated to construction work-in-progress, major data processing systems development, programmatic conservation, relicensing mitigation projects, and billable operations and maintenance activities based on rates established by cost studies. Pension and benefit costs are allocated to capital and operations and maintenance activities based on a percentage of labor dollars. The administrative and general overhead costs applied totaled \$51.4 million and \$52.1 million in 2016 and 2015, respectively. Pension and benefit costs were \$59.9 million and \$58.7 million in 2016 and 2015, respectively. Administrative and general expenses, net of total applied overhead, were \$105.0 million and \$92.1 million in 2016 and 2015, respectively.

Interest Charged to Construction—Interest is charged for funds used during construction of plant assets and to non-billable construction work-in-progress. Interest charged represents the estimated costs of financing construction projects and is computed using the Department's weighted-average interest rate for all bonds outstanding, the majority of which are tax exempt, and is revised when new bonds are issued and at the end of the year. Interest charged to construction totaled \$10.2 million and \$8.9 million in 2016 and 2015, respectively, and is reflected as a reduction of Interest expense in the statements of revenues, expenses, and changes in net position.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

Nonexchange Transactions—Capital contributions and grants in the amount of \$38.4 million and \$39.4 million for 2016 and 2015, respectively, and noncapital grants in the amount of \$2.5 million and \$4.6 million for 2016 and 2015, 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 fair value in the period when all eligibility requirements have been met as described in GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*. Federal and state grant revenues are recognized as earned and are subject to contract and other compliance audits.

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

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

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

Reclassifications—Certain 2015 account balances have been reclassified to conform to the 2016 presentation.

2. FAIR VALUE MEASUREMENT

Effective January 1, 2016, the Department adopted GASB Statement No. 72, *Fair Value Measurement and Application*, as discussed in Note 1. The Department records certain assets and liabilities in

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

accordance with Statement No. 72, which defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurement. There were no changes to the valuation methods, or the fair value amounts presented on the Department's financial statements due to the implementation of Statement No. 72, however additional disclosures are presented below as required.

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

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

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

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

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

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

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

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

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NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

The Department had no assets or liabilities that met the criteria for Level 3 at December 31, 2016 and 2015. The following fair value hierarchy table presents information about the Department's assets, liabilities, and deferred inflows of resources reported at fair value on a recurring basis or disclosed at fair value as of December 31, 2016 and 2015:

(\$ in millions)

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

(\$ in millions)

2015	Level 1	Level 2	Total
Assets			
Fair value investments (23.7% of City pool)			
Bank note	\$ -	\$ 11.7	\$ 11.7
Commercial paper	-	52.1	52.1
Municipal bonds	-	65.8	65.8
Repurchase agreements	13.1	-	13.1
U.S. government agency mortgage-backed securities	-	52.1	52.1
U.S. government agency securities	-	114.4	114.4
U.S. treasury & U.S. government-backed securities	103.3	4.7	108.0
Total fair value investments (23.7% of City pool)	<u>116.4</u>	<u>300.8</u>	<u>417.2</u>
Exchange energy receivable	<u>-</u>	<u>1.5</u>	<u>1.5</u>
Total Assets at fair value	<u>\$ 116.4</u>	<u>\$ 302.3</u>	<u>\$ 418.7</u>
Deferred Inflows of Resources			
Exchange energy regulatory deferred gains	<u>\$ -</u>	<u>\$ 0.6</u>	<u>\$ 0.6</u>

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3. UTILITY PLANT

Utility Plant—Utility plant is recorded at original cost, which includes both direct costs of construction or acquisition and indirect costs, including an allowance for funds used during construction. The capitalization threshold for tangible assets was \$5,000, and for intangible assets, \$500,000 in 2016 and 2015. Plant constructed with capital contributions or contributions in-aid-of construction received from customers is included in Utility plant. Capital contributions and capital grants totaled \$38.4 million in 2016 and \$39.4 million in 2015. The Department uses a straight-line composite method of depreciation and amortization and, therefore, group assets into composite groups for purposes of depreciation. Estimated economic lives range from 4 to 57 years. The Department uses a half-year convention method on the assumption that additions and replacements are placed in service at mid-year. Depreciation and amortization expense as a percentage of depreciable utility plant-in-service was approximately 2.7% in 2016 and 2.7% in 2015. 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. No impairments were identified in 2016 and 2015.

At December 31, 2016 and 2015, several assets previously listed as Assets Held for Future Use have been placed in service totaling \$1.3 million and \$11.1 million, respectively.

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.

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NOTES TO FINANCIAL STATEMENTS

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Utility plant-in-service at original cost, including land at December 31, 2016, and 2015, was:

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

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	Hydroelectric Production	Transmission	Distribution	General	Intangible	Total
2015						
<i>(\$ in millions)</i>						
Utility Plant-in-service - At original cost:						
Plant-in-service, excluding Land:						
1/1/2015 Balance	\$ 763.6	\$ 207.8	\$ 2,194.2	\$ 313.9	\$ 456.5	\$ 3,936.0
Acquisitions	59.3	25.7	140.2	29.0	25.6	279.8
Dispositions	(1.8)	(2.6)	(38.8)	(4.4)	-	(47.6)
Transfers and adjustments	-	-	-	-	-	-
12/31/2015 Balance	<u>821.1</u>	<u>230.9</u>	<u>2,295.6</u>	<u>338.5</u>	<u>482.1</u>	<u>4,168.2</u>
Accumulated depreciation and amortization:						
1/1/2015 Balance	338.9	81.5	813.6	199.4	179.5	1,612.9
Increase in accumulated depreciation and amortization	15.2	4.8	69.0	18.5	12.7	120.2
Retirements	(6.4)	(3.8)	(46.6)	(4.7)	-	(61.5)
PY Adjustments	-	-	-	1.1	(0.9)	0.2
12/31/2015 Balance	<u>347.7</u>	<u>82.5</u>	<u>836.0</u>	<u>214.3</u>	<u>191.3</u>	<u>1,671.8</u>
Sub Total Plant-in-service - Net, excluding Land:	<u>\$ 473.4</u>	<u>\$ 148.4</u>	<u>\$ 1,459.6</u>	<u>\$ 124.2</u>	<u>\$ 290.8</u>	<u>\$ 2,496.4</u>
Land and land rights:						
1/1/2015 Balance	\$ 48.5	\$ 3.0	\$ 13.3	\$ 5.7	\$ -	\$ 70.5
Acquisitions	0.8	-	0.1	-	-	0.9
Dispositions	-	-	-	-	-	-
Transfers and adjustments	1.3	-	-	-	-	1.3
12/31/2015 Balance	<u>50.6</u>	<u>3.0</u>	<u>13.4</u>	<u>5.7</u>	<u>-</u>	<u>72.7</u>
Tot Total Plant-in-service - Net, including Land:	<u>\$ 524.0</u>	<u>\$ 151.4</u>	<u>\$ 1,473.0</u>	<u>\$ 129.9</u>	<u>\$ 290.8</u>	<u>\$ 2,569.1</u>

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NOTES TO FINANCIAL STATEMENTS

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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:

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

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

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

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

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NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

In 2015, actual net wholesale revenue was \$24.7 million less than budgeted due to an unusually warm and dry winter which yielded lower-than-normal hydro generation volumes, coupled with low wholesale energy market prices. Hence, net transfers of \$24.7 million were made to the operating cash account during the year. Interest income of \$1.3 million was earned on the RSA. The RSA ending balance was \$91.0 million at December 31, 2015, and no surcharges were in effect during 2015.

The RSA at December 31, 2016, and 2015, consisted of cash from the following sources:

<i>(\$ in millions)</i>	2016	2015
Rate Stabilization Account		
Beginning balance	\$ 91.0	\$ 114.4
Surcharge revenue	4.4	-
RSA interest income	1.2	1.3
Operating revenue	<u>(5.5)</u>	<u>(24.7)</u>
Ending balance	<u>\$ 91.1</u>	<u>\$ 91.0</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, 2016, and 2015, consisted of the following:

<i>(\$ in millions)</i>	2016	2015
Unearned revenue - Rate Stabilization Account		
Beginning balance	\$ 66.0	\$ 89.4
Surcharge revenue	4.4	-
RSA interest income	1.2	1.3
Operating revenue	<u>(5.5)</u>	<u>(24.7)</u>
Ending balance	<u>\$ 66.1</u>	<u>\$ 66.0</u>

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

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Net transfers from/(to) the RSA in the statements of revenues, expenses and net position for the periods ended December 31, 2016, and 2015 were as follows:

<i>(\$ in millions)</i>	2016	2015
Transfers from/(to) Rate Stabilization Account	<u>\$ (0.1)</u>	<u>\$ 23.4</u>

5. CASH AND EQUITY IN POOLED INVESTMENTS AND INVESTMENTS

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

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

As of December 31, 2016, and 2015, 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, 2016, and 2015, 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, 2016, and 2015, the Department did not have any dedicated investments.

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

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

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

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

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

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provided under the terms of the City Statement of Investment Policy and the procedures established therein.

As of December 31, 2016, and 2015 The City's pooled investments were as follows:

(\$ in millions)	2016		2015	
	Fair Value of City Pooled Investments	Weighted-Average Maturity (Days)	Fair Value of City Pooled Investments	Weighted-Average Maturity (Days)
Bank Note	\$ 48.1	658	\$ 49.4	879
Commercial Paper	204.5	90	219.9	25
Local Government Investment Pool	45.4	3	-	-
Municipal Bonds	306.5	1692	277.6	1084
Repurchase Agreements	50.4	3	55.1	4
US Government Agency Mortgage-Backed Securities	261.4	1853	219.8	1906
US Government Agency Securities	553.8	1355	482.7	1213
US Treasury and US Government-Backed Securities	<u>287.8</u>	472	<u>455.8</u>	487
Total	<u>\$ 1,757.9</u>		<u>\$ 1,760.3</u>	
Portfolio Weighted Average Maturity		1103		896

As of December 31, 2016, and 2015, the Department's share of the City pool was as follows:

(\$ in millions)	2016	2015
Operating cash and equity in pooled investments	\$ 73.2	\$ 152.5
Restricted cash and equity in pooled investments	<u>223.3</u>	<u>265.1</u>
Total	<u>\$ 296.5</u>	<u>\$ 417.6</u>
Balance as a percentage of City pool cash and investments	16.9%	23.7%

Fair Value of Pooled Investments—The City reports investments at fair value and categorizes its fair value measurements within the fair value hierarchy established by GASB Statement No. 72, *Fair Value Measurement and Application*. See Note 2 Fair Value Measurement. Fair value of the City's pooled investments fluctuates with changes in interest rates and the underlying size of the Pooled investment portfolio. To mitigate interest rate risk in the City's Pooled investment portfolio, the City typically holds its investments to maturity and manages its maturities to ensure sufficient monthly cash flow to meet its liquidity requirements. During the first quarter of 2017, the Federal Reserve continued with tightening of monetary policy which caused short-term interest rates to increase and longer-term interest rates to decline. The City's investments are held in slightly longer maturities beyond the influence of short-term monetary policy so the change in fair value of the City's investments, and the Department's share of investments, was favorable during the 1st quarter 2017 resulting in a prominently lower unrealized loss on investments.

In March 2016, the City made its first deposit into the Washington State Local Government Investment Pool (LGIP) managed by the Office of the Washington State Treasurer. The LGIP is structured as a 2a7-

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NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

like pool. It is overseen by the Office of the State Treasurer, the State Finance Committee, the Local Government Investment Pool Advisory Committee, and the Washington State Auditor's Office.

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

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

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

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

Credit Risk- Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The City's investments must adhere to state statutes. State statute and the City's Statement of Investment Policy do not stipulate credit quality requirements for U.S. Government or U.S. Government Agency Obligations, but provide for minimum credit ratings for investments in municipal bonds, commercial paper and corporate notes. State statute limits the maximum maturity and percentage allocation of investments in commercial paper and corporate notes but not for municipals. The City's investment policy limits the maximum percentage allocation that can be invested in municipal bonds, commercial paper and bank notes. In addition, commercial paper, bank, and corporate note purchases must adhere to the investment policies and procedures adopted by the Washington State Investment Board (Policy No. 2.05.500 revised September 15, 2016) that includes the following credit and maximum maturity constraints:

- A commercial paper issuer must be rated with the highest short-term credit rating of any two Nationally Recognized Statistical Ratings Organizations (NRSROs), at the time of purchase (P-1, A-1+, A-1, F1+, F1, by Moody's, S&P and Fitch, respectively). If the commercial paper is rated by more than two NRSROs, it must have the highest rating from all of the organizations.
- Commercial Paper investments may not have maturities exceeding 270 days. Any Commercial Paper purchased with a maturity longer than 100 days must also have an underlying long-term credit rating at the time of purchase in one of the two highest rating categories of a NRSRO.
- Bank notes or corporate notes at the time of purchase must have a credit rating of not less than "A" by any nationally recognized rating agency and must mature within 5.5 years.

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- Commercial paper, bank and corporate notes combined may not exceed 25 % of the total portfolio.
- No single issuer of commercial paper may exceed 3% of the total portfolio.
- No single issuer of bank or corporate notes rated AA or better by all rating agencies may exceed 3% of the total portfolio.
- No single issuer of bank or corporate notes rated single A by all rating agencies may exceed 2% of the total portfolio.
- Investments in a single credit issuer, consisting of commercial paper, bank and corporate notes combined, may not exceed 3% of the total portfolio.

The City subscribes to asset-backed commercial paper research from Moody’s Investors Service and public finance and non-U.S. bank research from Fitch Ratings. The City conducts internal due diligence of commercial paper, bank note and municipal issuers, and maintains an “approved list” of issuers. Finally, the City monitors the credit worthiness of its investments over time until they mature, or are potentially sold.

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. State statute and the City’s Statement of Investment Policy do not stipulate concentration limits for holdings of U.S. Government or U.S. Government Agency Obligations. However, as noted under credit risk, the City’s Statement of Investment Policy outlines maximum percentage allocations for municipal securities, commercial paper as well as bank notes and corporate notes.

The City’s investments in single issuers, including those maturing less than one year from date of purchase, and amounting to 5% or more of the total portfolio as of December 31, 2016, and 2015, are shown in the following table.

Issuer	2016		2015	
	Fair Value	Percent of Total Investments	Fair Value	Percent of Total Investments
Federal Farm Credit Bank/ Federal Home Loan Bank	\$ 329.9	19%	\$ 238.2	14%
Municipal Bonds	306.5	17%	-	-
Federal National Mortgage Association	302.4	17%	243.7	14%
United States Treasury	287.8	16%	-	-
Federal Home Loan Mortgage Corp.	182.8	10%	220.6	13%
	<u>\$1,409.4</u>	<u>79%</u>	<u>\$ 702.5</u>	<u>41%</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. In April 2016, the City transferred its custody relationship from Bank of New York (BNY) Mellon to Wells

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Fargo under the State of Washington's statewide custody provider program arranged by the State Treasurer's Office. The City mitigates counterparty risk by settling trades through its custodian on a delivery-versus-payment method.

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

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

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

6. ACCOUNTS RECEIVABLE

Accounts receivable at December 31, 2016 and 2015, consist of:

<i>(\$ in millions)</i>	Retail Electric	Wholesale Power	Other Operating	Operating Subtotal	Nonoperating Subtotal	Total
2016						
Accounts receivable	\$ 56.1	\$ 11.7	\$ 12.8	\$ 80.6	\$ 22.8	\$ 103.4
Less allowance for doubtful accounts	<u>(3.4)</u>	<u>-</u>	<u>(7.3)</u>	<u>(10.7)</u>	<u>-</u>	<u>(10.7)</u>
	<u>\$ 52.7</u>	<u>\$ 11.7</u>	<u>\$ 5.5</u>	<u>\$ 69.9</u>	<u>\$ 22.8</u>	<u>\$ 92.7</u>
2015						
Accounts receivable	\$ 46.3	\$ 9.8	\$ 11.5	\$ 67.6	\$ 19.5	\$ 87.1
Less allowance for doubtful accounts	<u>(2.8)</u>	<u>-</u>	<u>(5.6)</u>	<u>(8.4)</u>	<u>-</u>	<u>(8.4)</u>
	<u>\$ 43.5</u>	<u>\$ 9.8</u>	<u>\$ 5.9</u>	<u>\$ 59.2</u>	<u>\$ 19.5</u>	<u>\$ 78.7</u>

Wholesale power receivable includes \$2.1 million at December 31, 2016, and \$1.5 million at December 31, 2015, for exchange energy at fair value under long-term contracts (see Note 18 Long-Term Purchased Power, Exchanges, and Transmission).

7. OTHER ASSETS

Seattle City Council passed resolutions which authorized certain costs to be financed by debt and reported as regulatory assets 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 and Endangered Species Act costs are reported as regulatory assets in accordance with GASB Statement No. 62 and amortized over 20 years. Endangered Species Act costs are amortized over the remaining license period (see Note 16 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:

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NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

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

Regulatory assets and other assets, net, at December 31, 2016 and 2015, consisted of the following:

<i>(\$ in millions)</i>	2016	2015
Regulatory assets:		
Conservation costs—net	\$ 252.4	\$ 243.8
Endangered Species Act costs—net	1.9	2.0
Environmental costs	<u>83.1</u>	<u>31.2</u>
	<u>337.4</u>	<u>277.0</u>
Other charges and assets—net:		
Suburban infrastructure long-term receivables	53.3	53.2
Long-term interfund receivable for environmental costs	3.0	4.1
Long-term customer notes receivable	0.3	0.7
Puget Sound Energy interconnection and substation	0.4	0.5
Studies, surveys, and investigations	2.8	2.8
Other	<u>(1.0)</u>	<u>1.2</u>
	<u>58.8</u>	<u>62.5</u>
Total Other Assets	<u>\$ 396.2</u>	<u>\$ 339.5</u>

8. DEFERRED OUTFLOWS OF RESOURCES

Effective January 1, 2015, the Department adopted 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*. GASB Statement Nos. 68 and 71 require that employer contributions made between the pension plan measurement date and the employer’s fiscal year end be recognized as deferred outflows of resources. Also to be 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

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or demographic factors in the measurement of total pension liability, which are amortized to pension expense over a period equal to the expected remaining service life of employees receiving pension benefits. See Note 12 Seattle City Employees’ Retirement System.

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

Deferred outflows of resources at December 31, 2016 and 2015 consisted of the following:

<i>(\$ in millions)</i>	2016	2015
Deferred outflows of resources:		
Unrealized contributions and losses related to pension	\$ 64.6	\$ 33.4
Charges on advance refunding	<u>30.3</u>	<u>16.4</u>
Total	<u>\$ 94.9</u>	<u>\$ 49.8</u>

9. LONG-TERM DEBT

At December 31, 2016 and 2015, the Department’s long-term debt consisted of the following prior lien or parity bonds:

LONG-TERM <i>(\$ in millions)</i>		Fixed Rate	Maturity Year	Original Issuance	2016	2015
Prior Lien Bonds:						
2016A	ML&P Revenue Bonds	4.050% fixed	2041	\$ 31.9	\$ 31.9	\$ -
2016B	ML&P Refunding Revenue Bonds	4.000%–5.000%	2029	116.9	115.3	-
2016C	ML&P Improvement and Refunding Revenue Bonds	4.000%–5.000%	2046	160.8	160.8	-
2015A	ML&P Revenue Bonds	4.000%–5.000%	2045	171.9	167.5	171.9
2015B1	ML&P Adjustable Rate Revenue Bonds	variable rates	2045	50.0	50.0	50.0
2015B2	ML&P Adjustable Rate Revenue Bonds	variable rates	2045	50.0	50.0	50.0
2014	ML&P Improvement and Refunding Revenue Bonds	4.000%–5.000%	2044	265.2	239.5	250.0
2013	ML&P Improvement and Refunding Revenue Bonds	2.000%–5.000%	2043	190.8	181.9	184.8
2012A	ML&P Improvement and Refunding Revenue Bonds	2.000%–5.000%	2041	293.3	261.1	272.5
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	239.8	253.0
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	340.9	421.2
2010C	ML&P Recovery Zone Economic Development Bonds	5.590%–5.590%	2040	13.3	13.3	13.3
2008	ML&P Revenue and Refunding Revenue Bonds	4.000%–6.000%	2029	<u>257.4</u>	<u>31.5</u>	<u>169.5</u>
Total prior lien bonds				<u>\$ 2,729.3</u>	<u>\$ 2,118.1</u>	<u>\$ 2,070.8</u>

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The Department had the following activity in long-term debt during 2016 and 2015:

<i>(\$ in millions)</i>	Balance at 1/1/16	Additions	Reductions	Balance at 12/31/16	Current Portion
2016					
Prior Lien Bonds - fixed rate	\$ 1,970.8	\$ 309.6	\$ (262.3)	\$ 2,018.1	\$ 111.2
Prior Lien Bonds - variable rate	100.0	-	-	100.0	-
	\$ 2,070.8	\$ 309.6	\$ (262.3)	\$ 2,118.1	\$ 111.2

<i>(\$ in millions)</i>	Balance at 1/1/15	Additions	Reductions	Balance at 12/31/15	Current Portion
2015					
Prior Lien Bonds - fixed rate	\$ 1,903.8	\$ 171.9	\$ (104.9)	\$ 1,970.8	\$ 105.9
Prior Lien Bonds - variable rate	-	100.0	-	100.0	-
	\$ 1,903.8	\$ 271.9	\$ (104.9)	\$ 2,070.8	\$ 105.9

Prior Lien Bonds—In January 2016 the Department issued \$31.9 million of taxable Municipal Light and Power (ML&P) Clean Renewable Energy Bonds (2016A Bonds) and \$116.9 million of tax exempt Municipal Light and Power (ML&P) Refunding Revenue Bonds (2016B Bonds). In September 2016, the Department issued \$160.8 million of tax exempt Municipal Light and Power (ML&P) Improvement and Refunding Revenue Bonds (2016C Bonds). The 2016A Bonds had a fixed coupon interest rate of 4.05% and mature serially from January 1, 2036 to January 1, 2041. The 2016B Bonds had coupon interest rates ranging from 4.00% to 5.00% and mature serially from October 1, 2016 through April 1, 2029. The 2016C Bonds had interest rates ranging from 4.00% to 5.00% and mature serially from October 1, 2017 through October 1, 2037 with term bonds maturing annually from October 1, 2038 to October 1, 2046. The arbitrage yield was 1.01% for the 2016A Bonds, 1.88% for the 2016B Bonds, and 2.29% for the 2016C Bonds. Arbitrage yield, when used in computing the present worth of all payments of principal and interest on the Bonds in the manner prescribed by the Internal Revenue Code, produces an amount equal to the issue price of the Bonds. Proceeds from the 2016A Bonds are being used to finance certain capital improvement and conservation programs. Proceeds from the 2016B Bonds were used to refund \$122.8 million of the 2008 Bonds. Proceeds from the 2016C Bonds were used to finance certain capital improvement and conservation programs and to refund \$32.0 million of the 2010B Bonds.

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

In July 2015, the Department issued \$171.9 million of tax exempt Municipal Light and Power (ML&P) Revenue Bonds (2015A Bonds), and \$100.0 million of tax exempt variable rate Municipal Light and Power (ML&P) Revenue Bonds (2015B Bonds). The 2015A Bonds had coupon interest rates ranging from 4.00% to 5.00% and mature serially from May 1, 2016 to May 1, 2040 with term Bonds maturing May 1, 2045. The 2015B Bonds had coupon interest rates ranging from .69% to .71% during 2015 with term bonds maturing annually from May 1, 2026 to May 1, 2045. The 2015B Bonds bear interest at the adjusted Securities Industry and Financial Markets Association (SIFMA) interest rate which is the SIFMA Index plus the Index floating rate spread. The arbitrage yield was 3.52% for the 2015A Bonds and 3.47%

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for the 2015B Bonds. Proceeds from the 2015 Bonds were used to finance certain capital improvement and conservation programs and to make a deposit to the Reserve Fund.

The debt service on the 2015A Bonds requires a cash flow over the life of the bonds of \$286.0 million, including \$114.1 million in interest, and the debt service on the 2015B Bonds requires a cash flow over the life of the bonds of \$177.4 million including \$77.4 million in estimated interest.

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 2016 was a 6.8% reduction through the end of the federal fiscal year ending September 30, 2016 at which time the automatic reductions were adjusted to 6.9% in the amount the Department expects to receive from the federal government in connection with its Municipal Light and Power Revenue Bonds, 2010A (Taxable Build America Bonds—Direct Payment); Municipal Light and Power Revenue Bonds; 2010C (Taxable Recovery Zone Economic Development Bonds—Direct Payment); Municipal Light and Power Improvement Revenue Bonds, 2011B (Taxable New Clean Renewable Energy Bonds—Direct Payment); Municipal Light and Power Improvement Revenue Bonds, 2012C (Taxable New Clean Renewable Energy Bonds—Direct Payment); and Municipal Light and Power Revenue Bonds, 2016A (Taxable New Clean Renewable Energy Bonds—Direct Payment). Because of this reduction, the Department will receive approximately \$0.4 million less in interest subsidies than originally anticipated for 2016. The Department has sufficient revenues to pay the interest without these subsidies. The effect for the accrual of federal subsidies as of December 31, 2016 was inconsequential. The effect during 2017 is estimated to be lower federal subsidies by approximately \$0.4 million. The effect thereafter for federal subsidies is indeterminable. Sequestration was originally in effect through federal fiscal year (FFY) 2021 and has subsequently been extended through FFY 2024.

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

(\$ in millions)

Years Ending December 31	Fixed Rate Bonds		Variable Rate Bonds		Total
	Principal Redemptions	Interest Requirements	Principal Redemptions	Interest Requirements	
2017	\$ 111.2	\$ 93.8	\$ -	\$ 1.4	\$ 206.4
2018	111.8	88.5	-	1.4	201.7
2019	108.6	83.0	-	1.4	193.0
2020	107.8	77.5	-	1.4	186.7
2021	106.8	72.5	-	1.4	180.7
2022 – 2026	519.6	281.4	3.3	7.0	811.3
2027 – 2031	294.5	179.3	18.8	6.1	498.7
2032 – 2036	280.1	116.6	23.0	4.6	424.3
2037 – 2041	267.4	53.5	28.0	2.9	351.8
2042 – 2046	<u>110.3</u>	<u>10.2</u>	<u>26.9</u>	<u>0.7</u>	<u>148.1</u>
Total	<u>\$ 2,018.1</u>	<u>\$ 1,056.3</u>	<u>\$ 100.0</u>	<u>\$ 28.3</u>	<u>\$ 3,202.7</u>

Reserve Fund - The Department has created and is required under Ordinance No. 124916 (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.

The Bond Legislation 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 Department 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. Such transfers must be made, first, from money in the Light Fund (after making provision for payment of operating and maintenance expenses and for required payments into the Parity Bond Fund) 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, and then taking money from the restricted portion thereof).

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 established for each issue of Parity Bonds outstanding. The Bond Ordinance permits the Department to establish the Reserve Fund Requirement (if any) for each issue of the 2016C Bonds or of Future Parity Bonds in the bond resolution

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approving the sale of that 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.”

The Bond Resolution for the 2016C Bonds establishes the Reserve Fund Requirement for the 2016C 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.” Until the expiration of the Surety Bond in 2029 (See “*Method of Satisfying Reserve Fund Requirement*”) unless earlier terminated, this amount is calculated based on the debt service requirements for all Parity Bonds that are outstanding as of the Issue Date, excluding refunded bonds. Upon the expiration or termination of the Surety Bond, this amount will be recalculated to exclude the debt service requirements of the outstanding 2015B Bonds, a multimodal variable rate bond issue, and any other issue of Future Parity Bonds that are excluded pursuant to the legislation authorizing such Future Parity Bonds.

Upon the issuance of the 2016C Bonds, the aggregate Reserve Fund Requirement for all Parity Bonds outstanding was \$127.3 million. Upon the expiration or termination of the Surety Bond, the Reserve Requirement for the 2015B Bonds will be reduced to zero resulting in a reduction in the aggregate Reserve Fund Requirement.

Method of Satisfying Reserve Fund Requirement - The Bond Ordinance permits the Department to select the method of funding the Reserve Fund Requirement for each issue of the 2016C Bonds and for Future Parity Bonds in the applicable bond sale resolution 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 out of Gross Revenues (or out of any other legally available funds, including proceeds of such Future Parity Bonds) at one time on the Issue Date, (ii) making periodic payments 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.

With respect to the 2016C Bonds, the Bond Resolution provides that the Department will pay into the Reserve Fund out of Gross Revenues on the Issue Date such sums as will, together with money currently in the Reserve Fund, provide for the Reserve Fund Requirement for the 2016C Bonds. The Reserve Fund Requirement for the 2016C Bonds were satisfied by the amounts already on deposit and no additional deposit to the Reserve Fund was required as a result of the issuance of the 2016C Bonds. Upon issuance of the 2016C Bonds, there was a cash balance of \$76.7 million in the Reserve Fund, which together with the Surety Bond, fully satisfies the Reserve Fund requirement for the Outstanding Parity Bonds and the Bonds. The Department also held approximately \$24.1 million in the Reserve Fund at issuance of the 2016C Bonds that is intended to be used to satisfy the Reserve Fund Requirement upon the expiration or termination of the Surety Bond. An additional deposit of \$10.0 million was made to the Reserve Fund from operating cash for this purpose.

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.

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The City currently has a surety bond (the “Surety Bond”) purchased from Financial Security Assurance, Inc. (“FSA”), with a policy limit that is equal to \$74.7 million. This amount is used to satisfy a large proportion of the aggregate Reserve Fund Requirement. As of September 14, 2016, the remainder of the Reserve Fund Requirement was satisfied by \$52.6 million in cash held in the Reserve Fund. Also included within the Reserve Fund was \$34.4 million and \$20.5 million at the end of 2016 and 2015 that is expected to be used toward the eventual replacement of the Surety Bond upon its expiration. Total reserve fund balance was \$87.0 million and \$73.7 million at December 31, 2016 and 2015 respectively.

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 amount available to be drawn on the Surety Bond (the “Policy Limit”) is currently equal to \$74.7 million. However, should the Reserve Fund Requirement be reduced in the future, the Policy Limit would be reduced irrevocably by a like amount, which is expected to occur with the issuance of the 2016C Bonds. 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 reimbursement agreement. The Department’s reimbursement obligation is subordinate to the Department’s obligation to pay the principal of and interest on the Parity Bonds.

AGM is currently rated A2 and AA by Moody’s Investors Service and Standard & Poor’s Ratings Services, 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.

Irrevocable Trust Accounts—All the proceeds of the 2016B refunding revenue Bonds and \$36.5 million of the 2016C refunding revenue Bonds were placed in a separate irrevocable trust accounts to provide for all future debt service payments on certain prior lien bonds advance refunded or defeased. There were balances outstanding in the irrevocable trust account during 2016 for prior lien bonds advance refunded or defeased with the 2016 bonds and no balances were outstanding for prior lien bonds advance refunded prior to 2016. Neither the assets of the trust account nor the liabilities for the defeased bonds are reflected in the Department’s financial statements. The outstanding principal balance of all bonds defeased through 2016 was \$154.8 million as of December 31, 2016. As of December 31, 2016, none of the defeased bonds were called and paid from the 2016 irrevocable trust account. Funds held in the 2016 irrevocable trust accounts at December 31, 2016 are sufficient to service and redeem the defeased bonds outstanding.

Bond Ratings—The 2016 and 2015 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 for 2016 and 2015 was \$202.1 million and \$194.6 million, respectively. Total revenue available for debt service as defined for the same periods was \$331.9 million and \$306.6 million, respectively. Annual interest and principal payments are expected to require 63.7% of revenues available for debt service for 2017 and required 65.8% in 2016.

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Federal Arbitrage Regulations—Revenue bonds are subject to federal arbitrage regulations and the Department has complied with these regulations. \$0.3 million in federal arbitrage rebate liability was recorded in 2016 and no arbitrage rebate liability was recorded in 2015.

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, 2016 and 2015, respectively.

Fair Value— Debt is recorded and presented in the financial statements at carrying value net of premiums and discounts and shown below with fair values as provided by the Department’s financial advisor, Piper Jaffray & Company. The fair value for the Department’s bonds are estimated based on the quoted market prices for the same or similar issues or on the current rates offered to the Department for debt of the same remaining maturities. Carrying amounts and fair values at December 31, 2016 and 2015, were as follows:

(\$ in millions)	2016		2015	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-term debt:				
Prior lien bonds	\$ 2,276.5	\$ 2,298.1	\$ 2,196.7	\$ 2,304.6

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

The excess of costs incurred over the carrying value of bonds refunded on early extinguishment of debt is amortized as a component of interest expense using the effective interest method over the terms of the issues to which they pertain. Charges on advance refunding amortized to interest expense totaled \$4.6 million in 2016 and \$2.9 million in 2015. Charges on advance refunding in the amount of \$30.3 million and \$16.4 million are included as a component of Deferred Outflows of Resources on the 2016 and 2015 balance sheets, respectively.

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Noncurrent Liabilities—The Department had the following activities during 2016 and 2015:

(\$ in millions)

	Balance at 1/1/16	Additions	Reductions	Balance at 12/31/16
2016				
Net pension liability	\$ 271.8	\$ 70.9	\$ (24.9)	\$ 317.8
Accumulated provision for injuries and damages	42.3	49.8	(0.1)	92.0
Compensated absences	19.4	-	(3.6)	15.8
Other	8.0	0.1	(0.1)	8.0
Total	<u>\$ 341.5</u>	<u>\$ 120.8</u>	<u>\$ (28.7)</u>	<u>\$ 433.6</u>
2015				
	Balance at 1/1/15, as Adjusted	Additions	Reductions	Balance at 12/31/15
Net pension liability	\$ 255.9	\$ 38.0	\$ (22.1)	\$ 271.8
Accumulated provision for injuries and damages	42.9	0.1	(0.7)	42.3
Compensated absences	16.7	2.7	-	19.4
Other	7.7	0.4	(0.1)	8.0
Total	<u>\$ 323.2</u>	<u>\$ 41.2</u>	<u>\$ (22.9)</u>	<u>\$ 341.5</u>

Additional information on the Net pension liability can be found in Note 12 Seattle City Employees' Retirement System. Information about the provision for injuries and damages can be found in Note 10 Provision for Injuries and Damages and Note 14 Environmental Liabilities. Other includes primarily a liability for Other Postemployment Benefits; see Note 13 Other Postemployment Benefits. The beginning balance for 2015 was adjusted to record Net pension liability for the Department in accordance with GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*.

10. PROVISION FOR INJURIES AND DAMAGES

The Department establishes liabilities for claims based on estimates of the ultimate projected cost of claims. Environmental related expenses are discussed in Note 14 Environmental Liabilities. The length of time for which such costs must be estimated varies depending on the nature of the claim. Actual claims costs depend on such factors as inflation, changes in doctrines of legal liability, damage awards, and specific incremental claim adjustment expenses. Claims liabilities are recomputed periodically using 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 2016 and 2015, liabilities for lawsuits, claims, and workers' compensation were discounted over a period of 24 to 28 years at the City's average annual rate of return on investments, which was 1.13% and 0.931%, 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. Beginning June 1, 2014, the City had general liability insurance coverage for losses

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over a \$6.5 million self-insured retention per occurrence, with a \$60.0 million limit per occurrence in the aggregate. Effective June 1, 2016 the limit was increased to \$85.0 million. The Department had no settled claims exceeding coverage in the last three years.

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

The changes in the provision for injuries and damages at December 31, 2016 and 2015 are as follows:

<i>(\$ in millions)</i>	2016	2015
Beginning unpaid claims liability	\$ 12.8	\$ 12.9
Payments	(4.3)	(5.2)
Incurred claims	<u>5.5</u>	<u>5.1</u>
Ending unpaid claims liability	<u>\$ 14.0</u>	<u>\$ 12.8</u>

The provision for injuries and damages included in current and noncurrent liabilities at December 31, 2016 and 2015 is as follows:

<i>(\$ in millions)</i>	2016	2015
Noncurrent liabilities	\$ 10.0	\$ 8.7
Accounts payable and other current liabilities	<u>4.0</u>	<u>4.1</u>
Total liability	<u>\$ 14.0</u>	<u>\$ 12.8</u>

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11. ACCOUNTS PAYABLE

Accounts Payable and Other Current Liabilities—The composition of accounts payable and other current liabilities at December 31, 2016 and 2015, is as follows:

(\$ in millions)	2016	2015
Vouchers payable	\$ 42.9	\$ 51.1
Power accounts payable	24.2	23.5
Taxes payable	8.2	9.4
Claims payable	8.6	16.4
Guarantee deposit and contract retainer	10.3	3.0
Other accounts payable	5.3	3.2
Total	<u>\$ 99.5</u>	<u>\$ 106.6</u>

12. SEATTLE CITY EMPLOYEES’ RETIREMENT SYSTEM

Effective January 1, 2015, the Department implemented 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 cumulative effect of the change in Net position due to the change in accounting standard was a decrease of \$233.8 million and is shown as an adjustment to beginning Net position for 2015.

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. Following is membership data for employees covered by the benefit terms as of the reporting date, December 31, 2016, and the measurement date, December 31, 2015 and December 31, 2015 report date and December 31, 2014 measurement date:

	2016	2015
Active members	9,151	8,853
Retired members and beneficiaries receiving benefits	6,382	6,222
Vested terminated employees entitled to benefits	2,352	1,246

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

The NPL was measured as of December 31, 2015 and December 31, 2014, and the total pension liability used to calculate the NPL was based on an actuarial valuation as of December 31, 2014, rolled forward to December 31, 2015 and December 31, 2014, respectively.

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

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

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valuations. Contribution rates and amounts were as follows as of the reporting dates, December 31, 2016 and December 31, 2015, and the measurement dates, December 31, 2015 and December 31, 2014:

(\$ in millions)	Contributions			
	Rates		Amounts	
	Employer	Most members	City	Department
2016	15.29%	10.03%	\$108.5	\$23.9
2015	15.73%	10.03%	\$101.0	\$24.9

Effective January 1, 2017, the city will implement a new defined benefit retirement plan SCERS II for new employees hired on or after January 1, 2017. These changes have no effect on net pension liability or employee contributions as of December 31, 2016.

Net Pension Liability –The Department reported a liability of \$317.8 million and \$271.8 million for its proportionate share of net pension liability as of December 31, 2016 and December 31, 2015, respectively. The Department’s proportion of the NPL as of December 31, 2016 and December 31, 2015 was based on contributions to SCERS during the fiscal year ended December 31, 2015 and December 31, 2014, respectively. The Department’s proportionate share percent was 24.46% and 24.53% for the years ended December 31, 2015 and December 31, 2014, respectively. The net pension liability was measured as of December 31, 2015 and December 31, 2014, and the total pension liability used to calculate the net pension liability was based on an actuarial valuation as of December 31, 2014, rolled forward to December 31, 2015 and December 31, 2014, respectively.

In April, 2016, there was a transfer of 115 employees from Seattle City Light to the newly created Seattle Information Technology department. Employer pension contributions for transferred employees continued to be recognized as a Seattle City Light expense through December 31, 2016 and are reflected in our deferred outflows of resources herein. This transfer will affect Seattle City Light’s proportionate share of pension expense in 2017, but does not affect the net pension liability as of December 31, 2016.

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Changes in Net Pension Liability

(In millions)

	Fiscal Year Ended December 31	
	2016	2015
<u>Total Pension Liability</u>		
Service cost	\$ 24.5	\$ 23.1
Interest on total pension liability	62.3	59.3
Effect of plan changes		
Effect of economic/demographic gains or losses	0.5	-
Effect of assumptions changes or inputs	-	-
Refund of contributions	(39.0)	(36.9)
Net change in total pension liability	<u>44.4</u>	<u>41.8</u>
Total pension liability, beginning of period	841.5	799.7
Effect of change in proportionate share	(2.4)	-
Adjusted total pension liability, beginning of period	<u>839.1</u>	<u>799.7</u>
Total pension liability, end of period	<u>883.5</u>	<u>841.5</u>
<u>Plan fiduciary net position</u>		
Benefit payments	(39.0)	(36.9)
Refunds of contributions	(3.9)	(3.7)
Administrative expenses	(2.0)	(1.3)
Member contributions	16.1	15.7
Employer contributions	24.7	22.1
Net investment income	1.7	30.0
Net change in Plan fiduciary net position	<u>(2.4)</u>	<u>25.9</u>
Plan fiduciary net position, beginning of period	569.7	543.8
Effect of change in proportionate share	(1.6)	-
Adjusted fiduciary net position, beginning of period	<u>568.1</u>	<u>543.8</u>
Plan fiduciary net position, end of period	<u>565.7</u>	<u>569.7</u>
Net pension liability, end of period	<u>\$ 317.8</u>	<u>\$ 271.8</u>

The Department recognized pension expense of \$40.8 million and \$29.5 million for the years ended December 31, 2016, and 2015, respectively.

Actuarial assumptions – The total pension liability at December 31, 2016 and 2015, was based on actuarial valuations as of December 31, 2015 and 2014, respectively, using the following actuarial methods and assumptions:

Actuarial Cost Method	Individual Entry Age Normal
Amortization Method	
Level percent or level dollar	Level percent
Closed, open, or layered periods	Closed
Amortization Period and Start Date	30 years as of January 1, 2013 Valuation
Amortization Growth Rate	4.00%
Asset Valuation Method	
Smoothing period	5 years

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

All other actuarial assumptions used in the December 31, 2015 valuation were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2013, including updates to salary increase, mortality and retirement rates.

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

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

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

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Asset Category	Target Allocation	Geometric Expected Return
Equity		
Public Equity	48.0%	4.63%
Private Equity	9.0%	6.25%
Fixed Income		
Broad Fixed Income	18.0%	0.75%
Credit Fixed Income	5.0%	3.55%
Real Assets		
Real Estate	12.0%	3.25%
Infrastructure	3.0%	3.25%
Diversifying Strategies	5.0%	3.25%

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

Discount Rate Sensitivity
(In millions)

<u>Discount Rate</u>	Net Pension Liability at December 31,	
	2016	2015
1% decrease - 6.50%	\$ 425.6	\$ 375.1
Current discount Rate - 7.50%	317.8	271.8
1% increase - 8.50%	227.0	185.0

Plan Fiduciary Net Position – Detailed information about the SCERS’s fiduciary net position is available in the separately issued, audited financial statements as of December 31, 2015, which are publicly available at <http://www.seattle.gov/retirement/about-us/financials-and-governance>.

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, 2016, and December 31, 2015:

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<i>(\$ in millions)</i>	December 31	
	2016	2015
<u>Deferred outflows of resources</u>		
Differences between expected and actual experience	\$ 0.4	\$ -
Net difference between projected and actual earnings	38.9	8.5
Contributions made subsequent to measurement date	25.3	24.9
Total deferred outflows of resources	<u>\$ 64.6</u>	<u>\$ 33.4</u>
<u>Deferred inflows of resources</u>		
Differences between employer contributions and proportionate share of contributions	\$ 0.8	\$ -
Total deferred inflows of resources	<u>\$ 0.8</u>	<u>\$ -</u>

Department contributions made in 2016 in the amount of \$25.3 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, 2017. These contributions along with the net difference between projected and actual earnings reported as deferred outflows of resources will be recognized as pension expense in the future as shown in the following table. Note that additional future deferred outflows and inflows of resources may impact these amounts.

Year Ending December 31	Amortization
<i>(\$ in millions)</i>	
2017	\$ 35.5
2018	10.2
2019	10.1
2020	8.0
2021	-
Thereafter	-
Total	<u>\$ 63.8</u>

13. OTHER POSTEMPLOYMENT BENEFITS

Health care plans for active and retired employees are administered by the City of Seattle as single-employer defined benefit public employee health care plans.

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

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established and may be amended by ordinance of the Seattle City Council and as provided in Seattle Municipal Code 4.50.020.

The City's expected contribution for employer-paid benefits was \$1.3 million, \$1.1 million, and \$1.0 million in 2016, 2015, and 2014, respectively. The Department's portion of the expected contribution was \$0.2 million, \$0.2 million, and \$0.2 million in years 2016 and 2015, and 2014, respectively. The City recorded an expense and liability for OPEB of \$2.6 million in 2016 and \$2.6 million in 2015. The Department recorded a reduction to expense and a decrease in liability for OPEB of \$0.1M in 2016, and an expense and increase in liability for OPEB of \$0.5M in 2015. The department reported an OPEB liability of \$7.9M in 2016 and \$8.0M in 2015.

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:

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Actuarial data and assumptions

Valuation date	January 1, 2014
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Initial amortization period	30 years, open
Discount rate	3.48%
Health care cost trend rates—medical:	Aetna plans: 8.0%, decreasing by 0.5% each year for 2 years with varying rate changes thereafter. Group Health plans: 7.5%, decreasing by 0.5% each year for 3 years with varying rate changes thereafter.
Participation	40% of Active Employees who retire participate
Mortality	General Service Actives and Retirees based on RP-2000 Table and RP-2000 Combined Healthy, respectively, with ages set back six years for male and female actives; set back two years for male and female retirees. Rates are generational for both males and females using Projection Scale AA.
Marital status	45% of members electing coverage: married or have a registered domestic partner. Male spouses two years older than their female spouses.
Morbidity factors	
Aetna Traditional & Aetna Preventive	Per-capita claim costs for the two Aetna plans were developed based on a blending of the following with equal weights (25% each): self-funding premium equivalent rates provided by City of Seattle, Aon Hewitt's internal manual rate, retiree claim experience specific to each plan from 1/1/2012 to 8/31/2014, and active claim experience specific to the Aetna plans from 1/1/2012 to 8/31/2014. For the Aetna plans, because the retirees' spouses pay a lower premium for health care coverage than retirees, the net cost to the City for the spouse coverage is greater than for a retiree of the same age and gender. The morbidity factors were adjusted to reflect this discrepancy.
Group Health Standard and Deductible Plans	Per-capita claim costs for the two Group Health plans were developed based on a blending of the following with equal weights (33.3% each): self-funding premium equivalent rates provided by City of Seattle, Aon Hewitt's internal manual rate, and retiree claim experience specific to each plan from 1/1/2012 to 8/31/2014.
Other considerations	Active employees with current spouse and/or dependent coverage elect same plan and coverage. After retirement, it is assumed that children will have aged off of coverage and will have \$0 liability.

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Based on the actuarial valuation date of January 1, 2014, the City’s annual cost for fiscal years ended December 31, 2016 and 2015, the amount of expected contribution to the plan, and changes in net obligation are as follows:

(\$ in millions)	2016	2015
Annual required contribution	\$ 7.7	\$ 4.6
Interest on net OPEB obligation	1.5	1.6
Adjustment to annual required contribution	(2.5)	(2.5)
Annual OPEB cost (expense)	<u>6.7</u>	<u>3.7</u>
Expected contribution (employer-paid benefits)	(2.0)	(1.1)
Increase in net OPEB obligation	4.7	2.6
Net OPEB obligation - beginning of the year	49.4	46.8
Net OPEB obligation - end of year	<u>\$ 54.1</u>	<u>\$ 49.4</u>

* Estimated using growth rate of 2014-2015 from 2015 actuarial report

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

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

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

14. ENVIRONMENTAL LIABILITIES

Environmental liabilities were \$86.7 million and \$45.9 million, at December 31, 2016, and 2015, respectively.

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

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

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manager has estimated that total remediation liability may be up to \$300.0M, of which \$100.0 million is the City share. The Department recorded its share of the estimated liability of \$45.0 million in October, 2016 in accordance with GASB Statement No. 49. The Department's ultimate liability is indeterminate.

- *The Lower Duwamish Waterway Superfund Site*—In 2001, the EPA designated this site as a federal Superfund site for contaminated sediments. The Department's involvement is attributable to its land ownership or use of property along the river. The City of Seattle is one of four parties who signed an Administrative Order on Consent (AOC) with the EPA and Washington State Department of Ecology (DOE) to conduct a remedial investigation and feasibility study to prepare a site remedy. The EPA approved the feasibility study in November 2012. In February 2013, the EPA issued the Proposed Plan for cleanup of the Lower Duwamish Waterway. In December 2014, the EPA issued its final Record of Decision (ROD) indicating its preferred alternative clean-up with an estimated cost of \$342.0 million. The extent and cost of additional investigation work required prior to implementation of remedy is still unknown. The Department's ultimate liability is indeterminate.

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

The City is also responsible for investigation and cleanup at the Port of Seattle Terminal 117 Streets, Uplands and Sediments sites. The South Park street is not owned by the Department but the City has jurisdiction over the streets and right-of-ways. Remediation activities for streets was completed in August 2016. The City's share for the uplands and sediments site is paid 100% by the Department. The City's share for the adjacent streets is split between the Department and SPU according to a Memorandum of Agreement (MOA) signed in August 2014. According to this MOA, SPU will pay 2.5% for some portions of the construction and up to 100% for other parts of the cleanup and restoration. The cleanup of the sediments and the upland is complete.

- *South Park Marina*—The Washington Department of Ecology has notified the City that it is a Potentially Liable Party for contamination at South Park Marina, which is adjacent to Terminal 117. The Department is the lead for the City at this site. Negotiations with the property owner and with Washington State Department of Ecology is underway. The Department's ultimate liability is indeterminate.
- *North Boeing Field/Georgetown Steam Plant*—The City, King County, and Boeing signed an Administrative Order issued by the Washington State Department of Ecology (Ecology) requiring them to investigate and possibly remove contamination in an area that encompasses North Boeing Field, the Department's Georgetown Steam Plant, and the King County Airport. This site was also the subject of the lawsuit brought by the City against Boeing. Boeing agreed to pay 67% of the costs for Ecology's implementation of the current order. The order requires completion and then implementation of a remedial investigation and feasibility. The final remedial investigation 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 all parties responsible for conducting

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and completing remedial action at the site. The City is responsible for 1/3 of the costs, with the Department's share at 90% and SPU's share at 10%. The implementation of the RI work plan is ongoing and will continue into the first quarter of 2016. The schedule for the feasibility study (F/S) anticipates a draft F/S document in May 2018 and the Final F/S document in November 2018. Total estimated costs for the current order are \$6.0 million. Costs to date are approximately \$6.8 million with an additional \$383K projected through completion of the F/S. Boeing and the City will each pay 100% of costs for remedial action at their own facilities.

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

The Department is aggressively pursuing other third parties that may have contributed to the contamination of superfund sites for appropriate cost sharing. The Department's estimate for realized recoveries was \$3.0 million and \$4.1 million at December 31, 2016, and 2015, respectively, primarily representing an interfund receivable from SPU for recovery of remediation costs incurred related to the lower Duwamish Waterway site. The Department's estimate for not yet realized recoveries from other parties for their share of remediation work performed that partially offset the Department's estimated environmental liabilities was zero at December 31, 2016, and 2015. As of December 31, 2016, and 2015, environmental costs of \$83.1 million and \$31.2 million were deferred primarily for cleanup estimates of the Department's responsibility for the Lower Duwamish Waterway and East Waterway Superfund Sites; and these costs will be recovered through future rates in accordance with GASB Statement No. 62.

The changes in the provision for environmental liabilities at December 31, 2016, and 2015 are as follows:

<i>(\$ in millions)</i>	2016	2015
Beginning environmental liability, net of recoveries	\$ 45.9	\$ 57.6
Payments	(10.0)	(8.4)
Incurred environmental liability	<u>50.8</u>	<u>(3.3)</u>
Ending environmental liability, net of recoveries	<u>\$ 86.7</u>	<u>\$ 45.9</u>

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The provision for environmental liabilities included in current and noncurrent liabilities at December 31, 2016 and 2015, is as follows:

(\$ in millions)	2016	2015
Noncurrent liabilities	\$ 82.0	\$ 33.6
Accounts payable and other current liabilities	<u>4.7</u>	<u>12.3</u>
Ending liability	<u>\$ 86.7</u>	<u>\$ 45.9</u>

15. OTHER LIABILITIES

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

Other liabilities at December 31, 2016 and 2015 consisted of the following:

(\$ in millions)	2016	2015
Other liabilities:		
Unearned capital fees	\$ 30.2	\$ 24.6
Customer deposits—sundry sales	6.4	4.5
Unearned operations and maintenance revenues	0.2	0.2
Unearned revenues—other	<u>0.4</u>	<u>0.4</u>
Total	<u>\$ 37.2</u>	<u>\$ 29.7</u>

16. DEFERRED INFLOWS OF RESOURCES

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

The unearned revenue for the Rate Stabilization Account for 2016 and 2015 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).

The Department receives payments from Bonneville for certain conservation measures implemented by retail customers which are recorded as Other deferred inflows of resources and amortized to revenues over a 20 year period.

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

Bonneville Slice contract true-up credits are reported as regulatory liabilities in the year invoiced and recognized as revenue in the following year. Seattle City Council affirmed the Department's practice of recognizing the effects of reporting the fair value of exchange contracts in future periods for rate making

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purposes and maintaining regulatory accounts to spread the accounting impact of these accounting adjustments, in Resolution No. 30942 adopted January 16, 2007 (see Note 18 Long-Term Purchased Power, Exchanges, and Transmission).

Deferred inflows of resources at December 31, 2016 and 2015 consisted of the following:

<i>(\$ in millions)</i>	2016	2015
Deferred inflows of resources:		
Unearned revenue—rate stabilization account	\$ 66.1	\$ 66.0
Changes in Net Pension Liability - changes in employer proportion and differences between contributions and proportionate share of pension expense	0.8	-
Bonneville energy conservation agreement	25.7	17.7
Bonneville Slice true-up credit	0.4	5.6
Exchange energy: regulatory gain	<u>1.2</u>	<u>0.6</u>
Total	<u>\$ 94.2</u>	<u>\$ 89.9</u>

17. SHORT-TERM ENERGY CONTRACTS AND DERIVATIVE INSTRUMENTS

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

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, 2016 and 2015 consisted of the following:

<i>(\$ in millions)</i>	Aggregate Contract Amount	Aggregate Fair Value	Unrealized Gain (Loss)
2016			
Sales	\$ 23.3	\$ 26.6	\$ (3.3)
Purchases	2.2	2.4	0.2
Total	<u>\$ 25.5</u>	<u>\$ 29.0</u>	<u>\$ (3.1)</u>
	Aggregate Contract Amount	Aggregate Fair Value	Unrealized Gain (Loss)
2015			
Sales	\$ 13.3	\$ 13.5	\$ (0.2)
Purchases	1.4	1.3	(0.1)
Total	<u>\$ 14.7</u>	<u>\$ 14.8</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 2016 and 2015. In addition, the Seattle City Council has deferred recognition of the effects of reporting the fair value of derivative financial instruments for rate-making purposes, and the Department maintains regulatory accounts to defer the accounting impact of these accounting adjustments in accordance with GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* (see Note 7 Other Assets and Note 16 Deferred Inflows of Resources).

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

Credit Risk—Credit risk relates to the potential losses that the Department would incur as a result of nonperformance by counterparties of their contractual obligations to deliver energy or make financial settlements. Changes in market prices may dramatically alter the size of credit risk with counterparties, even when conservative credit limits are established. The Department seeks to mitigate credit risk by: entering into bilateral contracts that specify credit terms and protections against default; applying credit limits and duration criteria to existing and prospective counterparties; and actively monitoring current credit exposures. The Department also seeks assurances of performance through collateral requirements in the form of letters of credit, parent company guarantees, or prepayment.

The Department has concentrations of suppliers and customers in the electric industry including: electric utilities; electric generators and transmission providers; financial institutions; and energy marketing and trading companies. In addition, the Department has concentrations of credit risk related to geographic

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location as it operates in the western United States. These concentrations of counterparties and concentrations of geographic location may impact the Department's overall exposure to credit risk, either positively or negatively, because the counterparties may be similarly affected by changes in conditions.

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

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

Bonneville Power Administration—The Department purchases electric energy from the U.S. Department of Energy, Bonneville Power Administration (Bonneville) under the Block and Slice Power Sales Agreement, a 17-year contract, for the period October 1, 2011 through September 30, 2028. Block quantities, Slice percentage and Bonneville rates are expected to be recalculated periodically during the term of the contract. Rates will be developed and finalized every two years. Accordingly, certain estimates and assumptions were used in the calculations in the estimated future payments table below.

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

Bonneville's Residential Exchange Program (REP) was established as a mechanism to distribute financial benefits of the Federal Columbia River Power System to residential customers of the region's investor owned utilities (IOUs). In May 2007, the Ninth Circuit Court (the Court) rulings found the 2000 REP Settlement Agreements with IOUs inconsistent with the Northwest Power Act. To remedy this inconsistency, the court ruled that refunds be issued to non-IOUs through 2019. The Department received \$5.7 million in both 2016 and 2015 in billing credits related to both the Block and Slice agreements as a result of the Court decision.

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 provided and billed Lucky Peak \$0.3 million for operational and administrative services in both 2016 and 2015. These amounts are recorded as offsets to purchased power expense. The Department paid \$3.6 million and \$3.4 million for energy from Lucky Peak in 2016 and 2015, respectively.

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The Department's receivables from Lucky Peak were less than \$0.1 million at December 31, 2016, and 2015, respectively. The Department's payables to Lucky Peak were \$0.1 million and \$0.5 million at December 31, 2016, and 2015, respectively.

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

Expenses incurred and energy received under these and other long-term purchased power agreements at December 31, 2016 and 2015 were as follows:

(\$ in millions)	Expense		Average Megawatts	
	2016	2015	2016	2015
Bonneville Block	\$ 80.0	\$ 78.7	264.7	269.8
Bonneville Slice	80.7	77.8	320.3	297.8
Long-term purchase power—Bonneville	160.7	156.5	585.0	567.6
Lucky Peak	6.9	6.3	38.8	31.7
British Columbia - High Ross Agreement	13.4	13.4	35.1	35.4
Grant County Public Utility District	2.3	3.2	2.9	2.7
Columbia Basin Hydropower	6.2	6.6	28.9	29.5
Bonneville South Fork Tolt billing credit	(3.3)	(3.3)	-	-
Renewable energy - State Line Wind	24.8	20.8	42.5	34.2
Renewable energy - other	8.7	8.7	15.4	15.5
Exchanges and loss returns energy at fair value	5.5	6.1	56.0	71.2
Long-term purchased power booked out	(5.4)	(4.7)	(32.7)	(24.0)
Long-term purchased power—other	59.1	57.1	186.9	196.2
Total	\$ 219.8	\$ 213.6	771.9	763.8

Renewable Energy Purchase and/or Exchanges—The Energy Independence Act, Chapter 19.285 Revised Code of Washington, requires all qualifying utilities in Washington State to meet certain annual targets of eligible new renewable resources and/or equivalent renewable energy credits as a percentage of total energy delivered to retail customers. The annual targets are: at least 3% by 2012, at least 9% by 2016, and at least 15% by 2020. The Department's 2016 and 2015 resource portfolio is adequate to meet the 9% target and 3% target, respectively.

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

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Fair Value of Exchange Energy—Exchange energy receivable and the related regulatory gains at December 31, 2016 and 2015, were valued using Kiodex Forward Curves, and Dow Jones U.S. Daily Electricity Price Indices for settled deliveries. An income valuation technique that uses interest rate forecasts from HIS Global Insight is used to discount for present value based on the interest rate for U.S. Government Treasury constant maturities, bond-equivalent yields by the future month of the transactions (see Note 2 Fair Value Measurement and Note 16 Deferred Inflows of Resources).

Estimated Future Payments Under Purchased Power, Transmission and Related Contracts—The Department's estimated payments for purchased power and transmission, Renewable Energy Credits (RECs) and other contracts for the period from 2017 through 2065, undiscounted, are as follows:

Years Ending December 31 (\$ in millions)	Estimated Payments ^(a)
2017	\$ 288.8
2018	283.5
2019	291.6
2020	308.6
2021(b)	292.2
2022-2026(c)	1,395.7
2027-2031(d)	497.2
Thereafter (through 2065)	<u>160.0</u>
Total	<u>\$ 3,517.6</u>

(a) 2017 to 2019 includes estimated REP recoveries from Bonneville.

(b) British Columbia - High Ross direct cost payments end in 2020.

(c) Bonneville transmission contract expires July 31, 2025.

(d) Bonneville Block and Slice contract expires September 30, 2028.

19. COMMITMENTS AND CONTINGENCIES

Operating Leases—While the Department owns several buildings including those at the Skagit and Boundary hydroelectric projects, service centers, and the System Control Center, the Department leases some administrative office space from the City. Such lease payments to the City are made through a central cost allocation process, similar to all other payments for tenancy of City property. These payments are not included in the operating leases table below. The Department also leases certain office equipment and smaller facilities for various purposes through long-term operating lease agreements. Expenses for all operating leases totaled \$1.7 million in 2016 and \$1.6 million in 2015.

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Minimum payments under the operating leases are:

Year Ending December 31 (\$ in millions)	Minimum Payments
2017	\$ 1.5
2018	1.1
2019	1.0
Total	<u>\$ 3.6</u>

2017 Capital Program—The budget for the Department’s 2017 program for capital improvement, conservation, and deferred operations and maintenance including required expenditures on assets owned by others is \$541.8 million. At December 31, 2016, the Department had approximately \$191.0 million in commitments relating thereto. Department overhead costs and other allocations associated with the capital program are not included in the budget amount.

2017 Operations and Maintenance Budget—The Department’s 2017 Operating and Maintenance budget is \$1,041.4 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 \$203.5 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, at which time their current FERC licenses expire. The estimated portion of Boundary fees is included through 2055, the year in which the current license issued by FERC expires. The current Boundary FERC license and related issues are discussed below.

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

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

The cost projections for such mitigation over the expected 42-year life of the license, included in the Department’s license application, were estimated to be \$371.0 million adjusted to 2016 dollars, of which \$42.9 million were expended through 2016. Projected mitigation cost estimates are subject to revision as more information becomes available.

Skagit and South Fork Tolt Licensing Mitigation and Compliance—In 1995, the FERC issued a license for operation of the Skagit hydroelectric facilities through April 30, 2025. On July 20, 1989, the FERC license for operation of the South Fork Tolt hydroelectric facilities through July 19, 2029, became

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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, 2016, to be \$132.2 million, of which \$114.5 million had been expended. Total South Fork Tolt license mitigation costs were estimated at \$1.8 million, of which \$1.3 million were expended through 2016. 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 2016 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, 2016, are estimated to be \$11.9 million, and \$1.4 million has been allocated for the program in the 2017 budget.

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

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\$1.7 million and \$2.5 million to Pend Oreille County, and \$1.1 million and \$1.0 million to Whatcom County in 2016 and 2015, respectively.

Energy Crisis Refund Litigation — The Department (City) is involved in various legal proceedings relating to the enormous price spikes in energy costs in California and the rest of the West Coast in 2000 and 2001.

- ***California Refund Case, Appeals and Related Litigation***—In a proceeding before the Federal Energy Regulatory Commission (FERC), various public and private California entities (the California Parties) sought refunds in markets that had been created by the State of California. In February 2011, the City agreed to a settlement, which was eventually approved by the trial court and by FERC. Under the settlement, the City has resolved this matter for \$9.0 million, none of which was immediately paid by the Department. As part of the settlement, the City has assigned its accounts receivable from the California Independent Systems Operator to the California Parties, which was valued at approximately \$1.4 million at the time of the settlement agreement. The balance of over \$7.6 million is contingent upon the Department recovering monies in the Pacific Northwest Refund Case, discussed below. To date, the Department has received \$4.6 million in payments in the Pacific Northwest Refund Case, half of which has been paid to the California parties pursuant to the settlement.
- ***Pacific Northwest Refund Case***—In a proceeding before FERC, various buyers of energy, including the City, sought refunds from various sellers on energy sales in the Pacific Northwest between December 1999 and June 2001. The case was tried at FERC between August and October of 2013. In March 2014, the FERC administrative law judge issued an Initial Decision denying all refunds. In May 2014, the City filed a brief objecting to the Initial Decision. Prior to the FERC trial, the City settled refund claims with fourteen entities, with a combined total settlement amount of \$4.6 million. In February 2015, after hearing argument in a related case, the Ninth Circuit *sua sponte* reactivated certain City Light appeals previously stayed at the Ninth Circuit that were primarily related to City Light's appeal of the FERC's determination that the Mobile-Sierra presumption applied to the contracts at issue and whether FERC had improperly excluded certain evidence that City Light had presented in order to overcome the Mobile-Sierra presumption. After a truncated briefing schedule, oral arguments were heard in June 2015. On December 17, 2015, the Ninth Circuit issued its opinion finding that the Mobile-Serra presumption does apply to the issues in this case. The Ninth Circuit also determined that it did not have jurisdiction over the evidentiary issues. On December 31, 2015, FERC issued its decision largely confirming the Initial Decision issued by the administrative law judge on March 28, 2014. City Light filed its notice of appeal to the Ninth Circuit on February 22, 2016. In October 2016, City Light settled all remaining claims in this longstanding litigation for a non-material amount. On November 4, 2016, The Ninth Circuit granted City Light's motion to voluntarily dismiss its appeal.

Centralia Steam Plant Project Asbestos Claims – In 2013, the Department received notice of a lawsuit that had been filed against PacifiCorp (the successor in interest of the former operator of the Centralia Steam Plant Project) by an employee of a contractor who worked at the Project between April 26, 1971 and December 3, 1971. The claimant alleges he developed mesothelioma as a result of his exposure to asbestos during the time he worked at the Project. PacifiCorp provided notice to the Department, and all the other former owners of the Project that, as a former owner of the Project, it could liable for any liabilities resulting from the construction not covered by insurance in proportion to its ownership share. Based on the agreement for the construction and ownership of the Project, the Department owned 8% of the Project during the material times. Recently, the Department received additional notice indicating there are two additional decedent estates have filed lawsuits against the former operator alleging similar claims. The Department is not named in any of the litigation and trial dates for these cases against the former

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operator were set for various times in 2016. The Department's ultimate liability is indeterminate. In August 2016, the Department received notice from the former operator, who was a defendant in all three lawsuits, that all three lawsuits had been resolved. The first lawsuit involving Estate of Thomas Murphy, was settled and the agreed order of dismissal was entered on May 11, 2016. The second involving the Estate of Gary Cameron was dismissed on summary judgment on June 30, 2016. The final matter, involving Marvin Coleman, was voluntarily dismissed by the plaintiff on July 29, 2016.

Central Puget Sound Regional Transit Authority Condemnation Cases – The Department is involved in four separate condemnation actions brought by the Central Puget Sound Regional Transit Authority (“Sound Transit”) involving the Department’s Eastside Transmission Corridor as it travels through Bellevue, Washington along 124th Avenue across four adjacent properties. The Department has contested Sound Transit’s ability to condemn publicly owned property, but on December 20, 2016, a trial court entered an order denying the Department’s motion contesting Sound Transit’s Authority to condemn public property and simultaneously entered an order finding public use and necessity over portions of the Department’s easement area. The Department appealed the decision to the Court of Appeal on December 21, 2016. On December 28, 2016, the Department also filed a motion for reconsideration of a portion of the trial court order, which was granted, but the trial court is waiting for permission from the Court of Appeals to enter its revised order. In the event the appeal is unsuccessful, the value of the land sought to be condemned by Sound Transit from the Department is significant, but indeterminate.

Taylor, et al. v. City – Four plaintiffs allege that certain Department managers retaliated and discriminated against them on the basis of age, race, gender, and sexual orientation. The Department managers deny all allegations of discrimination, harassment, and retaliation. An adverse result in litigation could result in awards of back pay, compensatory damages, and attorneys’ fees. Trial is currently scheduled for April 17, 2017, in King County Superior Court. The Department’s ultimate liability is indeterminate.

Gamble v. City – A Department employee contends that the Department has failed properly to accommodate her disability. An adverse result in litigation could result in awards of back pay, compensatory damages, and attorneys’ fees. Trial is currently scheduled to begin in King County Superior Court on April 3, 2017. The Department’s ultimate liability is indeterminate.

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.

20. SUBSEQUENT EVENTS

2017 Bonds – On January 27, 2017, the Department issued \$50.0 million Municipal Light and Power (ML&P) Revenue Bonds, Series 2017A (Multi-Modal), and \$50.0 million Municipal Light and Power (ML&P) Revenue Bonds, Series 2017B (Multi-Modal), collectively, the “Bonds”. The 2017 Bonds will finance certain capital improvements to and conservation programs. Major projects supported by the 2017 Bonds include generator rebuilds, existing network upgrades, relocating electrical service to accommodate transportation projects, advanced metering infrastructure, and construction of the new Denny substation. Average interest coupon rates for the 2017 Bonds were 4.0% and the arbitrage yield was 4.03%.

Toshiba Corporation Contract – The Department has a \$40.0 million contract with Toshiba International Corporation (Toshiba) to overhaul, fabricate, and install two transformers and two generating units (units 55 and 56, respectively) at the Boundary Project. To date, \$35.0 million of this contract has been earned

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

including the completion of work on unit 55. The Department has withheld \$2.0 million in retainage. The remaining work on unit 56 is valued at \$5.0 million and is scheduled to be completed by February 2018. A transformer for generating unit 56 has passed final inspection at a foreign factory and delivery is expected in June 2017. The Department holds a \$15.0 million performance bond for work on generating unit 56 that will be transferred to a \$1.5 million warranty bond when the unit is operational. The Department also holds a \$1.7 million warranty bond for the completed work on generating unit 55.

Recent news reports have described financial losses by Toshiba Corporation and uncertainty about the company's ability to continue as a going concern. The Department does not have any other knowledge that Toshiba will not be able to perform its remaining obligations under the contract. The Department is of the opinion that in the event of a failure to perform, remaining work can be completed with the unpaid portions of the contract and additional amounts available from the performance bond.

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THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

DEFINED BENEFIT PENSION PLAN

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):

	2016	2015
Employer's proportion of the net pension liability	24.46%	24.53%
Employer's proportionate share of total pension liability	\$ 883.5	\$ 841.5
Employer's proportionate share of plan fiduciary net position	\$ 565.7	\$ 569.7
Employer's proportionate share of the net pension liability	\$ 317.8	\$ 271.8
Employer's covered-employee payroll	\$ 165.0	\$ 152.3
Employer's proportionate share of net pension liability as a percentage of its covered-employee payroll	202.44%	178.48%
Plan fiduciary net position as a percentage of the total pension liability	64.03%	67.70%

Note:

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

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

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

Note:

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

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

SCHEDULES OF FUNDING PROGRESS

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

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

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

OTHER INFORMATION (UNAUDITED)

OTHER INFORMATION (UNAUDITED)

DEBT SERVICE COVERAGE

Following is a table that provides information for the Department's debt service coverage for years 2016, 2015, and 2014. The target level for debt service coverage was 1.8x on all bonds for 2016, 2015, and 2014 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		
	2016	2015	2014
OPERATING REVENUES:			
Retail power revenues	\$ 788.0	\$ 736.6	\$ 720.8
Short-term wholesale power revenues	62.9	61.2	96.8
Other power-related revenues (a)(b)(c)	32.6	36.8	50.8
Transfers from/(to) rate stabilization account (d)	(0.1)	23.4	(4.4)
Other operating revenues	19.8	24.9	22.4
Total operating revenues	<u>\$ 903.2</u>	<u>\$ 882.9</u>	<u>\$ 886.4</u>
OPERATING EXPENSES:			
Long-term purchased power—Bonneville and other (b)	\$ 219.8	\$ 213.6	\$ 214.3
Short-term wholesale power purchases	15.1	26.8	14.9
Other power expenses (b)	60.1	59.6	65.9
Transmission (e)	53.5	54.3	52.8
Distribution	63.5	65.1	59.7
Customer service	42.6	38.3	37.6
Conservation	30.2	29.1	27.3
Administrative and general	105.0	92.1	75.8
Taxes	85.2	81.1	80.0
Depreciation and amortization	120.8	112.0	105.8
Total operating expenses	<u>\$ 795.8</u>	<u>\$ 772.0</u>	<u>\$ 734.1</u>
NET OPERATING REVENUE (f)	<u>\$ 107.4</u>	<u>\$ 110.9</u>	<u>\$ 152.3</u>
Adjustments to Net Operating Revenue (g)			
City Taxes (h)	\$ 48.4	\$ 45.5	\$ 44.6
Depreciation and amortization	120.8	112.0	105.8
Depreciation & amortization included in operating & maintenance expenses (i)	29.9	27.1	24.8
Pension expense (j)	40.8	27.9	-
Pension contributions (j)	(25.3)	(24.9)	-
Valuation on exchange power, net (b)(c)	0.0	0.6	0.3
BPA Conservation Augmentation/Agreement revenue (k)	(1.2)	(0.9)	(0.7)
Investment income (l)	7.3	6.7	5.4
Non-cash expenses (m)	1.8	(0.3)	1.9
Other (n)	2.0	2.0	7.0
Total adjustments	<u>\$ 224.5</u>	<u>\$ 195.7</u>	<u>\$ 189.1</u>
Net Revenue Available for Debt Service	<u>\$ 331.9</u>	<u>\$ 306.6</u>	<u>\$ 341.4</u>
Total Debt Service (o)	<u>\$ 196.5</u>	<u>\$ 189.6</u>	<u>\$ 184.8</u>
Ratio of Available Net Revenue to Debt Service	<u>1.69x</u>	<u>1.62x</u>	<u>1.85x</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*, implemented in 2015, a non-cash item. Pension contributions are the 2015 Department cash contributions to the Seattle City Employee's Retirement System.
- (k) Payments received for conservation measures are initially recorded as unearned revenue. The adjustment represents the amount of revenue amortized and recognized over future periods for financial reporting, a non-cash transaction.
- (l) Investment income is not included in Total Revenue in this table; therefore, an adjustment is made to Net Operating Revenue, consisting primarily of interest earnings from City's cash pool and interest receipts from suburban underground charges. This amount excludes unrealized gains and losses, which are non-cash adjustments.
- (m) Primarily claim expenses and capital project expenditures from prior year which were determined not to be capital expenditures.
- (n) Includes proceeds from sale of properties, principal receipts from suburban underground charges from local jurisdictions, and miscellaneous items.
- (o) Net of federal bond subsidies.

DEBT SERVICE COVERAGE: ALL BONDS

Year Ending December 31 (\$ in millions)	Revenue Available for Debt Service	Debt Service Requirements	Debt Service Coverage
2016	\$ 331.9	\$ 196.5	1.69
2015	306.6	189.6	1.62
2014	341.4	184.8	1.85
2013	319.6	172.8	1.85
2012	306.1	169.1	1.81

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 ^(a)
	Principal	Interest	Subtotal	Principal	Interest	Subtotal	
2017	\$ 111.2	\$ 93.8	\$ 205.0	\$ -	\$ 1.4	\$ 1.4	\$ 206.4
2018	111.8	88.5	200.3	-	1.4	1.4	201.7
2019	108.6	83.0	191.6	-	1.4	1.4	193.0
2020	107.8	77.5	185.3	-	1.4	1.4	186.7
2021	106.8	72.5	179.3	-	1.4	1.4	180.7
2022	106.3	67.1	173.4	-	1.4	1.4	174.8
2023	108.1	61.7	169.8	-	1.4	1.4	171.2
2024	111.2	56.2	167.4	-	1.4	1.4	168.8
2025	100.4	50.6	151.0	-	1.4	1.4	152.4
2026	93.6	45.8	139.4	3.3	1.4	4.7	144.1
2027	67.6	41.8	109.4	3.5	1.3	4.8	114.2
2028	68.9	38.5	107.4	3.5	1.3	4.8	112.2
2029	62.2	35.5	97.7	3.8	1.2	5.0	102.7
2030	47.0	32.9	79.9	3.9	1.2	5.1	85.0
2031	48.8	30.6	79.4	4.1	1.1	5.2	84.6
2032	50.7	28.3	79.0	4.2	1.1	5.3	84.3
2033	52.6	26.0	78.6	4.4	1.0	5.4	84.0
2034	54.8	23.4	78.2	4.6	0.9	5.5	83.7
2035	57.2	20.8	78.0	4.8	0.9	5.7	83.7
2036	64.8	18.1	82.9	5.0	0.7	5.7	88.6
2037	52.3	15.5	67.8	5.2	0.7	5.9	73.7
2038	54.2	13.1	67.3	5.3	0.7	6.0	73.3
2039	56.2	10.7	66.9	5.6	0.6	6.2	73.1
2040	58.3	8.2	66.5	5.8	0.5	6.3	72.8
2041	46.4	6.0	52.4	6.1	0.4	6.5	58.9
2042	31.6	4.4	36.0	6.3	0.3	6.6	42.6
2043	32.9	3.1	36.0	6.6	0.2	6.8	42.8
2044	23.3	1.7	25.0	6.9	0.1	7.0	32.0
2045	15.1	0.7	15.8	7.1	0.1	7.2	23.0
2046	7.4	0.3	7.7	-	-	-	7.7
Total	\$ 2,018.1	\$ 1,056.3	\$ 3,074.4	\$ 100.0	\$ 28.3	\$ 128.3	\$ 3,202.7

^(a) Maximum debt service of \$206.4 is due in 2017. See Note 9 Long-term debt.

Note: All parity bonds of the Department are fixed rate bonds except the 2015B 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, 2016

(\$ in millions)

Bond Series	When Due	Interest Rate (%)	Amount Issued	Amount Outstanding	Amount Due Within One Year	Accrued Interest
Series 2008	2017-2018	5.000	36.70	\$ 21.5	\$ 10.5	\$ 0.3
Series 2008	2019-2020	5.250	20.60	10.0	-	0.1
Series 2010A	2017-2021	4.447	4.60	4.6	-	0.1
Series 2010A	2022	4.597	7.20	7.2	-	0.1
Series 2010A	2023	4.747	7.50	7.5	-	0.1
Series 2010A	2024	4.947	7.70	7.7	-	0.2
Series 2010A	2025	5.047	8.00	8.0	-	0.2
Series 2010A	2026	5.147	8.20	8.2	-	0.2
Series 2010A	2027	5.247	8.50	8.5	-	0.2
Series 2010A	2028-2030	5.470	27.40	27.4	-	0.6
Series 2010A	2031-2040	5.570	102.60	102.5	-	2.4
Series 2010B	2017	4.000	4.40	4.4	4.4	0.1
Series 2010B	2017	5.000	46.30	46.3	46.3	1.0
Series 2010B	2018	4.000	5.00	5.0	-	0.1
Series 2010B	2018	5.000	38.80	38.8	-	0.8
Series 2010B	2019	4.000	1.50	1.5	-	-
Series 2010B	2019	5.000	42.70	42.7	-	0.9
Series 2010B	2020	4.000	2.60	2.6	-	-
Series 2010B	2020	5.000	43.90	43.9	-	0.9
Series 2010B	2021-2026	5.000	187.80	155.8	-	3.3
Series 2010C	2017-2040	5.590	13.30	13.3	-	0.3
Series 2011A	2017-2027	5.000	176.90	134.2	13.9	2.9
Series 2011A	2028	5.250	9.40	9.4	-	0.2
Series 2011A	2029-2030	5.500	20.40	20.4	-	0.5
Series 2011A	2031-2036	5.250	75.80	75.8	-	1.6
Series 2011B	2027	5.750	10.00	10.0	-	0.2
Series 2012A	2017-2027	5.000	198.00	174.4	17.2	0.6
Series 2012A	2028	3.250	12.40	12.4	-	-
Series 2012A	2034-2036	4.000	25.10	25.1	-	0.1
Series 2012A	2037-2041	4.000	49.10	49.1	-	0.2
Series 2012C	2028	3.400	4.30	4.3	-	-
Series 2012C	2029	3.500	7.70	7.7	-	-
Series 2012C	2030	3.500	7.70	7.7	-	-
Series 2012C	2031-2033	3.750	23.40	23.4	-	0.1
Series 2013	2017-2033	5.000	97.40	94.4	3.1	2.2
Series 2013	2034-2035	4.000	14.70	14.7	-	0.3
Series 2013	2036-2038	4.125	24.40	24.4	-	0.6
Series 2013	2039-2043	4.500	48.30	48.3	-	1.1
Series 2014	2017-2029	5.000	163.20	137.4	7.3	2.1
Series 2014	2030-2038	4.000	53.90	53.9	-	0.8
Series 2014	2039-2040	4.000	14.80	14.8	-	0.3
Series 2014	2041-2044	4.000	33.30	33.3	-	0.5
Series 2015A	2017-2026	5.000	62.90	58.5	6.4	0.4
Series 2015A	2027-2045	4.000	109.00	109.0	-	0.8
Series 2015B	2026-2045	0.69 - 0.71	50.00	50.0	-	0.1
Series 2015B	2026-2045	0.69 - 0.71	50.00	50.0	-	0.1
Series 2016A	2036-2041	4.050	31.90	31.9	-	0.6
Series 2016B	2020-2028	5.000	103.00	101.5	-	1.2
Series 2016B	2029	4.000	13.90	13.9	-	0.2
Series 2016C	2017-2026	5.000	56.90	56.9	2.1	0.6
Series 2016C	2027-2046	4.000	103.90	103.9	-	1.2
Total			<u>2,277.00</u>	<u>\$ 2,118.1</u>	<u>\$ 111.2</u>	<u>\$ 31.4</u>

^A Range of adjustable rates in effect during 2016.

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

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

OTHER INFORMATION (UNAUDITED)

POWER COSTS AND STATISTICS

Year ending December 31	2016	2015	2014	2013	2012
(\$ in millions)					
POWER COSTS					
Hydroelectric generation ^{(a)(e)}	\$ 53.0	\$ 50.1	\$ 49.9	\$ 54.0	\$ 45.7
Long-term purchased power ^(b)	219.8	213.6	214.3	203.1	204.1
Wholesale power purchases ^{(c)(e)}	15.1	26.8	14.9	19.8	11.8
Fair valuation & other power purchases ^{(b)(e)}	10.5	11.8	17.7	14.1	7.8
Owned transmission ^(a)	15.9	17.2	15.3	15.1	14.5
Wheeling expenses	42.9	42.0	42.1	37.4	36.5
Other power expenses	<u>12.8</u>	<u>12.9</u>	<u>13.2</u>	<u>12.2</u>	<u>10.3</u>
Total power costs	<u>370.0</u>	<u>374.4</u>	<u>367.4</u>	<u>355.7</u>	<u>330.7</u>
Less short-term wholesale power sales ^(e)	(62.9)	(61.2)	(96.8)	(63.0)	(70.4)
Less other power-related revenues	(16.7)	(19.9)	(25.5)	(21.5)	(16.8)
Less fair valuation other power-related ^(b)	<u>(15.9)</u>	<u>(16.9)</u>	<u>(25.3)</u>	<u>(18.9)</u>	<u>(12.5)</u>
Net power costs	<u>\$ 274.5</u>	<u>\$ 276.4</u>	<u>\$ 219.8</u>	<u>\$ 252.3</u>	<u>\$ 231.0</u>
POWER STATISTICS (MWh)					
Hydroelectric generation ^(c)	6,707,264	5,979,884	7,091,368	6,108,908	6,947,088
Long-term purchased power ^(b)	7,215,308	6,900,647	6,658,689	6,482,960	7,232,362
Wholesale power purchases ^{(c)(e)}	936,289	1,379,168	900,527	2,072,066	2,592,354
Wholesale power sales ^{(c)(e)}	(4,044,452)	(3,548,507)	(4,083,391)	(3,854,352)	(5,625,088)
Other ^(d)	<u>(1,117,826)</u>	<u>(1,023,970)</u>	<u>(655,569)</u>	<u>(760,882)</u>	<u>(1,064,692)</u>
Total power available	<u>9,696,583</u>	<u>9,687,222</u>	<u>9,911,624</u>	<u>10,048,700</u>	<u>10,082,024</u>
Less self consumed energy	(24,912)	(25,195)	(29,717)	(30,910)	(31,072)
Less system losses	<u>(491,233)</u>	<u>(504,533)</u>	<u>(541,323)</u>	<u>(511,390)</u>	<u>(584,310)</u>
Total power delivered to retail customers	<u>9,180,438</u>	<u>9,157,494</u>	<u>9,340,584</u>	<u>9,506,400</u>	<u>9,466,642</u>
Net power cost per MWh delivered	<u>\$ 29.90</u>	<u>\$ 30.18</u>	<u>\$ 23.53</u>	<u>\$ 26.53</u>	<u>\$ 24.40</u>

(a) Including depreciation.

(b) Long-term purchased power, fair valuation & other power purchases, and fair valuation other power-related include energy exchanged under seasonal and other exchange contracts are valued at market. Disclosures required by GASB Statement No. 12, *Fair Value Measurement and Application*, are available in Note 2 Fair Value Measurements.

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

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

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

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

OTHER INFORMATION (UNAUDITED)

HISTORICAL ENERGY RESOURCES (in MWh)

	2016	2015	2014	2013	2012
Department-Owned Generation					
Boundary Project	3,888,316	3,469,855	4,249,957	3,465,890	3,802,251
Skagit Hydroelectric Project:					
Gorge	1,036,540	953,628	1,057,865	955,265	1,081,349
Diablo	870,216	775,025	857,757	828,200	937,646
Ross	791,415	684,687	796,513	726,560	939,943
Cedar Falls/Newhalem	68,429	47,571	65,687	77,397	122,615
South Fork Tolt	52,348	49,118	63,589	55,596	63,284
Subtotal	<u>6,707,264</u>	<u>5,979,884</u>	<u>7,091,368</u>	<u>6,108,908</u>	<u>6,947,088</u>
Energy Purchases					
Bonneville	5,138,417	4,971,459	5,155,271	5,079,991	5,633,906
Priest Rapids	25,249	23,698	21,961	33,205	36,381
CBH (formerly GCPHA) ^(a)	253,628	258,678	272,842	254,568	255,569
High Ross	308,478	310,102	307,873	312,350	308,365
Lucky Peak	340,474	278,001	308,334	215,587	401,400
Stateline Wind Project	373,389	299,551	357,325	363,099	365,192
Columbia Ridge	99,487	94,271	68,920	51,577	49,779
Seasonal and Other Exchange ^(b)	676,186	664,887	411,555	69,940	100,782
Wholesale Market Purchases ^(c)	936,289	1,379,168	900,527	2,072,066	2,592,354
Subtotal	<u>8,151,597</u>	<u>8,279,815</u>	<u>7,804,608</u>	<u>8,452,383</u>	<u>9,743,728</u>
Total Department Resources	<u>14,858,861</u>	<u>14,259,699</u>	<u>14,895,976</u>	<u>14,561,291</u>	<u>16,690,816</u>
Minus Offsetting Energy Sales					
Firm Energy Sales and Marketing Losses ^(d)	344,383	331,897	393,844	421,375	491,724
Seasonal and Other Exchange ^(b)	773,443	692,073	507,117	236,864	491,980
Wholesale Market Sales ^(e)	4,044,452	3,548,507	4,083,391	3,854,352	5,625,088
Total Energy Resources	<u>9,696,583</u>	<u>9,687,222</u>	<u>9,911,624</u>	<u>10,048,700</u>	<u>10,082,024</u>

(a) Columbia Basin Hydropower (formerly Grand Coulee Project Hydroelectric Authority.)

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

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

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

(e) Runoff was 121% of historical average in 2012.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

OTHER INFORMATION (UNAUDITED)

CUSTOMER STATISTICS

Years ended December 31	2016		2015		2014		2013		2012	
Average number of customers: *										
Residential	397,074		381,419		374,619		367,837		362,658	
Non-residential	50,258		41,391		40,437		40,218		39,950	
Total	447,332		422,810		415,056		408,055		402,608	
Megawatt-hours ^(a) :										
Residential	32%	2,917,984	32%	2,914,563	32%	2,987,711	33%	3,158,629	34%	3,098,745
Non-residential	68%	6,262,454	68%	6,242,931	68%	6,352,873	67%	6,347,771	66%	6,367,897
Total	100%	9,180,438	100%	9,157,494	100%	9,340,584	100%	9,506,400	100%	9,466,642
Average annual revenue per customer ^(a) :										
Residential	\$	717	\$	691	\$	695	\$	710	\$	664
Non-residential	\$	9,983	\$	11,390	\$	11,448	\$	10,820	\$	10,603

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

Years ended December 31,	2016		2015		2014		2013		2012	
Average annual consumption per customer (kWhs) ^{(a)(b)} :										
Residential										
- Seattle	7,349		7,641		7,975		8,587		8,545	
- National	n/a		10,816		10,936		10,916		10,837	
Non-residential										
- Seattle	124,606		150,828		157,107		157,834		159,399	
- National	n/a		125,592		126,114		125,871		125,674	
Average rate per kilowatt-hour (cents) ^{(a)(b)} :										
Residential										
- Seattle	9.75		9.05		8.71		8.27		7.77	
- National	n/a		12.65		12.52		12.12		11.88	
Non-residential										
- Seattle	8.01		7.55		7.29		6.86		6.65	
- National	n/a		9.08		9.20		8.84		8.64	

(a) Source of national data: Department of Energy (www.eia.doe.gov/electricity/annual/) 2016 National average annual consumption data and average rate data not available. Certain 2015-2012 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.

NOTE: A comprehensive rate change of 4.9% became effective January 1, 2016.

Effective August 2016, a 1.5% RSA rate was applied to all residential and non-residential rates schedules.

Notice of public hearings on future rate actions may be obtained on request to: The Office of the City Clerk, 600-4th Ave, Floor Three, Seattle, WA 98104. Phone number 206-684-8344. Additional information about Council meetings can be found on the Web at www.seattle.gov/council/calendar.

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 populated county in the United States. Of the State’s population, nearly 30% reside in the County, and of the County’s population, 32% live in the City of Seattle.

Population

Historical and current population figures for the State, the County, and the City are given below.

POPULATION			
<u>Year</u>	<u>Washington</u>	<u>King County</u>	<u>Seattle</u>
1980 ⁽¹⁾	4,130,163	1,269,749	493,846
1990 ⁽¹⁾	4,866,692	1,507,319	516,259
2000 ⁽¹⁾	5,894,121	1,737,034	563,374
2010 ⁽¹⁾	6,724,540	1,931,249	608,660
2013 ⁽²⁾	6,882,400	1,981,900	626,600
2014 ⁽²⁾	6,968,170	2,017,250	640,500
2015 ⁽²⁾	7,061,410	2,052,800	662,400
2016 ⁽²⁾	7,183,700	2,105,000	686,800
2017 ⁽²⁾	7,310,300	2,153,700	713,700

(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 cities of Seattle, Bellevue, and Everett), the County, the State, and the U.S.

PER CAPITA INCOME					
	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Seattle MD	\$ 53,931	\$ 56,267	\$ 58,483	\$ 62,481	\$ 65,187
King County	57,837	60,090	62,770	68,877	72,530
State of Washington	43,878	46,045	47,717	49,610	51,898
U.S.	41,560	43,735	44,765	46,049	48,112

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 County. The value of public construction is not included in this table.

CITY OF SEATTLE RESIDENTIAL BUILDING PERMIT VALUES

Year	New Single Family Units		New Multifamily Units		Total Value(\$)
	Number	Value(\$)	Number	Value(\$)	
2012	498	120,592,378	6,799	984,110,088	1,104,702,466
2013	822	205,297,350	5,855	805,297,482	1,010,594,832
2014	898	227,307,102	6,547	881,734,102	1,109,041,204
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
2016 ⁽¹⁾	462	125,059,887	4,933	644,189,024	769,248,911
2017 ⁽¹⁾	374	102,438,663	3,938	604,290,091	706,728,754

(1) Through July.

Source: U.S. Bureau of the Census

Retail Activity

The following table presents taxable retail sales in King County and Seattle.

KING COUNTY AND THE CITY OF SEATTLE TAXABLE RETAIL SALES

Year	King County	Seattle
2011	\$ 40,846,118,928	\$ 15,751,585,856
2012	43,506,804,227	17,162,539,275
2013	46,601,198,766	18,258,200,683
2014	49,638,174,066	19,995,171,842
2015	54,890,159,770	22,407,443,037
2016 ⁽¹⁾	\$ 13,378,793,026	\$ 5,480,078,811
2017 ⁽¹⁾	14,094,314,668	5,829,963,492

(1) Through first quarter.

Source: Washington State Department of Revenue and Quarterly Business Review

Industry and Employment

The following table presents major Puget Sound-area employers and their State-wide employment data in 2015.

PUGET SOUND AREA MAJOR EMPLOYERS	
Employer	Employees
The Boeing Company	78,200
Joint Base Lewis-McChord	58,100
Navy Region Northwest	46,700
Microsoft Corp.	43,600
Amazon.com Inc.	24,000
University of Washington	23,600
Wal-Mart Stores, Inc.	19,500 ⁽¹⁾
Providence Health & Services	17,700
Fred Meyer Stores	15,500
King County Government	14,700 ⁽²⁾
City of Seattle	13,700 ⁽³⁾
Starbucks Corp.	12,600
CHI Franciscan Health System	11,800
Nordstrom Inc.	10,900
Costco Wholesale Corp.	10,500 ⁽¹⁾

(1) Does not include part-time or seasonal employment figures.

(2) Source: King County. Figure includes temporary workers.

(3) Source: City of Seattle. Figure includes temporary workers.

Source: *Puget Sound Business Journal Book of Lists, 2017*

KING COUNTY
RESIDENT CIVILIAN LABOR FORCE AND EMPLOYMENT
AND NONAGRICULTURAL WAGE AND SALARY EMPLOYMENT⁽¹⁾

	Annual Average				
	2012	2013	2014	2015	2016
Civilian Labor Force	1,129,670	1,139,610	1,158,230	1,178,606	1,208,334
Total Employment	1,055,000	1,079,950	1,104,930	1,128,497	1,160,734
Total Unemployment	74,670	59,660	53,300	50,109	47,600
Percent of Labor Force	6.6%	5.2%	4.6%	4.3%	3.9%
NAICS INDUSTRY	2012	2013	2014	2015	2016
Total Nonfarm	1,196,042	1,237,217	1,278,033	1,311,575	1,358,517
Total Private	1,030,608	1,069,975	1,108,425	1,137,442	1,180,175
Goods Producing	154,283	162,508	168,283	174,908	176,800
Mining and Logging	425	458	458	575	500
Construction	50,625	55,883	60,792	66,800	70,833
Manufacturing	103,225	106,167	107,025	107,542	105,475
Service Providing	1,041,758	1,074,708	1,109,750	1,136,667	1,181,717
Trade, Transportation, and Utilities	216,167	225,167	235,758	244,433	254,642
Information	81,017	82,617	85,583	89,058	95,967
Financial Activities	68,850	70,892	72,000	69,675	70,758
Professional and Business Services	192,525	201,042	207,933	215,733	222,667
Educational and Health Services	159,275	162,633	167,983	167,008	174,592
Leisure and Hospitality	114,850	120,575	124,883	130,108	136,425
Other Services	43,642	44,542	46,000	46,517	48,325
Government	165,433	167,242	169,608	174,133	178,342
Workers in Labor/Management Disputes	0	0	0	0	0

July 2017

Civilian Labor Force	1,224,298
Total Employment	1,179,997
Total Unemployment	44,301
Percent of Labor Force	3.6%

(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”).

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully registered bonds, 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 Bond certificate will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

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 3.6 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.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC’s records. The ownership interest of each actual purchaser of each Bond (“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 Bonds 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 the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds 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 Bonds 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 Bonds; DTC’s records reflect only the identity of the Direct Participants to whose accounts such Bonds 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.

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.

Redemption notices will be sent to DTC. If less than all of the Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's MMI procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City 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 the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments on the Bonds 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 the City or the Bond Registrar 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, the Bond Registrar or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) are the responsibility of the City or the Bond Registrar, 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.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the City or the Bond Registrar. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

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).