OFFICIAL STATEMENT

New Issue **Moody's Rating: Aa1**
Book-Entry Only **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."

THE CITY OF SEATTLE, WASHINGTON

$194,685,000

WATER SYSTEM IMPROVEMENT AND REFUNDING REVENUE BONDS, 2017

DATED: DATE OF INITIAL DELIVERY **DUE: AUGUST 1, AS SHOWN ON PAGE i**

The City of Seattle, Washington (the "City"), will issue its Water System Improvement and Refunding Revenue Bonds, 2017 (the "Bonds"), as fully registered bonds under a book-entry only system, registered in the name of the Securities Depository.

The Depository Trust Company, New York, New York ("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 single maturity. Purchasers will not receive certificates representing their interest in the Bonds. Interest on the Bonds is payable semiannually on each February 1 and August 1, beginning August 1, 2017. The principal of and interest on the Bonds are payable by the City's Bond Registrar, initially the fiscal agent of the State of Washington (currently U.S. Bank National Association), to DTC, which is obligated in turn 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 pay for part of the costs of various projects of the City's Water System, to refund certain outstanding obligations of the Water System, to make a deposit to the Reserve Subaccount, and to pay the administrative costs of issuing the Bonds and administering the Refunding Plan, as described under "Use of Proceeds."

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

The Bonds are special limited obligations of the City payable from and secured solely by the Net Revenue of the Water System and by money in the Water Revenue Parity Bond Account (the "Parity Bond Account") and the subaccounts therein. The Net Revenue of the Water System is pledged to make the payments into the Parity Bond Account and to make payments into the Reserve Subaccount required by the Bond Legislation. This pledge constitutes a lien and charge upon the Net Revenue prior and superior to any other liens and charges and on a parity with the lien and charge in respect of the Outstanding Parity Bonds and all Future Parity Bonds. Upon the redemption or defeasance of all of the Outstanding Parity Bonds, the Bond Legislation provides that the Bonds will cease to be "Covered Parity Bonds" and the Reserve Subaccount will no longer secure the Bonds. 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 Water System, are pledged to the payment of the Bonds.

The Bonds are offered for delivery by the Underwriter, 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 January 25, 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 in making an informed investment decision.

Dated: January 11, 2017

The information in 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.

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 Water Fund's Audited Financial Statements that are included in Appendix C speaks only as of the date of 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. Neither the City nor the successful bidder takes 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

THE CITY OF SEATTLE, WASHINGTON
$194,685,000
WATER SYSTEM IMPROVEMENT AND REFUNDING REVENUE BONDS, 2017

SERIAL BONDS

Due August 1	Amounts	Interest Rates	Yields	Prices	CUSIP Numbers
2018	$ 4,880,000	5.00%	1.05%	105.927	812728 VC4
2019	5,120,000	5.00%	1.29%	109.157	812728 VD2
2020	5,385,000	5.00%	1.47%	112.055	812728 VE0
2021	5,655,000	5.00%	1.64%	114.569	812728 VF7
2022	5,935,000	5.00%	1.79%	116.790	812728 VG5
2023	6,230,000	5.00%	1.92%	118.781	812728 VH3
2024	6,545,000	5.00%	2.07%	120.298	812728 VJ9
2025	6,875,000	5.00%	2.16%	121.984	812728 VK6
2026	7,215,000	5.00%	2.26%	123.343	812728 VL4
2027	7,570,000	5.00%	2.34%	123.629 (1)	812728 VM2
2028	7,945,000	5.00%	2.42%	122.826 (1)	812728 VN0
2029	12,950,000	4.00%	2.70%	111.342 (1)	812728 VP5
2030	7,320,000	5.00%	2.57%	121.339 (1)	812728 VQ3
2031	7,690,000	4.00%	2.94%	109.138 (1)	812728 VR1
2032	7,995,000	4.00%	3.00%	108.596 (1)	812728 VS9
2033	8,315,000	4.00%	3.11%	107.609 (1)	812728 VT7
2034	8,645,000	4.00%	3.22%	106.632 (1)	812728 VU4
2035	8,995,000	4.00%	3.27%	106.192 (1)	812728 VV2
2036	9,355,000	4.00%	3.31%	105.841 (1)	812728 VW0
2037	9,725,000	4.00%	3.36%	105.404 (1)	812728 VX8
2038	4,190,000	4.00%	3.40%	105.056 (1)	812728 VY6
2039	4,360,000	4.00%	3.44%	104.710 (1)	812728 VZ3
2040	4,530,000	4.00%	3.50%	104.193 (1)	812728 WA7
2041	4,715,000	4.00%	3.51%	104.107 (1)	812728 WB5
2042	4,900,000	4.00%	3.52%	104.021 (1)	812728 WC3

TERM BONDS

Due August 1	Amounts	Interest Rates	Yields	Prices	CUSIP Numbers
2044	$ 10,395,000	4.00%	3.54%	103.850 (1)	812728 WD1
2046	11,250,000	4.00%	3.56%	103.679 (1)	812728 WE9

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

THE CITY OF SEATTLE

CITY OFFICIALS AND CONSULTANTS

MAYOR AND CITY COUNCIL

Edward B. Murray	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 PUBLIC UTILITIES

Mami Hara	General Manager/Chief Executive Officer
Melina Thung	Deputy Director of the Office of Utility Services
Susan Sánchez	Deputy Director for Customer Service
Sherri Crawford	Deputy Director for Finance and Administration
Henry Chen	Deputy Director for Project Delivery and Engineering
Madeline Goddard	Deputy Director for Drainage and Wastewater Line of Business
Ken Snipes	Deputy Director for Solid Waste Line of Business
Rick Scott	Deputy Director for Water Line of Business and Shared Services

BOND COUNSEL

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

FINANCIAL ADVISOR

Piper Jaffray & Co.
Seattle, Washington

BOND REGISTRAR

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

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OFFICIAL STATEMENT

THE CITY OF SEATTLE, WASHINGTON

$194,685,000

WATER SYSTEM IMPROVEMENT AND REFUNDING REVENUE BONDS, 2017

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"), in connection with the offering of $194,685,000 aggregate principal amount of its Water System Improvement and Refunding Revenue Bonds, 2017 (the "Bonds"). This Official Statement contains certain information related to such offering and sale concerning the City, the Bonds, Seattle Public Utilities ("SPU"), and the City's water system (the "Water System").

Appendix A to this Official Statement is a copy of the ordinance authorizing the new money portion of the Bonds (see "Description of the Bonds—Authorization for the Bonds"). Appendix B is the form of legal opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, of Seattle, Washington ("Bond Counsel"). Appendix C is the audited 2015 financial statements of the Water Fund. 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 with respect to book-entry bonds. Capitalized terms that are not defined herein have the meanings set forth in Section 1 of the ordinance attached as Appendix A and in the Bond Legislation (defined below).

All of the summaries of provisions of the Washington State Constitution (the "State Constitution") and laws of the State, of ordinances and resolutions of the City, and of other documents contained in this Official Statement, copies of which may be obtained from the City upon request, are subject to the complete provisions thereof and do not purport to be complete statements of such laws or documents. 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 and 39.53 of the Revised Code of Washington ("RCW"), the Seattle City Charter, Ordinance 125183, passed by the City Council on November 21, 2016 (the "New Money Ordinance"), Ordinance 124339, passed by the City Council on November 25, 2013 (as amended by the New Money Ordinance) (the "Refunding Bond Ordinance" and, together with the New Money Ordinance, the "Bond Ordinance"), and Resolution 31726, adopted by the City Council on January 11, 2017 (the "Bond Resolution" and together with the Bond Ordinance, the "Bond Legislation").

Principal Amounts, Dates, Interest Rates, and Maturities

The Bonds will be dated the date of their initial issuance and delivery, and will mature on August 1 in the years and amounts set forth on page i of this Official Statement. Interest on the Bonds is payable semiannually on each February 1 and August 1, beginning August 1, 2017, 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 only in registered form as to both principal and interest 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). The Bonds initially will be registered in the name of the Securities Depository, which is defined in the Bond Legislation as DTC or any successor thereto, and held fully immobilized in book-entry form, in accordance with the provisions of the Blanket

Letter of Representations between the City and DTC dated October 4, 2006 (the "Letter of Representations"). Neither the City nor the Bond Registrar has any responsibility or obligation to participants of the Securities Depository or the persons for whom they act as nominees with respect to the Bonds regarding accuracy of any records maintained by the Securities Depository or its participants of any amount in respect of principal of or interest on the Bonds, or any notice which is permitted or required to be given to Owners under the Bond Legislation (except such notice as is required to be given by the Bond Registrar to the Securities Depository). For information about DTC and its book-entry system, see Appendix E—Book Entry Transfer System. The City makes no representation as to the accuracy or completeness of the information in Appendix E obtained from DTC. Purchasers of the Bonds should confirm this information with DTC or its participants.

Termination of Book-Entry System. Upon the resignation of the Securities Depository from its functions as depository, or upon a determination by the City to discontinue services of the Securities Depository, the City may appoint a substitute Securities Depository. 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, then ownership of the Bonds may be transferred to any person as provided in the Bond Legislation and the Bonds no longer will be held in book-entry form.

Transfer and Exchange; Record Date. The Bond Registrar is not obligated to exchange or transfer any Bond during the period between the Record Date and the corresponding interest payment or redemption date. Record Date means, in the case of each interest or principal payment or redemption 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, the Record Date means the Bond Registrar's close of business on the day prior to the date on which the Bond Registrar sends the notice of redemption. Registered ownership of any Bond registered in the name of the Securities Depository may not be transferred except (i) to any successor Securities Depository, (ii) to any substitute Securities Depository appointed by the City, or (iii) to any person if the Bond is no longer to be held in book-entry only form.

Payment of the Bonds

Principal of and interest on each Bond registered in the name of the Securities Depository is payable in the manner set forth in the Letter of Representations. 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. However, the City 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 Bonds

Optional Redemption. The Bonds maturing on and before August 1, 2026, are not subject to redemption prior to maturity. The City reserves the right and option to redeem Bonds maturing on and after August 1, 2027, prior to their stated maturity dates at any time on and after February 1, 2027, as a whole or in part, at a price equal to 100% of the principal amount to be redeemed plus accrued interest to the date fixed for redemption.

Mandatory Redemption. If not redeemed or purchased at the City's option prior to maturity, the Term Bonds maturing on August 1, 2044, and August 1, 2046, will be redeemed, at a price equal to 100% of the stated principal amount thereof plus accrued interest, on August 1 in the years and amounts as follows:

TERM BONDS		TERM BONDS	
Years	**Amounts**	**Years**	**Amounts**
2043	$ 5,095,000	2045	$ 5,515,000
2044(1)	5,300,000	2046(1)	5,735,000

(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 actual redemption or purchase prices) will be credited at the par amount thereof against the remaining mandatory redemption requirements as determined by the Director of the Finance Division of the City's Department of Finance and Administrative Services (the "Director of Finance"). In the absence of a determination by the Director of Finance or other direction from the Bond Legislation, 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 single maturity are to be redeemed prior to maturity, 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 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 denominations of $5,000 or integral multiples thereof within a maturity of the Bonds ("Authorized Denominations"). If less than all of the outstanding principal amount of any Bond is redeemed, upon surrender of that Bond to the Bond Registrar, there will be issued to the Registered Owner, without charge, a new Bond (or Bonds, at the option of the Registered Owner) of the same maturity and interest rate in any Authorized Denomination in the aggregate principal amount to remain outstanding.

Notice of Redemption. The City will 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. The notice requirements will be deemed to have been fulfilled when notice has been mailed as so provided, whether or not it actually is received by the Owner of any Bond. As long as a Bond is held in book-entry form, notices with respect to such Bond will be given in accordance with procedures established by the Securities Depository. See "Registration and Book-Entry Transfer System" and Appendix E.

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

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 offered to the City at any time at any price acceptable to the City plus accrued interest to the date of purchase.

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 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 and in an amount sufficient, together with known earned income from the investment thereof, to redeem and retire, release, refund, or defease the defeased Bonds in accordance with their terms, 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 Legislation and in Net Revenue (defined under "Security for the Bonds—Pledge of Net Revenue") and the funds and accounts pledged to the payment of such defeased Bonds, other than the right to receive the funds so set aside and pledged, will cease and become void. Such Owners thereafter have the right to receive payment of the principal of and interest or redemption price on the defeased Bonds from the trust account. After the trust account is established and fully funded, the defeased Bonds will be deemed as no longer outstanding and the Director of Finance may apply any money in any other fund or account established for the payment or redemption of the defeased Bonds to any lawful purposes. Notice of refunding or defeasance will be given, and selection of Bonds for any partial refunding or defeasance will be conducted, in the manner set forth in the Bond Legislation for the redemption of Bonds.

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.

Failure to Pay Bonds; Defaults and Remedies; No Acceleration

If any Bond is not paid when properly presented at its maturity or redemption date, the City will be obligated to pay, solely from sources pledged in the Bond Legislation, 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 Water Revenue Parity Bond Account (the "Parity Bond Account"), and that Bond has been called for payment by giving notice of that call to the Registered Owner of that Bond.

The Bond Ordinance contains provisions limiting the rights of Owners of the Bonds in an Event of Default and providing for the appointment of a Bondowners' Trustee under certain circumstances. See Appendix A—Bond Ordinance—Section 25.

The Bonds are not subject to acceleration under any circumstances. The City is liable only for principal and interest payments as they become due. In the event of multiple defaults in the 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. If the City encounters difficulties in making timely payment of debt service on the Parity Bonds, this could give rise to a difference in interests between registered owners of earlier and later maturing Parity Bonds.

USE OF PROCEEDS

Purpose

The Bonds are being issued to pay for part of the costs of various projects of the City's Water System, to refund certain of the Water System's outstanding obligations (described below under "Refunding Plan"), to make a deposit to the Reserve Subaccount, 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	
Stated Principal Amount of Bonds	$ 194,685,000
Original Issue Premium	21,591,640
Bond Fund Contribution to Refunding Escrow	2,533,813
Total Sources of Funds	$ 218,810,453
USES OF FUNDS	
Construction Account Deposit	$ 104,000,000
Refunding Escrow Deposit	109,887,578
Reserve Subaccount Deposit	4,200,000
Costs of Issuance(1)	722,875
Total Uses of Funds	$ 218,810,453

(1) Includes legal fees, financial advisory and rating agency fees, printing costs, underwriter's discount, and other costs of issuing the Bonds and administering the Refunding Plan.

Refunding Plan

The City has previously designated its outstanding callable Water System Revenue and Refunding Bonds, 2006, as "refundable bonds" and has authorized the refunding of all or a portion of such refundable bonds. The portions of such bonds identified in the table below are designated as 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	CUSIP Numbers
Water System Revenue and Refunding Bonds, 2006 (1)						
Serials	2/1/2018	$ 3,485,000	5.000	100	2/24/2017	812728 UR2
	2/1/2019	3,660,000	5.000	100	2/24/2017	812728 US0
	2/1/2020	3,855,000	5.000	100	2/24/2017	812728 UT8
	2/1/2021	4,050,000	5.000	100	2/24/2017	812728 UU5
	2/1/2022	4,260,000	5.000	100	2/24/2017	812728 UV3
	2/1/2023	4,475,000	5.000	100	2/24/2017	812728 UW1
	2/1/2024	4,710,000	5.000	100	2/24/2017	812728 UX9
	2/1/2025	4,950,000	5.000	100	2/24/2017	812728 UY7
	2/1/2026	5,200,000	5.000	100	2/24/2017	812728 UZ4
	2/1/2027	5,465,000	5.000	100	2/24/2017	812728 VA8
	2/1/2028	5,740,000	5.000	100	2/24/2017	812728 VB6
2031 Term	2/1/2031	20,840,000	4.500	100	2/24/2017	812728 NH2
2037 Term	2/1/2037	36,385,000	4.500	100	2/24/2017	812728 NJ8
Total		$ 107,075,000				

(1) The 2006 Bonds were previously partially refunded. The Refunded Bonds consist of the remaining unrefunded balances.

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 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 and will be invested in 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 (the "Escrow Securities") that will mature and bear interest at rates sufficient to pay interest on the Refunded Bonds when due, up to and including the respective Call Dates shown in the table above and, on those respective Call Dates, 100% of the principal of such Refunded Bonds.

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 the computations of the adequacy of the cash and maturing principal amounts of and interest on the Escrow Securities to be held by the Refunding Trustee to pay principal of and interest on the Refunded Bonds as described above will be verified by Grant Thornton LLP, independent certified public accountants.

SECURITY FOR THE BONDS

Pledge of Net Revenue

The Bonds are special limited obligations of the City payable from and secured solely by the Net Revenue of the Water System and by money in the Parity Bond Account and the subaccounts therein. The Net Revenue of the Water System is pledged to make the payments into the Parity Bond Account and to make payments into the Reserve Subaccount required by the Bond Legislation. This pledge constitutes a lien and charge upon the Net Revenue prior and superior to any other liens and charges and on a parity with the lien and charge in respect of the Outstanding Parity Bonds and all Future Parity Bonds. See "Outstanding Parity Bonds" and "Additional Obligations" below, and Appendix A—Bond Ordinance—Section 13. Upon the redemption or defeasance of all of the Outstanding Parity Bonds, the Bond Legislation provides that the Bonds will cease to be "Covered Parity Bonds" and the Reserve Subaccount will no longer secure the Bonds. See "Reserve Subaccount" below.

The Parity Bond Account has been created in the Water Fund for the purpose of paying and securing the principal of and interest on all Parity Bonds, including the Bonds. The City has agreed to pay into the Parity Bond Account, on or prior to the respective dates on which principal and interest are payable, all utility local improvement district ("ULID") assessments on their collection (except for ULID assessments deposited in a construction account) and certain amounts from the Net Revenue of the Water System sufficient to pay such principal and interest when due. See Appendix A—Bond Ordinance—Section 15.

The City has reserved the right to combine the Water System, including its funds and accounts, with other City utility systems, funds, and accounts. See "Combined Utility Systems" below.

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 Water System, are pledged to the payment of the Bonds.

Reserve Subaccount

The Reserve Subaccount has been created in the Parity Bond Account to secure the payment of the principal of and interest on the Parity Bonds. The City has covenanted that it will, so long as any Parity Bonds are outstanding, maintain the Reserve Subaccount at the lesser of (i) Maximum Annual Debt Service or (ii) 125% of Average Annual Debt Service on the Parity Bonds (the "Reserve Requirement"). Under the Bond Legislation, the City must fund any increase in the Reserve Requirement due to the issuance of the Bonds by a deposit of Parity Bond proceeds, Net Revenue in no more than five annual installments, or a Reserve Security. See Appendix A—Bond Ordinance—Section 15(a)(ii).

From and after the defeasance or redemption of the Outstanding Parity Bonds (see "Outstanding Parity Bonds"), the Reserve Subaccount will secure only such Parity Bonds as are designated as "Covered Parity Bonds" and the Reserve Requirement will be calculated based on debt service relating to Covered Parity Bonds only. In the Bond Legislation, the Bonds are designated as Parity Bonds that are not Covered Parity Bonds and after such defeasance or redemption, the Bonds will no longer be secured by the amounts on deposit in the Reserve Subaccount. See Appendix A—Bond Ordinance—Section 1 for definitions of Covered Parity Bonds and Reserve Requirement and —Section 15.

Upon the issuance of the Bonds, the Reserve Subaccount is expected to be funded as shown in the following table. Under the Bond Legislation, each of the surety policies shown in the following table qualifies as a Reserve Security in order to satisfy the Reserve Requirement, as each issuer was assigned a credit rating in the two highest rating categories at the time of issuance. See Appendix A—Bond Ordinance—Section 1 for definitions of Reserve Security and Qualified Insurance.

RESERVE SUBACCOUNT SUMMARY

Bond Issue	Surety Bonds	Surety Provider	Expiration Date	Current Ratings Moody's	Current Ratings S&P
1993[1]	$ 19,069,616	AMBAC	12/01/2023	Withdrawn	
1997[1]	3,783,203	NPFG[2]	08/01/2026	A3	AA-
1998[1]	5,397,000	AMBAC	10/01/2027	Withdrawn	
1999[1]	4,431,090	NPFG[2]	03/01/2029	A3	AA-
1999B[1]	9,440,403	NPFG[2]	07/01/2029	A3	AA-
2001[1]	1,279,360	NPFG[2]	11/01/2031	A3	AA-
2003[1]	4,256,356	NPFG[3]	09/01/2033	A3	AA-
2004[1]	3,474,371	NPFG[3]	09/01/2034	A3	AA-
2006	3,110,214	Assured Guaranty[4]	02/01/2037	A3	AA
Total Surety Bond Amounts	$ 54,241,613				
Cash Deposits					
2008 Bond Proceeds	$ 8,936,113				
2010 Bond Proceeds	7,748,123				
2017 Bond Proceeds	4,200,000				
Total Cash and Surety Bonds	$ 75,125,849				
Reserve Fund Requirement	$ 56,625,300				

(1) Bond issue no longer outstanding. Nevertheless, in each case, the policy language provides that the Surety instrument originally purchased in connection with issuance of each of these prior Parity Bonds will remain in effect until the earlier of the termination date or the day on which no Parity Bonds secured by the Reserve Subaccount remain outstanding.

(2) National Public Finance Guarantee Corp., a wholly-owned subsidiary of MBIA, Inc. ("NPFG"). Surety originally provided by Financial Guaranty Insurance Company.

(3) Surety originally provided by MBIA.

(4) Surety originally provided by Financial Security Assurance Inc.

Outstanding Parity Bonds

The outstanding 2006 Bonds (a portion of which are the Refunded Bonds), 2008 Bonds, 2010A Bonds, 2010B Bonds, 2012 Bonds, and 2015 Bonds issued by the City and secured by revenues of the Water System on a parity with the Bonds collectively are referred to as the "Outstanding Parity Bonds." The Outstanding Parity Bonds, the Bonds, and any Future Parity Bonds collectively are referred to as the "Parity Bonds." The following table provides a summary of the Outstanding Parity Bonds.

OUTSTANDING PARITY BONDS

Bond Description	Original Par Amount	Outstanding Principal on 1/11/2017
Water System Revenue and Refunding Bonds, 2006[1]	$ 189,970,000	$ 112,990,000
Water System Revenue and Refunding Bonds, 2008	205,080,000	13,010,000
Water System Revenue Bonds, 2010A	109,080,000	109,080,000
Water System Revenue and Refunding Bonds, 2010B	81,760,000	46,855,000
Water System Refunding Revenue Bonds, 2012	238,770,000	204,405,000
Water System Improvement and Refunding Revenue Bonds, 2015	340,840,000	323,610,000
Total	$ 1,165,500,000	$ 809,950,000

(1) $107,075,000 of this issue constitutes the Refunded Bonds. As of the Issue Date of the Bonds, $5,915,000 remains outstanding. See "Use of Proceeds—Refunding Plan."

State Loan Program Obligations

The City has seven currently outstanding agreements with the Washington State Department of Ecology ("Ecology") for very low interest rate loans. These loans were provided through the State's Drinking Water State Revolving Fund ("DWSRF") program, which is funded with a combination of State and federal Clean Water Act dollars. The loans are used by the City to pay for the construction of capital improvements.

The City's currently outstanding loans are identified in the table below. All outstanding loans are secured by a lien on Net Revenue of the Water System that is junior to the lien of the Parity Bonds. The documents for each loan differ slightly from one another in various respects. While some of the programmatic documents contain language purporting to permit acceleration, the State Attorney General's Office has indicated that none of these provisions would be enforced in the event of a default. Certain of the loan documents and a State statute relating to the revolving fund loans funded by federal grants purport to permit the State to recapture loan debt service payments from other funds payable to the borrower by the State to make the revolving fund whole in the event of a payment default. It is not clear whether such a provision would be enforceable or, if such recapture were to occur, what funds would be charged or how it would be treated from an accounting standpoint.

STATE LOAN PROGRAM OBLIGATIONS
(AS OF DECEMBER 31, 2016)

Facility	Year of Agreement	Amount Outstanding	Interest Rate
Myrtle Reservoir	2005	$ 2,020,000	1.50%
Beacon Hill Reservoir	2007	2,126,316	1.50%
West Seattle Reservoir	2008	1,754,211	1.50%
Maple Leaf Reservoir	2010	2,097,548	1.50%
Maple Leaf Reservoir ARRA	2010	5,873,406	1.50%
Chester Morse Lake Pump Plant	2014	10,787,783 [1]	1.50%
Chester Morse Lake Pump Plant	2016	- [2]	1.50%
Total		$ 24,659,264	

(1) Maximum principal amount of loan is not to exceed $12,120,000. The City expects to draw the full amount within the next 12 months.

(2) Maximum principal amount of loan is not to exceed $6,060,000. The City expects to draw the full amount within the next 12 months.

Additional Obligations

Future Parity Bonds. The City reserves the right to issue Future Parity Bonds and to enter into Parity Payment Agreements for purposes of the Water System or to refund a portion of the Parity Bonds upon satisfaction of certain conditions set forth in the Bond Legislation. Among other conditions, the City must have on file at the time of the issuance of the Future Parity Bonds:

(i) a certificate of the Director of Finance showing that, during any 12 consecutive months out of the immediately preceding 24 months, Adjusted Net Revenue was at least equal to 1.25 times the Adjusted Annual Debt Service (the "Coverage Requirement") for all Parity Bonds plus the Future Parity Bonds to be issued (using Average Annual Debt Service on such proposed Future Parity Bonds as the assumed debt service for those proposed bonds during such 12-month period), or

(ii) a certificate of the Director of Finance and the General Manager of SPU stating that, in their opinion, Adjusted Net Revenue (taking into account certain permitted revenue adjustments) will be at least equal to the Coverage Requirement for the five years next following the earlier of (a) the end of the period during which interest on those Future Parity Bonds is to be capitalized or, if no interest is capitalized, the fiscal year in which the Future Parity Bonds are issued, or (b) the date on which substantially all new facilities financed with those Future Parity Bonds are expected to commence operations.

If the Future Parity Bonds proposed to be issued are for the sole purpose of refunding Parity Bonds, no such coverage certification will be required if the Adjusted Annual Debt Service on the Parity Bonds after the issuance of the Future Parity Bonds is not, for any year in which the Parity Bonds being refunded were outstanding, more than $5,000 over the Adjusted Annual Debt Service on the Parity Bonds prior to the issuance of those Future Parity Bonds. See Appendix A—Bond Ordinance—Section 17.

Parity Payment Agreements. The City may enter into Parity Payment Agreements secured by a pledge of and lien on Net Revenue on a parity with the Parity Bonds, subject to the satisfaction of the requirements for the issuance of Future Parity Bonds. See Appendix A—Bond Ordinance—Section 17. The Bond Ordinance provides that purchasers of the Bonds have consented to the adoption by the City of future supplemental or amendatory ordinances or resolutions that would permit the City to treat reimbursement obligations under a Qualified Letter of Credit or Qualified Insurance (excluding Reserve Securities) as Parity Payment Agreements. See Appendix A—Bond Ordinance—Section 24(f)(iii).

Future Subordinate Lien Bonds. In the Bond Legislation, the City has reserved the right to issue revenue bonds or other obligations having a lien on Gross Revenue subordinate to the lien thereon of the Parity Bonds.

Contract Resource Obligations. The City may enter into Contract Resource Obligations to acquire water supply, transmission, or other commodity or service from facilities to be constructed. The City may determine that all payments under those Contract Resource Obligations (including payments prior to the time such supply or service is being provided or during suspension or after termination of supply or service) will be an Operation and Maintenance Expense, upon compliance with certain requirements of the Bond Legislation. See Appendix A—Bond Ordinance—Section 20.

Rate Covenant

The City has covenanted to establish, maintain, revise as necessary, and collect rates and charges for water service that will produce Adjusted Net Revenue of the Water System in each fiscal year at least equal to 1.25 times Adjusted Annual Debt Service on all Parity Bonds then outstanding (the "Coverage Requirement"). The definitions of Adjusted Gross Revenue and Adjusted Annual Debt Service in the Bond Legislation provide for adjustments for deposits to and withdrawals from the Revenue Stabilization Subfund and for ULID Assessments. See Appendix A—Bond Ordinance—Section 1 and —Section 16(b).

Revenue Stabilization Subfund

The Revenue Stabilization Subfund has been created as a separate account in the Water Fund. This account is designated as the "Rate Stabilization Account" for purposes of the Bond Legislation and prior Parity Bond Ordinances. The City may at any time, as determined by the Director of Finance, deposit in the Revenue

Stabilization Subfund Gross Revenue and any other money received by the Municipal Water System and available for this purpose, consistent with the Bond Legislation. The Director of Finance may, upon authorization by resolution of the City Council, withdraw any or all of the money in the Revenue Stabilization Subfund for inclusion in Adjusted Gross Revenue for any fiscal year. Such deposits and withdrawals may be made up to and including the date 90 days after the end of the fiscal year for which the deposit or withdrawal will be included as Adjusted Gross Revenue. No deposit of Gross Revenue may be made into the Revenue Stabilization Subfund to the extent that such deposit would prevent the City from meeting the Coverage Requirement in the relevant fiscal year.

As of November 1, 2016, the balance in the Revenue Stabilization Subfund was $35.6 million. The rates approved in 2015 by the City Council include authorization to withdraw up to $8.3 million from the Revenue Stabilization Subfund during the period 2016 through 2017. See "Water System—Financial Policies" and Appendix A—Bond Ordinance—Section 18.

Other Covenants

In the Bond Legislation, the City has entered into other covenants, including those with respect to maintenance of the Water System, sale of the Water System, and preservation of tax exemption of interest on the Bonds. See Appendix A—Bond Ordinance—Section 16.

Separate Utility Systems

The City has reserved the right to create, acquire, construct, finance, own, and operate one or more additional systems for water supply, transmission, or other commodity or service. The revenue of the separate utility system will not be included in Gross Revenue, and may be pledged to the payment of revenue obligations issued for the purposes of the separate system. Neither the Gross Revenue nor the Net Revenue of the Water System will be pledged to the payment of any obligations of the separate system, except as a Contract Resource Obligation or on a basis subordinate to the lien of the Parity Bonds on that Net Revenue. See Appendix A—Bond Ordinance—Section 19.

Combined Utility Systems

The City has reserved the right to combine the Water System with other City utility systems, including their funds and accounts. See the definition of "Municipal Water System" in Appendix A—Bond Ordinance—Section 1. Also see "Seattle Public Utilities—Administrative Structure" for a description of existing City utilities that have reserved the right to combine with other City utilities.

Debt Service Requirements

The following table shows the debt service scheduled to be paid from the Net Revenue of the Water System.

DEBT SERVICE REQUIREMENTS[1]

	Outstanding Parity Bonds[2]			The Bonds			Total	State Loan Program	Total
Year	Principal	Interest	Total	Principal	Interest	Total	Parity Bonds	Obligations[3]	Debt Service
2017	$ 39,345,000	$ 33,525,806	$ 72,870,806	$ -	$ 4,419,644	$ 4,419,644	$ 77,290,450	$ 1,303,693	$ 78,594,143
2018	36,140,000	31,718,506	67,858,506	4,880,000	8,554,150	13,434,150	81,292,656	1,288,653	82,581,309
2019	37,960,000	29,950,206	67,910,206	5,120,000	8,310,150	13,430,150	81,340,356	1,273,614	82,613,970
2020	40,240,000	28,046,044	68,286,044	5,385,000	8,054,150	13,439,150	81,725,194	1,258,575	82,983,769
2021	40,580,000	26,106,604	66,686,604	5,655,000	7,784,900	13,439,900	80,126,504	1,243,535	81,370,039
2022	42,790,000	24,092,264	66,882,264	5,935,000	7,502,150	13,437,150	80,319,414	1,228,496	81,547,909
2023	44,640,000	21,931,595	66,571,595	6,230,000	7,205,400	13,435,400	80,006,995	1,213,456	81,220,451
2024	37,595,000	19,670,799	57,265,799	6,545,000	6,893,900	13,438,900	70,704,699	1,198,417	71,903,116
2025	39,425,000	17,752,159	57,177,159	6,875,000	6,566,650	13,441,650	70,618,809	1,183,378	71,802,187
2026	38,270,000	15,813,127	54,083,127	7,215,000	6,222,900	13,437,900	67,521,027	943,894	68,464,921
2027	36,645,000	13,946,351	50,591,351	7,570,000	5,862,150	13,432,150	64,023,501	719,590	64,743,091
2028	33,430,000	12,217,118	45,647,118	7,945,000	5,483,650	13,428,650	59,075,768	551,633	59,627,401
2029	30,620,000	10,710,108	41,330,108	12,950,000	5,086,400	18,036,400	59,366,508	545,542	59,912,050
2030	25,875,000	9,498,454	35,373,454	7,320,000	4,568,400	11,888,400	47,261,854	378,101	47,639,955
2031	27,070,000	8,214,755	35,284,755	7,690,000	4,202,400	11,892,400	47,177,155	374,430	47,551,585
2032	25,325,000	6,913,533	32,238,533	7,995,000	3,894,800	11,889,800	44,128,333	370,759	44,499,092
2033	21,875,000	5,884,065	27,759,065	8,315,000	3,575,000	11,890,000	39,649,065	-	39,649,065
2034	17,480,000	4,902,917	22,382,917	8,645,000	3,242,400	11,887,400	34,270,317	-	34,270,317
2035	13,210,000	4,090,760	17,300,760	8,995,000	2,896,600	11,891,600	29,192,360	-	29,192,360
2036	13,735,000	3,445,039	17,180,039	9,355,000	2,536,800	11,891,800	29,071,839	-	29,071,839
2037	14,280,000	2,773,765	17,053,765	9,725,000	2,162,600	11,887,600	28,941,365	-	28,941,365
2038	14,845,000	2,076,145	16,921,145	4,190,000	1,773,600	5,963,600	22,884,745	-	22,884,745
2039	9,050,000	1,478,688	10,528,688	4,360,000	1,606,000	5,966,000	16,494,688	-	16,494,688
2040	9,400,000	985,801	10,385,801	4,530,000	1,431,600	5,961,600	16,347,401	-	16,347,401
2041	2,405,000	473,900	2,878,900	4,715,000	1,250,400	5,965,400	8,844,300	-	8,844,300
2042	2,505,000	375,700	2,880,700	4,900,000	1,061,800	5,961,800	8,842,500	-	8,842,500
2043	2,605,000	273,500	2,878,500	5,095,000	865,800	5,960,800	8,839,300	-	8,839,300
2044	2,710,000	167,200	2,877,200	5,300,000	662,000	5,962,000	8,839,200	-	8,839,200
2045	2,825,000	56,500	2,881,500	5,515,000	450,000	5,965,000	8,846,500	-	8,846,500
2046	-	-	-	5,735,000	229,400	5,964,400	5,964,400	-	5,964,400
Total	$ 702,875,000	$ 337,091,406	$ 1,039,966,406	$194,685,000	$124,355,794	$319,040,794	$ 1,359,007,200	$ 15,075,763	$ 1,374,082,963

NOTES TO TABLE:

(1) Totals may not add due to rounding.

(2) Excludes debt service on the Refunded Bonds. Does not reflect the 35% federal interest rate subsidy associated with the 2010A Bonds. See "Treatment of Tax Credit Subsidy Payments Under the Bond Legislation and Consent to Future Amendments."

(3) These loans are secured by a lien on Net Revenue of the Water System that is junior to the lien of the Parity Bonds.

Treatment of Tax Credit Subsidy Payments Under the Bond Legislation and Consent to Future Amendments

Tax Credit Subsidy Bond Payments and Future Amendments to Bond Legislation. The Water System Revenue Bonds, 2010A (Taxable Build America Bonds—Direct Payment) (the "2010A Parity Bonds"), were issued as Build America Bonds. The Bond Legislation authorizing the Outstanding Parity Bonds and the Bonds does not currently permit the City to net the Tax Credit Subsidy Payments received out of its calculation of Annual Debt Service for purposes of calculating whether the Coverage Requirement has been met, or to include the payments expected to be received as Gross Revenue for purposes of meeting the test for issuing Future Parity Bonds. The City includes the amounts actually received in respect of Tax Credit Subsidy Payments as "Other Income" in calculating current compliance with the Coverage Requirement.

Section 24(f) of the Bond Ordinance provides that purchasers of the Bonds have consented to the adoption by the City of future supplemental or amendatory ordinances or resolutions that would permit the tax credit subsidy payments to be netted against debt service to be paid in the future. See Appendix A—Bond Ordinance—Section 24(f).

Effect of Federal Sequestration. With respect to the City's outstanding 2010A Parity Bonds, the City is eligible for a tax credit subsidy payment of 35% of each interest payment due. As a result of federal sequestration, the interest subsidy payments from the federal government that came due in federal fiscal year 2016 were reduced by 6.8% ($145,203), and payments in federal fiscal year 2017 will be reduced by 6.9% ($147,338). The City has sufficient cash available in the Water Fund to make timely debt service payments through its 2017 budget cycle. The City cannot predict how future legislative or budgetary measures could adversely affect the amount of the subsidy payment to the City.

SEATTLE PUBLIC UTILITIES

Administrative Structure

The City's water, drainage, wastewater, and solid waste utility services are consolidated administratively into a single entity known as Seattle Public Utilities. Within SPU, there are three separate funds: the Water Fund, the Drainage and Wastewater Fund, and the Solid Waste Fund. In the Bond Legislation, the City has reserved the right to combine the Water System, including the Water Fund, with other City utility systems, funds, and accounts. The City also has reserved the right to combine the Drainage and Wastewater System (including the Drainage and Wastewater Fund) and the Solid Waste System (including the Solid Waste Fund) with other City utility systems, funds and accounts.

Management

SPU consists of the General Manager's Office, which includes the Office of Utility Services, and six Executive Branches: Customer Service, Finance and Administration, Project Delivery and Engineering, Drainage and Wastewater Line of Business, Solid Waste Line of Business, and Water Line of Business and Shared Services. This organizational structure grew out of work done for the Strategic Business Plan and was implemented beginning in 2014 to align the utility more closely around the lines of business. See "Water System—Strategic Business Plan." The General Manager administers SPU in accordance with policies established by the Mayor of the City (the "Mayor") and the City Council. Brief biographies of the members of SPU's executive management team follow.

Mami Hara, General Manager/Chief Executive Officer. Ms. Hara was appointed General Manager and Chief Executive Officer of SPU in September 2016. In this role, she is responsible for SPU's annual budget and oversight of its rates and utility funds, as well as conservation of the City's watersheds and compliance with federal and State water quality and environmental laws. Previously, she taught at PennDesign, Temple School of Architecture, and the Department of Urban Studies and Planning at MIT. Formerly a principal with Wallace Roberts & Todd and First Deputy Commissioner of Philadelphia Water, she most recently developed a peer-to-peer network for cities and utilities advancing green infrastructure programs to promote research, innovation, and implementation of green infrastructure. Ms. Hara has a bachelor's degree from the University of Pennsylvania and a master's degree from Harvard University.

Melina Thung, Deputy Director for the Office of Utility Services. Ms. Thung was appointed to this position in 2014 and oversees the implementation of SPU's Strategic Business Plan. The Office of Utility Services is responsible for asset management standards and methods, economic services, climate adaptation, and continuous improvement services. Prior to working in the Office of Utility Services, she was Deputy Director for Finance and Administration and also formerly served SPU in the roles of Finance Director, budget manager, budget analyst, and environmental planner. Ms. Thung holds a bachelor's degree in international relations from Georgetown University, a master's degree in public administration from the University of Washington, and a master's degree in finance from Seattle University.

Susan Sánchez, Deputy Director for Customer Service. Ms. Sánchez was named Deputy Director for the branch, which serves as the main liaison between SPU ratepayers and the department's operations, in 2010. Prior to this, she was the Director for the Customer Programs and Contract Management Division, which managed the City's graffiti abatement and education, waste prevention, resource conservation, and community stewardship programs. She has more than 20 years of experience in the environmental, transportation, and land use fields at the local, regional, and federal levels. Before joining SPU, she was Director of the Race and Social Justice Office for the Seattle Department of Transportation ("SDOT"), after serving more than five years as the Director of SDOT's Policy and Planning Division. Ms. Sánchez holds a bachelor's degree in urban planning from the University of Washington.

Sherri Crawford, Deputy Director for Finance and Administration. Ms. Crawford was appointed to this position in 2014 and oversees the branch's activities, including finance, accounting, fleet and facilities management, risk and quality assurance, safety, security, emergency management, and human resources. Prior to holding this position, she was Finance Director for SPU. She held similar positions at the Cities of Auburn and Tacoma. Ms. Crawford holds a bachelor's degree in business administration from the University of Wisconsin and a master's degree in public administration from Seattle University.

Henry Chen, Deputy Director for Project Delivery and Engineering. Mr. Chen was appointed to this position in 2015 and oversees engineering, capital project delivery, and development services for all lines of business in SPU. Prior to this assignment, he was Director of Engineering and Technical Services Division and PDB Branch Operations Lead. He has also served as lead design engineer, construction engineer, and materials engineering supervisor for SDOT; and construction engineering manager, project support division director, and senior adviser to SPU senior executives on asset management and utility performance in SPU. Mr. Chen graduated from the University of Washington with a degree in Civil Engineering. He has a certificate in Water and Wastewater Executive Leadership from the University of North Carolina Kenan-Flagler Business School. He is a licensed Professional Civil Engineer and holds a Project Management Professional certification from the Project Management Institute.

Madeline Goddard, Deputy Director for Drainage and Wastewater Line of Business. Ms. Goddard was appointed to this position in 2015 and oversees the operations of SPU's Drainage and Wastewater business. She has 30 years of experience and most recently served as Deputy General Superintendent of the Sewerage and Water Board of New Orleans. Prior to this position, she worked in the Water Services Department for the City of Phoenix, Arizona, with increasingly responsible leadership roles. Ms. Goddard has a bachelor's degree in civil engineering from the University of California, Berkeley, and a master's of science in sanitary engineering from the Georgia Institute of Technology. She is a registered Professional Civil Engineer in the states of Washington, Louisiana, and Arizona.

Ken Snipes, Deputy Director for Solid Waste Line of Business. Mr. Snipes was appointed to this position in 2015. He joined SPU in 2007 after serving in the United States Air Force. Prior to heading up Solid Waste, he was the Director of Solid Waste Operations and previously held a number of other positions, including Facilities Maintenance Supervisor, Transfer Station Manager, Out of Class Water Operations Director, and Maintenance Manager. He also previously served as a construction manager, electrical superintendent, and emergency management chief. He has led large teams responsible for coordinating humanitarian aid relief efforts and managing the restoration of utility services after major storms, and was a key leader in the construction of a major airfield in a foreign country. A graduate of Wayland Baptist University, Mr. Snipes earned dual bachelors' degrees in business administration and occupational education. In addition, he has associate degrees in several technical areas, including applied science and mechanical and electrical technology. He has also begun work toward a master's degree at the University of Arkansas.

Rick Scott, Deputy Director for Water Line of Business and Shared Services. Mr. Scott was appointed to this position in 2014 and leads the shared services functions that support SPU's three lines of business. He joined SPU in 2010 as Director of SPU's Distribution and Transmission Division and was appointed Deputy Director of the former Field Operations and Maintenance branch in 2011. Prior to joining SPU, he served as the Water Treatment superintendent for the City of Glendale, Arizona. Mr. Scott has an associate degree in civil engineering from Glendale Community College and additional credit hours in utility operations and management or work-related courses.

Employment Retirement System and Employee Relations

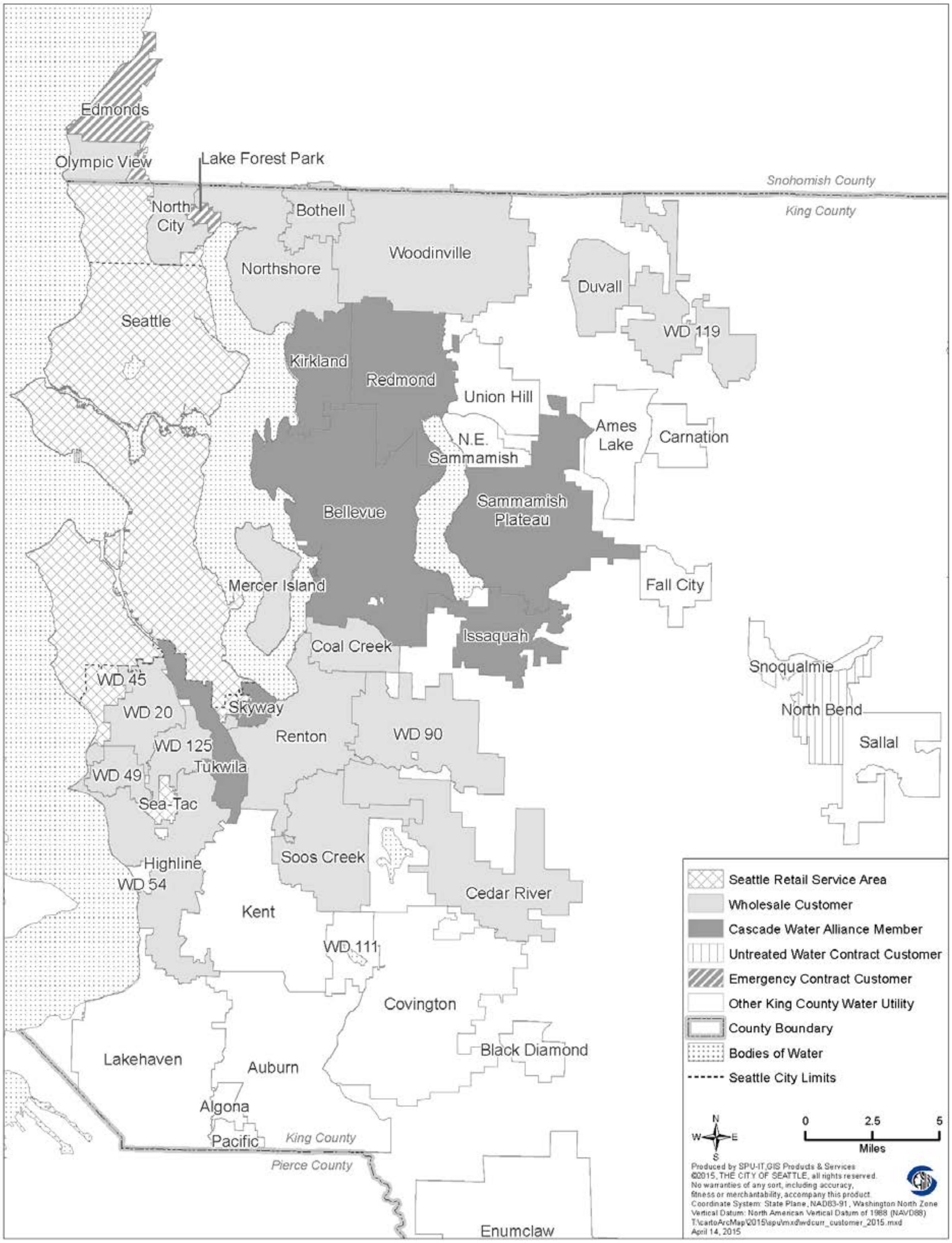
Currently SPU has approximately 1,300 employees, approximately 70% of whom are represented under one of ten labor agreements with the Coalition of City Unions. See "The City of Seattle—Labor Relations."

Almost all SPU employees are members of the Seattle City Employee Retirement System, which requires SPU, like all City departments, to make contributions equal to an actuarially determined percentage of covered payrolls. See "The City of Seattle—Pension Plans."

WATER SYSTEM

General

The Water System was established in 1890. It currently includes two watershed sources of supply east of the City, the Cedar River Watershed and the South Fork Tolt Watershed, and two small well fields located immediately north of the Seattle-Tacoma International Airport (the "Seattle Well Fields"), as well as approximately 1,800 miles of pipeline and 320 million gallons ("MG") of storage capacity in treated water transmission and distribution reservoirs. The Water System's service area includes retail service to Seattle and portions of the Cities of Shoreline, Burien, and Lake Forest Park, as well as a portion of unincorporated King County (the "direct service area"), and wholesale service to areas served by 21 suburban water districts and municipalities plus the Cascade Water Alliance ("Cascade") (together, the "Wholesale Customers") in King County (the "County") and south Snohomish County. See "Wholesale Customer Contracts" for a discussion of contracts with Wholesale Customers. The population of the Water System's direct service area is approximately 720,000, and the population indirectly served through the Wholesale Customers is approximately 683,000. The map on the following page shows the direct service area and the locations of the Wholesale Customers. A summary of operating statistics for the Water System follows.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North City
Bothell
Woodinville
Northshore
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Union Hill
Ames Lake
Carnation
N.E. Sammamish
Sammamish Plateau
Bellevue
Fall City
Mercer Island
Issaquah
Coal Creek
Snoqualmie
WD 45
Skyway
North Bend
WD 20
Renton
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Sallal
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Tukwila
WD 49
Sea-Tac
Soos Creek
Highline
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Cedar River
Kent
WD 111
Covington
Black Diamond
Lakehaven
Auburn
Algona
Pacific
King County
Pierce County
Enumclaw
Seattle Retail Service Area
Wholesale Customer
Cascade Water Alliance Member
Untreated Water Contract Customer
Emergency Contract Customer
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fitness or merchantability, accompany this product.
Coordinate System: State Plane, NAD83-91, Washington North Zone
Vertical Datum: North American Vertical Datum of 1988 (NAVD88)
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April 14, 2015

TABLE 1
WATER SYSTEM OPERATING STATISTICS

	2011	2012	2013	2014	2015
Population Served					
Retail	669,654	672,674	678,000	682,000	720,200
Wholesale (1)	634,193	642,257	648,000	654,700	683,400
Total Population Served	1,303,847	1,314,931	1,326,000	1,336,700	1,403,600
Water Sales Revenues ($000) (2)(3)					
Retail	$ 137,382	$ 152,606	$ 168,126	$ 179,935	$ 187,114
Wholesale	44,050	49,975	56,026	53,647	52,797
Total Water Sales Revenues	$ 181,432	$ 202,581	$ 224,152	$ 233,582	$ 239,911
Billed Water Consumption (MG) (3)					
Retail	19,305	19,657	19,769	19,575	20,309
Wholesale	20,922	21,236	21,405	21,986	23,106
Total Billed Water Consumption	40,227	40,893	41,174	41,561	43,415
Operating Costs ($ per MG)	$ 3,842	$ 3,996	$ 4,287	$ 4,438	$ 4,414
Gallons Used per Day per Capita	85	85	85	85	85
Retail Meters in Use	188,754	189,204	190,289	191,403	192,633
Number of New Retail Meters	422	450	1,085	1,114	1,230
Total Water Diversions from Sources (M	117.9	120.5	120.9	121.5	125.6
Non-Revenue	7.7	8.5	8.1	7.6	6.7
% Non-Revenue	6.5	7.0	6.7	6.3	5.3

(1) Estimated total population served by SPU's water supply. Because some Wholesale Customers obtain some of their water from sources other than SPU, this number is less than the total population of the shaded areas on the map on the previous page.

(2) Calculated on a revenue basis. Revenues represent payments from customers for service provided at published rates in each year as well as contractual payments from certain Wholesale Customers. Wholesale Customers pay a rate that represents only the costs of the regional system, while retail customers pay rates that cover the entire distribution system, which is expensive relative to the regional component. Revenues shown are not net of transfers to the Revenue Stabilization Subfund or other credits or deferrals of income.

(3) Revenue increases have resulted from increases in rates and seasonal consumption, where SPU utilizes an increasing step rate structure. Variations in billed water use are primarily associated with year-to-year variations in temperature and precipitation in the summer irrigation period. There has been no significant change in the geographic area served.

Source: Seattle Public Utilities

Comprehensive Planning

The SPU Water System Plan (the "Water System Plan") is a 20-year comprehensive plan for the Water System, which is updated every six years on a rolling basis. The Water System Plan provides guidance for planning and operating the Water System, and includes objectives for the next 20 years in the areas of water quality, maintenance and rehabilitation, water conservation, and water supply.

The most recent Water System Plan was approved by the Washington State Department of Health (the "DOH") in 2013 and is valid until 2019. In November 2016, the Washington State Board of Health approved the DOH's proposed changes to applicable regulations, effective before the end of January 2017, that allow for ten-year comprehensive plan update cycles at the option of SPU. SPU is currently beginning work on its 2019 Water System Plan update and expects to opt into the new ten-year update cycle.

In addition to the Water System Plan, SPU is studying the impact of seismic activity on system reliability. See “Seismic Impact on System Reliability.”

Water Supply

The Water System’s two surface water supply diversions are located on the Cedar River and on the South Fork of the Tolt River, each approximately 25 miles east of Seattle. The watershed areas upstream of the water supply intakes on these two rivers consist of approximately 104,000 acres of forest land in the Cascade Mountains of western Washington. Rainfall in the watersheds averages in excess of 100 inches annually. The snow pack at higher elevations averages five feet per year. Raw water storage capacity is 47,000 acre-feet in the Cedar River Watershed and 56,000 acre-feet in the South Fork Tolt Watershed. A newly constructed floating pumping plant and refurbished existing barge-mounted pumping plant on Chester Morse Lake in the Cedar River Watershed will provide access to an additional 27,000 acre-feet of stored water.

The City has diverted water from the Cedar River for use by the Water System since 1901. The City acquired this right by purchase, riparian right, appropriation, and other applicable laws. This claim of water rights, its relationship to instream flow requirements, and the effect of the City’s diversion dam in blocking the passage of anadromous fish have been addressed in the Cedar River Watershed Habitat Conservation Plan (the “HCP”), a comprehensive, 50-year set of legal agreements with State and federal governments signed in 2000. In 2006, in a comprehensive settlement with the Muckleshoot Indian Tribe regarding the Cedar River Watershed, the City agreed to further limits on its annual diversions. The agreement resolved long-standing issues between the City and the Muckleshoot Indian Tribe and strengthened the status of the City’s water rights on the Cedar River. As part of the agreement, the City agreed to dedicate that portion of its water right above 124 million gallons per day (“MGD”) to instream flows and to certain limits on its annual diversions from the Cedar River in perpetuity. In 2016, Ecology accepted the City’s 35-year donation of a portion of its Cedar River Water Right Claim, 22,403 acre-feet per year, into the Washington State Trust Water Right Program, administered by Ecology. The donation satisfied the City’s commitment to dedicate these flows to benefit instream flows.

The South Fork of the Tolt River came on line in 1964. The City’s water rights on the South Fork of the Tolt River were established by permits for water storage and water diversion granted by the State in 1957, with a priority date of July 14, 1936. The reservoir storage certificate was issued in 2003, but the diversion water right remains in permit status. The City’s diversions from the South Fork of the Tolt River are not subject to instream flow restrictions established in 1979 for the Snohomish River under the Instream Resources Protection Program because of the earlier priority date. However, in 1989, the Federal Energy Regulatory Commission granted a 40-year license to Seattle City Light to build a hydroelectric power plant on the South Fork of the Tolt River, resulting in modifications to the terms of the original water permits, including the establishment of minimum instream flows. In 1997, Seattle City Light documented the full beneficial use of the water needed for the hydropower plant and received a certificate of water right.

In the Seattle Well Fields, the City has developed three supply wells with a combined capacity of 10 MGD to augment the City’s surface water supply. The feasibility of augmenting recharge of the aquifer with surplus winter-spring flows from the Cedar River has been tested successfully. The wells are operated under temporary permits from Ecology. The City has applied for permits that can be converted into water rights.

The City also has water rights applications on file with Ecology for potential future sources of supply, including the North Fork of the Tolt River and the Snoqualmie Aquifer.

Future Water Supply and Conservation

At present, SPU has adequate supply resources to meet Water System demands under a wide range of weather conditions. Existing sources of supply owned by the City provide an average annual firm yield of 172 MGD. The current firm yield is based on an update completed in 2011 to represent current operating conditions, namely the use of the current spring refill target elevation of 1,563 feet for Chester Morse Lake and the use of a revised monthly demand distribution based upon the actual demand in 2005 through 2009. Demand in the service area has averaged approximately 120 MGD since 2010. In connection with the preparation of the 2019 Water System Plan update, SPU is in the process of preparing new estimates of firm yield and long-range Water System demand forecasts. SPU will also be analyzing a variety of factors affecting its estimates of supply resources and forecasts of Water

System demands under various climate conditions. These estimates are expected to become publicly available in early 2018.

While population has steadily risen in the service area, water demand has generally been decreasing due primarily to conservation. Consumption has risen slightly since 2011 but is still below pre-recession levels. Conservation has been encouraged through higher marginal rates in the summer peak season, utility water conservation programs, new State plumbing codes specifying efficiency standards for water fixtures, and improved Water System operations. In addition, the majority of new housing added recently has been higher density housing, which tends to use less water per capita.

SPU and 18 Wholesale Customers operate regional conservation programs collaboratively as the Saving Water Partnership. These regional conservation programs provide opportunities for customers within the direct service area and the service areas of participating Wholesale Customers. Additionally, the City has its own water conservation program to support low income households by offering rebates for toilets, common area clothes washers, and aerators to qualifying single-family, multi-family, and institutional low income residential buildings. Customers in the Utility Discount Program are referred to this latter program to help overcome first-cost barriers to installing water efficient fixtures and appliances. See “Water Rates—Low Income Assistance.”

In 2003, the State Legislature passed a Municipal Water Law that resulted in the adoption of water use efficiency rules set by the DOH. The rules include planning requirements, distribution leakage standards, water use efficiency goal-setting, and performance reporting. The Water System Plan includes a six-year regional conservation goal to achieve compliance with the Municipal Water Law for 2013 through 2018. The goal is to reduce per capita water use from current levels so that total average annual retail water use of members of the Saving Water Partnership is less than 105 MGD from 2013 through 2018 despite forecasted population growth. The Saving Water Partnership met the Regional Water Conservation Program goal in 2013, 2014, and 2015, with annual retail water use of members of the Saving Water Partnership at 93.1 MGD, 93.8 MGD, and 96.9 MGD, respectively. The conservation savings noted above are expected to continue to drive down per capita consumption.

In the 2013 Water System Plan update, SPU considered the potential uncertainties associated with demand forecasts, as well as the potential impacts future climate change may have on its water supplies and demands, in determining that no significant investments in new sources are needed before 2060. See “Climate Change.” This conclusion will be reviewed and revised as necessary in conjunction with the preparation of the 2019 Water System Plan update.

In addition to new conservation programs, several potential water resources were identified in the 2013 Water System Plan, should they be needed in the future. These include:

(i) development of the Snoqualmie River Valley/North Bend Aquifer,

(ii) use of a permanent pumping plant at Chester Morse Lake for normal supply (beyond what would be accomplished by the newly constructed floating pumping plant and refurbished existing barge-mounted pumping plant on Chester Morse Lake (see “Water Supply”),

(iii) drawdown of Lake Youngs (which stores water from the Cedar River) for water supply,

(iv) additional drawdown of the reservoir on the South Fork of the Tolt River,

(v) development of a new source of supply at the North Fork of the Tolt River, and

(vi) development of reclaimed water projects in the direct service area.

These new resource alternatives vary in the amount of new supply provided, capital and operating costs, and level of effort needed to develop. SPU has not yet selected any of these potential resources for development as a preferred next source of supply.

Endangered Species Act

In 1999, the National Marine Fisheries Service (“NMFS”) listed the Puget Sound Chinook salmon, which migrate through waterways within and adjacent to the City, as a “threatened species” under the Endangered Species Act (the “ESA”). NMFS subsequently finalized a “4(d) rule” extending the ESA’s prohibition against “take” to Puget Sound

Chinook salmon. This rule enables jurisdictions to submit plans that, if approved, would limit the application of the general prohibition to activities covered in the plan. Eligible activities include certain municipal, residential, commercial, and industrial development activities, certain road maintenance activities, and certain forestry activities. The full implications of this listing and the 4(d) rule for the Water System are difficult to predict due to the many legal and scientific uncertainties associated with the application of the ESA to water supply operations.

In an effort to reduce uncertainty with regard to its largest water supply source, the Cedar River, the City entered into the HCP with the U.S. Fish and Wildlife Service ("USFWS") and NMFS in 2000. The HCP specifies the measures the City will undertake to minimize and mitigate potential impacts on listed species. The HCP commits the City to spend about $106 million (in 2014 dollars) to improve conditions for fish and wildlife within the Cedar River Watershed through the year 2050. See "Watershed Management Policies" and "Capital Improvement Program." While these measures include commitments to instream flow levels, the Water System's estimated firm yield is not expected to be impacted adversely by the HCP. The incidental take permit, which the City was issued when the HCP was approved, protects the City from ESA liability resulting from potential impacts of the Water System's Cedar River operations on Chinook salmon, bull trout, steelhead, northern spotted owls, marbled murrelets, and approximately 76 other species of fish, mammals, birds, and amphibians known to be present and potentially affected by the City's water supply and hydroelectric and land management activities.

The second major Water System supply is drawn from the South Fork of the Tolt River with the aid of a dam. Streamflow levels downstream from the impoundment are affected by dam operations and water diversions, with potential impacts on Chinook salmon and steelhead, which are both listed under the ESA as threatened. The City, various tribes, and several federal agencies entered into the Tolt River Settlement Agreement in 1988, which included commitments for streamflows and habitat improvements that are intended to mitigate for impacts caused by the City's water supply and power generation operations.

Bull trout also have been listed as threatened and endangered and other fish listings can be anticipated. Because it is unknown whether bull trout are present in the Tolt River, the impact of the bull trout listing on the Tolt River and other City operations is unknown.

To further manage legal risks, the City has invested in Chinook salmon research for its major waterways and participated in regional watershed planning for the Cedar River, the Snohomish/Tolt Rivers, and the Green/Duwamish Rivers. As a result, the City has assembled substantial data on Chinook salmon and new scientific methods that provide the basis for development of best management practices in several key City activity areas, including for water maintenance activities within road rights-of-way. In addition, salmon research and funding of staff at federal regulatory agencies responsible for ESA Section 7 consultations are allowing better project design, which is expected to result in fewer anticipated permit delays.

The City and SPU expect that additional funding will be needed to support habitat restoration programs that address salmon-related policy objectives. Funding for these programs is expected to come from a variety of sources, including City water rates, drainage and wastewater rates, taxes or fees imposed by other local jurisdictions, and federal and State grants.

Transmission Facilities

The transmission facilities of the Water System consist of multiple primary transmission lines from the Cedar River, one transmission line and substantial portions of a second line from the Tolt River ("Tolt 1" and "Tolt 2," respectively), and a network of supply mains throughout the service area. In all, there are approximately 160 miles of primarily concrete or steel pipelines ranging in diameter from 30 to 96 inches.

After two segments of Tolt 1 ruptured in the late 1980s, the entire pipe was replaced or sliplined with new pipe by 2005. In addition, for both reliability and new capacity, approximately 18 miles of Tolt 2 were constructed beginning at the Tolt Regulating Basin and running parallel to and interconnecting with Tolt 1 at several locations. SPU is also expanding its cathodic protection program to extend the service life of both steel and concrete cylinder pipelines.

To assist in maintaining water flow to the distribution portion of the Water System, the transmission system includes two regulating basins, seven covered storage reservoirs, and six elevated tanks and standpipes. In addition, there are 15 transmission pumping stations with a total rated capacity of more than 180,000 gallons per minute (“GPM”). The following table shows the hydraulic capacities of the primary transmission lines and the transmission regulating basins and reservoirs of the Water System.

TABLE 2

HYDRAULIC CAPACITY OF INDIVIDUAL COMPONENTS OF THE TRANSMISSION SYSTEM [(1)]

Facility	Capacity
Transmission Lines (MGD)	
Cedar River	200
Tolt River	135
Total	335
Raw Water Storage Facilities (MG)	
Lake Youngs (regulating basin)[(2)]	4,812
Tolt Regulating Basin[(2)]	312
Total	5,124
Treated Water Storage Facilities (MG)	
Transmission Reservoirs	215
Elevated Tank and Other Storage	7
Total	222

(1) Treatment capacity is 120 MGD on the Tolt River source and 180 MGD on the Cedar River source. Equalizing reservoirs (clearwells) at the outlet of the treatment plants (5 MG on the Tolt River source and 20 MG on the Cedar River source) make it possible to deliver higher flow rates as needed into the transmission system for several hours. Averaged over several days, though, effective transmission capacity cannot exceed treatment capacity, as all water must be treated.

(2) Effective capacity under current operating guidelines is less than the capacity shown in the table.

Source: Seattle Public Utilities

During the month of record maximum consumption, July 1985, the transmission lines delivered an average of 301 MGD. Water delivery by transmission pipelines on peak days at present typically does not exceed 250 MGD.

In 2009, Tolt 1 and Tolt 2 were found to cross a historic slide located between the Tolt Regulating Basin and the Tolt Water Treatment Facility. The slide had been dormant, and therefore unknown, since the pipelines were installed in the 1960s and late 1990s, but has become more active, apparently due to a combination of logging in upland areas and erosion by the North Fork Tolt River. This slope movement has affected both pipelines. Since the discovery of the slide, Tolt 1 has been kept empty most of the time to reduce the risk of new small joint leaks triggered by the ground movement and aggravating slope stability. A 48-inch double ball joint expansion sleeve was installed on the newer steel Tolt 2 to allow the pipeline to better conform to the creeping slide. The joint has worked since 2009; however, it is now approaching the maximum deflection recommended by the manufacturer, and will therefore be excavated and reset in early 2017 to provide flexibility for another ten years at the current rate of ground movement. This is expected to provide the time necessary to identify and implement a long-term solution, or to validate the cost effectiveness of the current reactive approach as detailed below.

In addition, SPU initiated an on-going survey and inclinometer monitoring program to track the slide and pipeline movement since the issue became known in 2009. Information from outside experts indicates that the potential for catastrophic slope failure is low, with recommendations for further seismic analysis, some of which was completed in the 2015-2016 period. Results to date support the low probability of large ground movements, with further analytical and data collection efforts planned through mid-2017.

Long-term alternatives for addressing this issue could include bypassing a section of the pipelines with a tunnel deep enough to avoid the area of slope movement. Another alternative would be to manage the slowly moving slope indefinitely, by minimizing slope movement where possible and regularly inspecting and re-setting deflected pipe joints. Another approach could be to install horizontal drains into the sliding earth mass, as outside geotechnical experts suggest that would significantly slow or stop the movement. Analysis of the alternatives is expected to result in a recommended option in late 2018.

For the near term, SPU has prepared an emergency response plan to provide water service should a slide prevent water deliveries through the Tolt pipelines. One key component of the response would be to deliver water from the Cedar River system, including use of the pump station at Tolt Eastside Supply Line Junction, to deliver Cedar River water to wholesale customers along the Tolt pipelines. SPU is able to serve all of its customers via the Cedar system if the Tolt River system is off-line, except during the month of peak water use. A Tolt River system outage during the peak month would require some level of water use curtailment; however, the risk for such an event is very low because the slide moves minimally or not at all during the dry weather summer period.

Storage and Distribution

Storage of water within the distribution portion of the Water System is accomplished through the use of six covered distribution reservoirs, five standpipes, and one elevated tank, with capacities as follows:

TABLE 3
CURRENT CAPACITY OF DISTRIBUTION RESERVOIRS (MG)

Reservoirs	97.0
Standpipes	7.0
Elevated Tank	1.0
Total	105.0

Source: Seattle Public Utilities

The adequacy of SPU's distribution and transmission storage volumes has been demonstrated by using a computerized hydraulic model of the Water System to simulate a suite of emergency and peak demand conditions and other analyses.

In 2011, near the end of construction of the Water System's four buried reservoir projects, the engineering consulting firm involved in the projects notified SPU that there were seismic design deficiencies in all four reservoirs. See "Seismic Impact on System Reliability." SPU has analyzed the extent of the deficiencies, designed a solution, and completed repairs on three of the four reservoirs, with repair of the fourth scheduled to be completed in 2017, the cost of which is included in the Water Quality and Treatment Program Area of the CIP. See "Capital Improvement Program." SPU and the City Attorney's office are working with the engineering consulting firm and its insurance carrier on cost recovery.

The distribution system consists of approximately 1,690 miles of predominantly cast iron and ductile iron pipe and some concrete cylinder and steel pipe. To assist in maintaining adequate pressure within the distribution system, there are 16 electric and hydraulic pumping stations with a total rated pumping capacity of more than 100,000 GPM.

The storage and distribution facilities and conservation incentives have met the needs of the expanding population in the service area. Peak day consumption levels as high as 329 MG and 348 MG were recorded on June 29, 1987, and July 15, 1970, respectively. However, since 2003, peak daily consumption has been less than 250 MG.

In 2015, the total non-revenue-producing water (leakage, system cleaning and flushing, fire fighting, and lake flushing) was estimated to be 6.6 MGD, or 5.3% of total water produced. The leakage loss portion of non-revenue-producing water for 2015, including meter inaccuracies, was approximately 6.2 MGD.

To reduce missed revenue opportunities, SPU has adopted focused meter testing and meter replacement programs to assure the accuracy of its billing meters. SPU operates approximately 193,500 billing meters, of which 5,750 are large (three-inch to 24-inch), and the rest are small (3/4-inch to two-inch). SPU conducts periodic tests of statistically significant samples of small meters and generally has found that these meters tend to remain accurate until sudden and complete failure occurs, which is rapidly detected and the failed meters replaced. Because large meters tend to gradually lose accuracy with use, SPU has a goal to test every large retail meter at least once in every five years. SPU has not been able to meet this goal for all meters due to limited resources and the relatively high cost of meter testing. The average rate of large meter testing is currently once every eight to ten years. However, SPU has made progress toward this goal by focusing on meters showing greater consumption where accuracy improvement as a result of testing would translate into higher revenue recovery. High-use meters are tested between twice a year and once in five years, based on a combination of size and annual volume of water passing through the meter.

SPU also has an on-going large meter replacement program to replace failing and obsolete meters and certain high-use meters where improved accuracy is likely to translate to revenues sufficient to cover the replacement in three years or less. Approximately 40% of the large meter stock has been replaced since 2007. The pace of replacement has slowed in 2015 and 2016 since the remaining older meters are low-use, and the cost of replacement is unlikely to be recovered through increased revenues. Instead, these older low-use mechanical meters are gradually replaced as they fail.

City of Shoreline. SPU currently serves approximately 11,000 retail customers in the City of Shoreline, directly north of Seattle, through its distribution system. This represents approximately half of the population of the City of Shoreline. In 2009, the City of Shoreline requested to begin negotiations to acquire SPU's water distribution system to provide retail service within its city limits and to establish its own municipal water utility. In early 2015, after several years of discussion, the City determined that a sale is not in the best interests of Seattle ratepayers, and has now ended discussions with Shoreline over the water system assets sale. Instead, SPU is now pursuing policy discussions with Shoreline to determine how it can address some of the interests Shoreline expressed during the acquisition discussions while retaining retail service by the City in Shoreline for the future.

Seismic Impact on System Reliability

A comprehensive seismic evaluation of the Water System was completed by a consultant in 1990. This evaluation considered two levels of probabilistic seismic ground motions. Lower level ground motions were defined to have an approximately 40% probability of exceedance in 50 years or an average return interval of 100 years. Upper level ground motions corresponded to the building code design ground motions at that time, with a 10% probability of exceedance in 50 years or an average return interval of 472 years. Based on the findings of the 1990 study, many critical facilities were seismically upgraded.

The 1965 and 2001 Puget Sound earthquakes demonstrated that the SPU water system can withstand moderate earthquakes with relatively minor damage. However, during the 1990s, it became apparent to seismologists that the seismicity of the Puget Sound area was much higher than previously believed and that the Seattle Fault Zone that runs through Seattle and Bellevue was seismically active. It was found that earthquakes much larger than the 1965 and 2001 events have occurred in the past and will occur in the future in the Seattle area. Building code, seismic ground motions, and seismic design requirements in the Puget Sound region were significantly increased to reflect the increased seismic hazard posed by these larger earthquakes. SPU is reevaluating its water system facilities and developing an earthquake mitigation plan to further improve facility and system performance during and after a major earthquake. This study is expected to be completed in 2017. SPU has completed seismic upgrading of three of its four major buried reservoirs and expects to complete the upgrade on the fourth reservoir in 2017. See "Storage and Distribution."

Water Quality

SPU has a comprehensive source-to-tap water quality management program. Water quality is ensured through an integrated effort of source protection, state-of-the-art treatment, and ongoing monitoring throughout the Water System for potential microbial and chemical contaminants.

SPU owns more than 99% of the Cedar River Watershed and 70% of the South Fork Tolt Watershed (the other 30% is U.S. Forest Service land) above the intake points. Protection of the two watersheds from agricultural, industrial, and recreational activities helps ensure that high-quality water is delivered to the Seattle area. In addition to the two primary surface sources, the Seattle Well Fields periodically provide a small portion of the City's water supply. These wells are deep and afford natural protection from contamination.

On the Cedar River source, water is screened and fluoridated at the Landsburg Cedar River Diversion facilities before traveling through transmission pipelines to Lake Youngs. Primary treatment for the source is provided by the Cedar Water Treatment Plant at the outlet of Lake Youngs, which was commissioned in 2004 with a maximum treatment capacity of 180 MGD. The Cedar treatment plant is operated under a long-term contract with CH2M HILL OMI. The plant treatment processes include ozonation, ultraviolet light disinfection, pH adjustment, and chlorination.

The treatment plant on the Tolt source, commissioned in 2001, has a maximum treatment capacity of 120 MGD. The Tolt filtration plant is operated under a long-term contract with American Water/CDM. The plant provides primary treatment for the Tolt source using treatment processes including ozonation, direct filtration, pH and alkalinity adjustment, and chlorination.

When the Seattle Well Fields are in operation, treatment includes chlorination, fluoridation, and pH adjustment. The intent of treatment is to protect public health and to comply with treatment and monitoring requirements of the DOH. SPU operates a water quality laboratory accredited by Ecology for bacteriological and chemical analyses to help ensure compliance with drinking water standards.

As an operator of a public water system, SPU must comply with treatment and monitoring requirements of the Safe Drinking Water Act of 1974 as amended and any additional requirements as specified by the DOH. Water quality parameters and regulations of particular significance are discussed below.

Surface Water Treatment. The federal Surface Water Treatment Rule established filtration and disinfection requirements for public water systems utilizing surface sources. Since startup of the Tolt Treatment Facility in 2001, the Tolt source has been treated to meet these requirements.

The Surface Water Treatment Rule also established criteria for unfiltered systems with a Limited Alternative to Filtration ("LAF"), including (i) watershed protection and management, (ii) raw water quality, (iii) treatment efficiency and redundancy, and (iv) some aspects of distribution system water quality. SPU began operation of the Cedar Water Treatment Plant under the requirements of the LAF in 2004 and continues to do so.

In 2006, the United States Environmental Protection Agency (the "EPA") issued the Long-Term 2 Enhanced Surface Water Treatment Rule, which requires higher levels of treatment for water sources with higher levels of *Cryptosporidium*. SPU conducted monitoring for *Cryptosporidium* in the Tolt and Cedar sources over the years with results showing extremely low levels and no change of water treatment required. SPU conducted additional *Cryptosporidium* monitoring in 2015 and 2016 which verified continued low levels.

Lead and Copper. The City meets the requirements of the current Lead and Copper Rule ("LCR") and qualifies for reduced levels of monitoring for lead and copper. The EPA is expected to have proposed LCR revisions available for public comment in late 2017. SPU anticipates that these could include an increased emphasis on lead component removal, corrosion control optimization, and customer testing. SPU does not anticipate experiencing difficulties in continuing to be in compliance with the LCR.

SPU utilizes corrosion control treatment to reduce the potential for lead leaching from plumbing materials into drinking water. SPU optimized its corrosion control parameters more than a decade ago and continuously monitors water chemistry at its treatment facilities and collects routine samples throughout the distribution system to ensure appropriate water pH and alkalinity at ten distribution system locations. Results are reported monthly to the DOH. In addition, SPU maintains a State-accredited analytical laboratory that performs the testing above in addition to all regulatory testing for SPU's Wholesale Customers. Lead and copper have not been detected in the source water.

Lead in water normally comes from plumbing materials, primarily from corrosion of lead solder used to connect copper pipes and corrosion of brass fixtures that contain lead. SPU recognized this as a potential problem over 30 years ago and has been treating the water to reduce its corrosiveness since the early 1980s. The City was the first municipality in the nation to ban the use of lead solder in potable plumbing systems. The steps taken in the last two decades to reduce the corrosiveness of the water have been successful in reducing lead levels at customer taps.

In 2016, a Governor's directive tasked the DOH to work with stakeholders, including SPU, to develop policy and budgetary proposals to identify and remove lead service lines and components from Group A public water systems over the next 15 years; this is ongoing. SPU did not historically, and does not currently, install lead water mains or lead service lines in the water distribution system. SPU maintains a database of water mains and service lines that provides documentation of location, installation date, and material type. Water meter type and location are documented as well. Meters are generally made of brass, and some older meters use an alloy that does contain lead. Any new meter installation by SPU must utilize lead-free brass that meets EPA requirements. The majority of service lines (the pipe connecting a water main to an individual meter) are made of copper or plastic. A small percentage (approximately 4%) is made of galvanized steel. Based on historical maintenance and repair records, SPU believes approximately 20-25% of the galvanized steel service lines utilized a lead gooseneck connecting the main to the service line. The water main and service line records (some dating back more than a century) do not include information on which specific galvanized steel service connections had lead goosenecks installed. These are removed whenever encountered during leak repair or other construction activities.

SPU has surveyed the records described and the presence of lead components in the distribution system appears limited to those described above. SPU also maintains a "Research Your Water Service Line" Map Tool available on its website that provides a basic illustration of the water service lines to all properties served by SPU. The Map Tool includes information about the service line pipe material, *e.g.*, copper, plastic or galvanized steel, for the portion of the water service line that SPU owns and maintains (generally from the SPU water main to a point a few feet beyond the service line's water meter).

Total Coliform Rule. SPU has been continuously in compliance with the Total Coliform Rule. The Total Coliform Rule requires monitoring to demonstrate that a water system is operating and maintaining its distribution system in a way that minimizes the risk of bacterial intrusion or regrowth. SPU collects required monthly samples from its retail service area distribution system and tests for coliforms, which are naturally present in the environment and are used as an indicator of whether other, potentially harmful bacteria may be present. In April 2016, the Revised Total Coliform Rule took effect nationally for public water systems, adding a requirement for system assessments with corrective action when coliform contamination is detected. No assessments have been triggered for SPU.

Disinfection Byproducts. The use of disinfectants, such as chlorine, to provide protection against microbes in water can result in the formation of disinfection byproducts ("DBPs") when the disinfectants react with organic matter in the water. SPU meets current regulatory standards under Stage 2 DBP Rules.

Open Reservoirs. In 1994, revisions to DOH drinking water regulations required the development of a plan to cover all open distribution reservoirs, and subsequently the Long-Term 2 Enhanced Surface Water Treatment Rule required public water systems to have a State-approved plan for covering or treating finished drinking water reservoirs in place by 2009. SPU has completed its reservoir covering plan and now has a total of 13 covered finished drinking water reservoirs within its transmission and distributions systems. In 2014, SPU removed its remaining two open storage facilities, the Roosevelt and Volunteer Reservoirs, from service. Because the reservoirs might be needed for emergency water supply after a major earthquake, SPU intends to decide whether to decommission each of these reservoirs or to proceed with reservoir-covering plans pending the results of the previously described seismic study.

Arsenic. EPA's maximum contaminant level for arsenic is ten parts per billion ("ppb"). Testing of the City's two primary drinking water sources, the Cedar and Tolt sources, indicates that arsenic is not present above one part per billion, the analytic detection limits. Naturally occurring arsenic concentrations in the Seattle Well Fields ranged from 1.7 to 7.9 ppb when the wells were last operated in 2015. The wells are used seasonally during some dryer years and otherwise remain inactive. When they are operated, water is blended with surface supplies prior to delivery to customers. Arsenic results remain below regulatory limits.

Chromium-6. Chromium is a naturally occurring element found in rocks, animals, plants, soil and volcanic dust, and gases. It exists in nature in several forms, including, and most commonly, in a form called Chromium-3. Chromium-6, which is rare in nature, can be produced by industrial processes, but can also result from oxidation of naturally occurring Chromium-3 when water is chlorinated. The EPA has established a drinking water standard of 100 ppb for all forms of chromium, but Chromium-6 specifically is not currently regulated by the EPA in drinking water. In 2014, California established a state standard for drinking water of 10 ppb and a non-enforceable "public health goal" of 0.02 ppb for Chromium-6.

SPU tested for Chromium-6 in its water in 2015 as part of the third round of Unregulated Contaminant Monitoring Rule testing ("UCMR3") and found low concentrations, with a range of 0.06 ppb to 0.17 ppb. These results are well below the current California state standard of 10 ppb, and were included in SPU's Water Quality Report that was sent to customers. More than 60,000 samples were collected nationally as part of UCMR3 testing and reportedly Chromium-6 was detected in more than 75% of these samples. The EPA is continuing to evaluate the data and may propose new drinking water regulations concerning Chromium-6 in the future.

Radon. Radon is a radioactive gas that emits ionizing radiation and may be released from tap water. No current rule regulates radon in water. EPA proposed a radon rule in 1999; however, there has been very little activity by EPA in the regulation of radon in drinking water in the past few years, so it is unknown if and when a new regulation might be issued. Radon has not been detected in samples analyzed from the Cedar River and South Fork Tolt Watersheds. While the seasonally operated Seattle Well Fields contain naturally occurring radon, SPU expects to be able to comply with the proposed radon rule requirements under current operational practices.

Watershed Management Policies

SPU carries out programs of watershed resource management, fire protection, and the protection of water resources within the Cedar River and South Fork Tolt Watersheds. Seattle City Light also operates small hydroelectric plants in the Cedar River and South Fork Tolt Watersheds.

The City's ownership of the Cedar River Watershed has resulted in strengthening forest management, wildlife, and other programs that are based upon comprehensive management policies adopted in 1989 to guide the secondary uses of the watershed. In 2000, the City committed to discontinuing timber harvesting for commercial purposes over the 50-year lifespan of the Cedar River Watershed HCP. While trees may be cut, timber harvests are allowed only for forest restoration purposes that benefit fish or wildlife populations and support the goals and objectives of the HCP.

The HCP provides the City with legal coverage for its drinking water and hydroelectric operations in the Cedar River Watershed under the Federal Endangered Species Act. It commits the City to improving fish and wildlife habitat, including providing salmonid fish passage above the Landsburg diversion dam, ecological and restoration thinning and planting of more than 17,000 acres of second growth forest, restoration of riparian, wetland, and stream habitats, and the abandonment of more than 200 miles of logging roads in the watershed. See "Water Supply."

A watershed management plan was developed for the South Fork Tolt Watershed in 2008 to provide a long-term framework for managing the land and natural resources in this watershed. SPU has carried out the plan's recommended restoration actions, and ongoing activities in this watershed relate primarily to access security and road maintenance.

Wholesale Customer Contracts

Wholesale Customers consist of 21 water districts and municipalities served under individual contracts and Cascade, a consortium of seven municipalities and water districts that includes five that were formerly served under individual contracts. Wholesale Customers pay a rate that represents only the costs of the regional system, while retail customers pay rates that cover the entire distribution system. In 2015, approximately 22% of water sales revenue was derived from sales to Wholesale Customers.

Since 2001, 18 Wholesale Customers, representing about 56% of total Wholesale Customer consumption and 30% of total Water System consumption, have signed fixed block or full and partial requirements contracts that expire January 1, 2062, including amendment periods where the parties may opt to review and change certain contract terms and conditions in 2022 and 2042. The full and partial requirements contracts obligate the City to meet the Wholesale Customers' demand that is not already met by their independent sources of supply. The full and partial contracts also allow the development by Wholesale Customers of alternative sources of water and the reduction of purchases from the City. One customer, Highline Water District, gave notice under the contract that it intends to reduce purchases from the City by an amount up to two MGD (approximately 975,900 hundred cubic feet ("ccf")) effective August 1, 2016, since delayed until 2018.

SPU signed a 50-year declining block sales contract with Cascade in 2003 that capped Cascade's demand from the Water System at 30.3 MGD through 2023, when the block volume would begin to decline in five-year increments until the end of the contract. In 2013, the contract was amended, which allows Cascade to delay its planned development of Lake Tapps in Pierce County as a future potable water supply for its members. The amendment increased Cascade's block size to 33.3 MGD through 2039, after which the block begins to decline in yearly increments until the end of the contract. The amendment also included lump sum payments from Cascade of $5.0 million in 2013, $12.0 million in 2018, and $5.0 million in 2024. Cascade's 2015 demand represents about 44% of total Wholesale Customer consumption and 24% of Water System consumption. Cascade expects to develop sources of supply, including the use of Lake Tapps, to satisfy the future water demands of Cascade members above the block amounts.

In 2008, SPU signed a 60-year partial requirements contract with the City of North Bend to provide untreated water for North Bend's use in supplementing stream flows affected by its well operation. This contract has a cap of 1.1 MGD. Water deliveries began in 2009.

In 2011, two Wholesale Customers (Lake Forest Park Water District and the City of Edmonds) signed emergency intertie agreements with Seattle to replace their previous wholesale supply contracts that were scheduled to expire at the end of 2011. These customers have alternate supplies and did not purchase water from Seattle on a regular basis, and the new contracts more appropriately reflect this status. The new contracts expire in 2062.

Currently, the Office of the City Auditor is conducting an audit of Wholesale Customer water sales to ensure that internal controls over the billing- and payment-related processes are adequate and conducted in accordance with City and department policies and procedures. Results are expected to be released in 2017.

The following table lists consumption in hundred cubic feet by individual Wholesale Customers and revenues generated by water sales to individual Wholesale Customers in 2015.

TABLE 4

ANNUAL WATER SALES TO WHOLESALE CUSTOMERS IN 2015[1]

Wholesale Customer	Consumption(ccf)	Revenue
Cascade Water Alliance	13,792,553	$ 19,909,486
Northshore Utility District[2]	2,623,056	5,120,981
Highline Water District[3]	2,401,204	4,571,186
Soos Creek Water and Sewer District[2]	2,002,945	3,452,697
Woodinville Water District[2]	1,987,587	3,182,054
Water District #20[2]	1,240,865	2,329,604
City of Mercer Island[2]	1,080,492	2,079,865
Cedar River Water and Sewer District	910,094	1,599,352
North City Water District[2][4]	831,093	1,438,138
City of Bothell[2]	724,782	1,390,176
Water District #49	625,497	1,166,000
Coal Creek Water and Sewer District[2]	719,340	1,153,542
Water District #90[2]	621,453	1,107,958
Water District #125	487,788	908,056
Olympic View Water and Sewer District	427,550	785,477
City of Duvall	260,014	451,986
City of Renton	54,951	232,145
Water District #45[2]	113,495	219,193
Water District #119[2]	122,240	210,453
Other Wholesale Customers	58,007	74,752
Total	31,085,006	$ 51,383,101

(1) Figures are 2015 metered water consumption and associated revenue from SPU records, not net of certain credits, accruals, and allowances included in the Water System's audited financial statements. Certain customer contracts also include a payment due when they connect new retail customers to their system.

(2) Indicates Wholesale Customers that buy all their water from SPU.

(3) Highline Water District has given notice under the contract that it intends to reduce purchases from the City by an amount up to 975,900 ccf beginning in 2018. If new rates were not scheduled to be updated for 2018, this would have resulted in a reduction in revenue to SPU of approximately $1.7 million.

(4) Formerly Shoreline Water District.

Source: Seattle Public Utilities

Major Retail Water Users

There are no major water-intensive retail customers in the service area representing more than 5% of total Water System revenue. The Water System's ten largest retail water users in 2015 are shown below.

TABLE 5
TEN LARGEST CUSTOMERS

	2015 Revenue ($000)	% of Total Revenue
City of Seattle	$ 4,595	2.46%
University of Washington	4,400	2.35%
Port of Seattle	3,333	1.78%
Seattle Housing Authority	2,566	1.37%
King County	1,299	0.69%
Equity Residential Properties	828	0.44%
Nucor Steel	803	0.43%
Starwood Hotels/Residential Group	775	0.41%
Seattle Public Schools	724	0.39%
Essex Property Trust	642	0.34%
Total-Ten Largest Customers	$ 19,965	10.67%

Water Rates

Establishment of Rates. Water rates are proposed by the Mayor, reviewed by the City Council and adopted by ordinance after public hearings. The City Council has exclusive authority to set rates and charges for water services. The City is not subject to the rate-making jurisdiction of the Washington Utilities and Transportation Commission or any other State or federal agency.

SPU is currently in the process of updating the Strategic Business Plan (see "Strategic Business Plan"). Shortly after approval of the Strategic Business Plan, a Rate Study recommending new rates for 2018-2020 will be proposed. This is expected to be completed by mid-2017. Major drivers of the Rate Study recommendations will include revised demand projections, the Water System's capital improvement program (the "CIP") (see "Capital Improvement Program"), and financial policy targets. In addition, retail rates will be proposed to recover revenue reductions expected from an expanded low-income discount program.

The following table shows historical system-wide water rate increases for the last six years and the adopted water rate adjustments for 2016 and 2017.

TABLE 6
SYSTEM-WIDE WATER RATE ADJUSTMENTS

Year	Rate Adjustment
2010	9.3%
2011	0.6
2012	9.9
2013	9.7
2014	3.4
2015(1)	(1.9)
2016(2)	2.1
2017(2)	2.6

(1) Decrease in 2015 reflects an adjustment in wholesale rates to reflect past overpayments of allocated costs and increase in volume. Retail rates did not change in 2015.

(2) Based on adopted rates.

Source: Seattle Public Utilities

The following table shows the rates in effect as of January 1, 2017.

TABLE 7
MONTHLY RATES EFFECTIVE IN 2017

	Residential(1)	Commercial(1)	Wholesale
Commodity Charge ($ per ccf)			
Winter (eight months)	$ 5.15	$ 5.15	$ 1.42
Summer (four months)		6.54	2.10
Up to 5 ccf	5.29	n/a	n/a
Next 13 ccf	6.54	n/a	n/a
Over 18 ccf	11.80	n/a	n/a
Basic Service Charge ($ per month)(2)			
3/4"	$ 15.15	$ 15.15	n/a
1"	15.60	15.60	n/a
1 1/2"	24.10	24.10	n/a
2"	26.65	26.65	n/a
4"	141.50	141.50	n/a

(1) Retail rates for customers outside the City limits and not within the City of Shoreline or the City of Lake Forest Park are 14% higher than in the table above. Rates for customers within the City of Shoreline and the City of Lake Forest Park are 21% higher than in the table above.

(2) The Basic Service Charge is based on the size of the customer's meter. Rates for larger meters are not shown.

Source: Seattle Public Utilities

Rate Structure. Both retail and wholesale rates are seasonally differentiated; the summer residential rate has an inclining block structure. The structure and basis for rates to Wholesale Customers served through master meters are governed by the Wholesale Customer contracts. In 2016, a review and analysis of the retail rate structure was performed. It was decided that no changes to the structure will be presented for the next rate period, 2018-2020.

Low-Income Assistance. The City assists qualified low-income retail customers with their water bills by providing a 50% discount. Income guidelines vary depending on the number of people in the household and monthly and annual income. Income limits are updated every January and are based on 70% of the State median income. In 2014, the Mayor announced an initiative to double enrollment in the Utility Discount Program by 2018. Rates adopted in 2015 for 2016 and 2017 included adjustments to accommodate the impact of increased participation in the Utility Discount Program. In 2016, SPU began a program to auto-enroll eligible customers who participate in low-income housing programs through the Seattle Housing Authority. With the auto-enrollments, SPU has nearly met the enrollment target as of the end of 2016. Currently, about 20,000 water customers receive a discount. The expected revenue impact to the Water Fund in 2017 of discount enrollments ahead of schedule is $1 million, which is not expected to affect SPU's ability to meet its financial targets. Rates proposed in 2017 will include the impacts of enrollment levels.

Rate Comparisons. SPU's water rates have risen faster than the rate of inflation over the past five years and now are above the average of other cities of its size. The following table shows representative water bills for SPU compared to other cities in the region as of July 1, 2016.

TABLE 8
REGIONAL COMPARISONS
(RATES IN EFFECT AS OF JULY 1, 2016)

City	State	Residential (5 ccf/month)	Commercial (500 ccf/month)	Industrial (15,000 ccf/month)
Seattle	Washington	$39.68	$ 2,829.00	$82,949.00
Bellevue	Washington	42.37	2,749.45	80,230.70
Tacoma	Washington	31.55	1,226.38	26,984.23
Portland	Oregon	33.83	2,188.10	63,349.04
Everett	Washington	22.66	1,172.26	29,709.25

Source: SPU Survey

Utility Taxes. The City's retail rates include the cost of paying the State public utility tax (5.029%) and City utility tax (15.54%). Currently, SPU's retail service areas in other municipal jurisdictions (Shoreline, Lake Forest Park, and Burien) are not subject to any additional local utility taxes. However, in 2014, the court of appeals in *City of Wenatchee v. Chelan Public Utility District No. 1*, 181 Wash. App. 326, 325 P.3d 419 (2014), found that a code city could impose a utility tax on another municipality providing utility services within its boundaries on revenues from the other municipality's proprietary activities. If those jurisdictions were to levy local utility taxes on SPU in the future, SPU's retail rates in those jurisdictions would need to be adjusted to include the costs of paying the additional local utility tax.

Billing. The City's utility billing function is co-managed by both SPU and Seattle City Light. SPU provides customer service through the call center and walk-in center. Seattle City Light operates and manages the billing system. SPU and Seattle City Light bill and reimburse each other for these services. A joint project between SPU and Seattle City Light to replace their 14-year-old customer information and billing system, originally expected to be completed in late 2015, became operational in the third quarter of 2016. Due to the increased scope and implementation timeline, the cost of this system increased from the original budgeted amount of $64 million to approximately $109 million. The Water System's allocated share of the cost of this project was included in the Water System's CIP. The new system provides utility customers new self-service features and creates operational efficiencies.

SPU accounts are billed bimonthly for residential and small commercial customers and monthly for larger accounts. Inside the City, residential customers receive a combined utility bill that itemizes amounts due for water, wastewater, and solid waste services, while commercial customers receive a combined utility bill that itemizes amounts due for water and wastewater. Customers outside the City receive bills for water only. Payments received from the combined utility bills are allocated to the appropriate funds. If a payment received from a customer is insufficient to cover the total amount due and payable under the combined utility bill, that payment is credited first to the Solid Waste Fund. The balance of the payment is then credited to the Drainage and Wastewater Fund and then, if funds are available, to the Water Fund. Past-due customers receive a water shut-off notice. By State law, water may be shut off when an account is delinquent, and outstanding balances are considered a lien on the property. Delinquent charges bear interest at the rate of 12% per annum. Total 90-day-plus outstanding balances for SPU billed water, wastewater, and solid waste services were $1.8 million (less than 1% of annual direct service revenue billed by SPU) as of December 2015. These figures include all outstanding amounts going back to 2009.

In 2014, SPU revised its leak adjustment policy, which provides a partial credit back to a customer for up to four months of charges when leaks in buried customer-owned infrastructure on a property cause unusually high water use and the customer repairs the infrastructure promptly.

Financial Policies

The Mayor and City Council have adopted resolutions establishing financial policies for SPU, including the Water System. In accordance with these policies, water rates are set to achieve generally positive net income, cash balances equal to 30 days of operating expenses, and a minimum debt service coverage ratio on fixed rate long-term Parity Bonds of 1.70 times annual debt service. This target coverage ratio was not met in 2010 and 2011 because the Water Fund refunded its variable rate subordinate lien debt with Parity Bonds in late 2008, after rates had already been adopted for 2009-2011. The target coverage ratio has been met from 2012 through 2015, and preliminary projected 2016 results indicate that it was met in 2016.

The financial policies also state an expectation that, in each rate study period, at least 20% of capital expenditures is expected to be financed with current revenue, with a minimum of 15% in any one year. In June 2017, the City Council and the Mayor are expected to consider water rate increases consistent with the City's financial policies for the period 2018 through 2020. See "Water Rates."

In 2002, the City by ordinance adopted policies for maintaining funding of the Revenue Stabilization Subfund at a minimum balance of $9.0 million. As of November 1, 2016, the balance in the Revenue Stabilization Subfund was $35.6 million. The rates approved in 2015 by the City Council include authorization to withdraw up to $8.3 million from the Revenue Stabilization Subfund during the period 2016 through 2017. See "Security for the Bonds—Rate Covenant—Revenue Stabilization Subfund."

Under the City Charter, City taxes on the Water System may be paid only after provision has been made for debt service and obligations of the Water System as well as for necessary betterments and replacements for the current year.

Financial Performance and Projections

The table titled "Water System Operating Results" shows actual revenues and expenses of the Water System for the years 2012 through 2015 as well as projected results for 2016, 2017, and 2018. Footnotes for the table are on the following page. The projections reflect approved rate increases effective January 1, 2017, and planned increases effective January 1, 2018.

SPU does not as a matter of course make public projections as to future sales, earnings, or other results. However, the management of SPU has prepared the prospective financial information as set forth below in the table titled "Water System Operating Results" and under "Capital Improvement Program" to provide readers of this Official Statement with information related to projected revenues and expenses of the Water System. The accompanying prospective financial 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 SPU's management, 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 financial performance of the Water System. 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 financial information.

Neither SPU's independent auditors, Moss Adams LLP, 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.

The financial statements of the Water Fund as of and for the fiscal year ended December 31, 2015, included herein as Appendix C, have been audited by Moss Adams LLP, independent auditors, as stated in its report appearing *herein. SPU has not requested that Moss Adams LLP provide permission for inclusion of its report on the audited financial statements in this Official Statement, and Moss Adams LLP has not performed, since the date of its report included herein, any procedures on the financial statements addressed in that report. Further, Moss Adams LLP has not participated in any way in the preparation or review of this Official Statement.*

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 and generally accepted accounting principles.

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 9
WATER SYSTEM OPERATING RESULTS
($000)

	Actual				Projected		
	2012	**2013**	**2014**	**2015**	**2016** [9]	**2017** [10]	**2018** [10]
Operating Revenue							
Retail Services	$ 152,606	$ 168,126	$ 179,935	$ 187,059	$ 184,309	$ 186,256	$ 194,198
Wholesale Services	49,975	56,026	53,647	52,215	52,542	49,340	61,088
Other	14,247	18,442	17,536	19,703	19,524	17,902	18,420
(Deposits to)/Withdrawals from Revenue Stabilization Subfund [1]	(3,354)	(7,000)	(8,172)	(7,000)	-	8,300	(3,700)
Total Operating Revenue	$ 213,474	$ 235,594	$ 242,947	$ 251,977	$ 256,375	$ 261,797	$ 270,006
Operating Expenses							
Operations and Maintenance [2]	$ 80,902	$ 88,810	$ 92,839	$ 101,216	$ 106,428	$ 114,959	$ 117,053
City Taxes [3]	25,938	28,776	30,657	32,133	31,676	31,726	32,918
Taxes Other Than City Taxes	8,064	9,036	9,484	10,215	10,165	9,924	10,317
Total Operating Expenses	$ 114,905	$ 126,622	$ 132,979	$ 143,563	$ 148,269	$ 156,609	$ 160,288
Net Operating Income	$ 98,570	$ 108,971	$ 109,967	$ 108,414	$ 108,106	$ 105,188	$ 109,718
Adjustments							
Add: Capital Contributions Connection Charge	$ 1,195	$ 2,177	$ 2,562	$ 3,740	$ 2,900	$ 2,759	$ 2,828
Add: City Taxes [4]	25,938	28,776	32,133	32,133	31,676	31,726	32,918
Add: Investment Interest	576	474	643	1,009	1,097	1,499	1,133
Less: Reserve Subaccount Earnings	(131)	(113)	(142)	(187)	(167)	(167)	(209)
Add: BABs Subsidy	2,135	1,800	1,981	1,984	1,990	1,988	1,988
Add: Net Other Nonoperating Revenues (Expenses)	2,042	905	1,017	1,209	929	902	919
Add: Net Proceeds from Sale on Assets	448	616	196	5,738	263	-	-
Total Adjustments	$ 32,202	$ 34,637	$ 38,390	$ 45,626	$ 38,687	$ 38,708	$ 39,578
Net Revenue Available for Debt Service [5]	$ 130,772	$ 143,608	$ 148,357	$ 154,040	$ 146,793	$ 143,895	$ 149,295
Annual Debt Service [6]							
Annual Debt Service [6]	$ 76,897	$ 77,423	$ 76,914	$ 82,673	$ 81,963	$ 77,290	$ 81,293
Less: Reserve Subaccount Earnings [7]	(131)	(113)	(142)	(187)	(167)	(167)	(209)
Adjusted Annual Debt Service	$ 76,766	$ 77,310	$ 76,772	$ 82,486	$ 81,796	$ 77,124	$ 81,084
Coverage [8]	1.70	1.86	1.93	1.87	1.79	1.87	1.84

NOTES TO TABLE:

(1) Withdrawals from the Revenue Stabilization Subfund are added to and deposits are deducted from Operating Revenues, in accordance with FAS 71. Withdrawals from the Revenue Stabilization Subfund are available for payment of debt service and increase debt service coverage. Deposits to the Revenue Stabilization Subfund reduce revenue available for payment of debt service and lower debt service coverage. See "Security for the Bonds—Rate Covenant—Revenue Stabilization Subfund."

(2) Excludes non-cash accounting entries for depreciation, amortization, and unfunded net pension expense resulting from the implementation of Governmental Accounting Standards Board ("GASB") Statement No. 68 ("GASB 68").

(3) The City currently levies a tax of 15.54% upon total gross income of the Water System from its retail business within and outside the City.

(4) Under the City Charter, City taxes on the Water System may be paid only after ample provisions have been made for debt service and obligations of the Water System as well as for necessary betterments and replacements for the current year. See "Financial Policies."

(5) Revenue available for debt service = net income + City taxes + depreciation + interest expense + debt cost amortization + accrued and other non-cash expenses – operating grants – capital grants and contributions – non-revenue-related insurance proceeds.

(6) Assumes the issuance of the Bonds and the refunding of the Refunded Bonds. Annual Debt Service is the debt service on all Parity Bonds outstanding, and does not include debt service on DWSRF loans. See "Security for the Bonds—State Loan Program Obligations."

(7) Earnings from interest in the Reserve Subaccount are not included in the calculation of debt service coverage. Earnings are subtracted from annual debt service for the purpose of this calculation.

(8) Calculated in accordance with the Bond Legislation, including adjustments to the Coverage Requirement definition and related definitions and covenants. Therefore, the ratios displayed may differ from those set forth in prior official statements and disclosure documents, in order to track the revised definitions in the Bond Legislation as now in effect. Such calculations are performed in accordance with the definitions of the terms Adjusted Annual Debt Service, Adjusted Net Revenue, and certain other terms as provided in the Bond Legislation. See Appendix A—Bond Ordinance—Section 1.

(9) Represents actual results through the third quarter of 2016 and forecasted results for the fourth quarter.

(10) 2017 includes 2.7% retail rate increase. For 2018, wholesale revenues include one-time $12 million payment from Cascade Water Alliance. Other revenues are based on projected increases needed to meet financial policy targets.

Source: Seattle Public Utilities

Operating revenues are generated primarily from wholesale and retail water sales. The water sales revenue increase of 14% from 2012 to 2016 is due to a combination of rate increases and peak-season consumption increases. Increases in other operating revenue are primarily due to demand in tap installations and the resulting installation fee revenue. These demand increases are due largely to economic conditions.

Operating results during the period 2012 through 2015 were affected by a variety of factors:

(i) deposits to the Revenue Stabilization Subfund in 2012, 2013, 2014, and 2015;

(ii) increases in demand for water and new taps following the recession of 2009;

(iii) the refunding of certain Parity Bonds in 2012 and 2015; and

(iv) the receipt of federal Build America Bonds credit payments beginning in 2010 reported under Interest Income. See "Security for the Bonds—Treatment of Tax Credit Subsidy Payments Under the Bond Legislation and Consent to Future Amendments—Effect of Federal Sequestration.""

Policy targets for net income, year-end cash, cash financing of the CIP, and debt service coverage are projected to be met or exceeded for the period 2016 through 2020.

Management Discussion and Analysis of Operating Results

In 2015, very low snowpack levels caused State-wide concerns about drought. To account for the lack of snow, reservoirs on the South Fork Tolt River and the Cedar River were operated to store more rainfall than typical during the late winter and early spring, reaching refill targets earlier than normal. By May 15, 2015, the Governor of the State had declared a State-wide drought emergency, but noted that the large municipal water suppliers in the Puget Sound region, such as Seattle, Tacoma and Everett, had adequate reservoir storage to meet their customers' needs and did not anticipate water shortages. Subsequently, the region experienced historical hot and dry conditions causing rapid drawdown of storage at the reservoirs. SPU, along with Everett and Tacoma, activated the Advisory Stage of its water shortage contingency plans on July 27, 2015. On August 11, 2015, the three utilities entered the Voluntary Stage of their plans and requested customers to reduce their water use by 10%. By late October, water levels in the Cedar River reservoir at Chester Morse Lake were at low levels, and SPU used its new pumping plant on Chester Morse Lake to access water stored there. Pumping lasted for seven days and was stopped on October 31, 2015, when significant rains occurred. On November 10, 2015, the three utilities moved back into the Advisory Stage of their water shortage contingency plans, and deactivated their plans on November 23, 2015, when regional water supply conditions returned to normal. While customers of the three cities reached the target of reducing water use by 10%, SPU did not experience a net loss of annual revenues because water sales were higher than forecasted earlier in the year. Overall, SPU's water sales were $10.2 million higher than projected, of which $7 million was deposited into the Revenue Stabilization Subfund.

Overall demand is assumed to remain flat in 2017 and 2018. Regional water conservation programs and other water use reductions are expected to continue offsetting the impact of population and employment growth on water demand.

Strategic Business Plan

SPU worked with its customers and employees during 2013 and 2014 to develop a Strategic Business Plan that outlines what strategic focus areas, efficiency savings, and new plans SPU would focus on from 2015 through 2020. The plan grew out of SPU's efforts to provide greater rate predictability to its customers, while still making important investments for the future. The Strategic Business Plan was adopted by the City Council in 2014. SPU is currently in the process of updating the Strategic Business Plan for the period 2018 through 2023.

Capital Improvement Program

Capital investments are guided by the Water System Plan and multi-year CIP, which is developed within the framework of the Water System Plan and included in the capital improvement program of the City as a whole. The CIP is reviewed, revised, and adopted annually by the Mayor and City Council as part of the City's budget process. The CIP identifies facility needs and financing for rehabilitation, enhancement, and expansion of the Water System. Currently the main areas of focus are to rehabilitate the water distribution system, ensure seismic resiliency, and make water quality improvements.

The City expects to issue approximately $375 million in long-term debt for the CIP during the period 2017 through 2022. Annual debt service is expected to rise from approximately $83 million in 2016 to approximately $99 million in 2022. In addition, the City expects to take advantage of opportunities to refund prior debt for savings purposes as such opportunities arise.

The CIP is organized into eight program areas: (i) Distribution, (ii) Transmission, (iii) Watershed Stewardship, (iv) Water Quality and Treatment, (v) Water Resources, (vi) Habitat Conservation, (vii) Shared Cost Projects, and (viii) Technology, as shown in the table below. The amount shown for each program area is based on the adopted CIP.

TABLE 10
ADOPTED WATER SYSTEM CAPITAL IMPROVEMENT PROGRAM
(Amounts in Thousands of Nominal Dollars)

	2017	2018	2019	2020	2021	2022	Total[2]
Program Area							
Distribution	$ 28,295	$ 27,895	$ 29,558	$ 29,941	$ 27,983	$ 28,045	$ 171,717
Transmission	5,529	22,431	23,925	6,361	4,435	2,390	65,071
Watershed Stewardship	67	977	84	165	105	65	1,463
Water Quality and Treatment	8,694	635	1,930	2,970	16,710	19,420	50,359
Water Resources	8,266	8,777	3,755	3,731	4,284	4,188	33,001
Habitat Conservation	2,106	2,606	2,599	2,036	1,597	1,490	12,434
Shared Cost Projects[1]	35,633	38,400	39,352	23,476	23,496	25,580	185,937
Technology	11,734	7,410	5,109	4,165	4,241	4,241	36,900
Total Adopted CIP	$ 100,324	$ 109,131	$ 106,312	$ 72,845	$ 82,851	$ 85,419	$ 556,882
Funding Sources							
Debt Financing							
Outstanding Bonds	$ 5,450	$ -	$ -	$ -	$ -	$ -	$ 5,450
The Bonds	47,951	56,049	-	-	-	-	104,000
State Water Revolving Fund Loans	7,200	-	-	-	-	-	7,200
Future Parity Bonds	-	22,480	83,641	44,463	55,421	56,706	262,711
Total Debt Financing	$ 60,601	$ 78,529	$ 83,641	$ 44,463	$ 55,421	$ 56,706	$ 379,361
Revenue Financing							
Internally Generated Funds	$ 34,883	$ 25,701	$ 17,502	$ 23,189	$ 22,405	$ 23,567	$ 147,247
Grants and Reimbursements	4,840	4,901	5,169	5,193	5,025	5,146	30,274
Total Revenue Financing	$ 39,723	$ 30,602	$ 22,671	$ 28,382	$ 27,430	$ 28,713	$ 177,521
Total Funding Sources[2]	$ 100,324	$ 109,131	$ 106,312	$ 72,845	$ 82,851	$ 85,419	$ 556,882

NOTES TO TABLE:

(1) Includes projects that affect the Water System, but involve more than a water purpose and are typically funded from multiple sources. See "Shared Cost Projects" below.

(2) Totals may not add due to rounding.

The development of the CIP balances financial capacity with the demands of rehabilitation, improvement, water quality, and expansion. Through the late 1990s and the 2000s, SPU steadily expanded the CIP, raised rates, and increased its long-term borrowing. In managing the CIP, SPU has emphasized efficient project design and careful staging of improvements within the 20-year time frame of the Water System Plan. In the period 2017 through 2022, SPU expects the financial requirements for these projects to be met from Net Revenue of the Water System, low interest loans from the DWSRF program, and the proceeds of Parity Bonds. Approximately 67% of projected CIP spending is expected to be financed by the issuance of Parity Bonds, including the Bonds.

Shared Cost Projects. The Shared Cost Projects program area includes SDOT projects (including Move Seattle projects), the Alaskan Way Viaduct and Seawall Replacement Program (the "AWVSR Program"), and the First Hill Streetcar project and represents approximately 33% of the total CIP. SPU's scope is limited to the impact on its utility systems and is typically governed by agreements with lead or coordinating City departments and State agencies. As a result, SPU has less control over the ultimate timing and expenditures associated with its portion of these projects.

Where water system infrastructure is affected by the AWVSR Program, SPU works closely with the City and State Departments of Transportation to determine an appropriate course of action in accordance with the agreements governing the utility issues for the AWVSR Program. SPU is monitoring ground settlement around the Alaskan Way Viaduct SR 99 Bored Tunnel Project (the "State's Project") area, which is one of the projects in the AWVSR Program. SPU has replaced a four-block section of 20-inch water main near the State's Project that settled significantly. After attempts to resolve the issue under the agreement with the Washington State Department of Transportation ("WSDOT"), the City filed suit against WSDOT and its contractor in late 2016 to recover the costs incurred to replace that section of water main and other damages related to settlement of other water mains around the State's Project area. See "The City of Seattle—Considerations Related to Alaskan Way Viaduct and Seawall Replacement Program."

It is likely that more transportation projects or other multi-agency projects will be proposed in the future, and SPU will work with SDOT and other agencies to fully understand the potential impacts of these projects on the Water System.

Risk Management and Quality Assurance

The Risk and Quality Assurance Program ("RQA") was first established in 2004 and became a separate division in 2011. While housed in the Finance and Administration branch, the program reports to a Risk and Quality Assurance Board, which consists of the SPU General Manager, the Executive Team, and a representative from the City Attorney's Office. In 2016, the Safety, Security, Emergency Management, Privacy/PCI, and Customer Appeals programs were brought into the RQA division to enable better alignment and synergy of the overall mission of reducing risk to the organization. The program's goals are to:

(i) provide strategic advice to SPU's Executive Team and guide the development of policies that enable SPU to be more efficient and effective in meeting customer's expectations;

(ii) assess ongoing business practices and procedures and recommend measures to ensure sufficient internal controls are in place to reduce risks to SPU's employees, customers, and assets;

(iii) investigate, advise, and respond to legal requests and filings on behalf of SPU;

(iv) conduct internal investigations, assessments, and audits to ensure that SPU is complying with regulations, policies, and procedures; and

(v) develop, implement, and review plans that ensure that SPU is protected in the event of harmful incidents or emergencies.

Emergency Management and Security. The Emergency Management program uses an all-hazards program to identify and analyze risks to the Water System's critical assets and systems and to invest in the development of emergency plans, including training employees for improved response.

SPU's security program is comprised of fencing, a key management system, cyber locks (for certain assets), security guard patrols, and an integrated system that includes access control devices, door and hatch contacts, alarms, closed circuit television, and around-the-clock monitoring for all critical water system assets. Additional physical security measures are in place at the Cedar River and South Fork Tolt Watersheds. The reservoir covering program provides improved water quality and security. SPU conducts vulnerability and risk assessments, invests in mitigation and security countermeasures, and partners with local, State, and federal agencies to coordinate planning and response activities.

SPU has developed and equipped a wildland fire crew to attack and suppress wildland fires that may threaten the Cedar River or South Fork Tolt Watersheds.

See "The City of Seattle—Risk Management" for a discussion of the City's risk management practices.

Climate Change

Climate change is projected to have wide-ranging impacts in the Central Puget Sound, including, but not limited to, alterations to the region's water and hydrologic cycle, increases in air temperature, and rising water levels along the marine shoreline. SPU's Climate Resiliency Group ("CRG") has enterprise-wide responsibility for assessing the implications of a changing climate on SPU's assets, services, and business functions and developing adaptation options that can be integrated into SPU's operations, capital planning, and overall decision-making processes. The CRG focuses on building collaborative partnerships to share and enhance knowledge, engaging in applied research to advance SPU's understanding of the implications of climate change, and fostering an enabling environment to support robust decision-making. In addition, the CRG is responsible for implementing SPU's carbon neutrality initiative.

SPU's initial climate impacts assessment began in 2002 and focused on water supply. A second study, focused on demand for water as well as supply, indicated that SPU has enough supply to meet demands until about 2060. A third study is currently underway and is expected to be completed by mid-2017. For that study, SPU is using 40 climate scenarios, obtained through a collaborative research project with the Climate Impacts Research Consortium at Oregon State University to assess impacts on supply and operations. See "Future Water Supply and Conservation."

SPU is a founding member of the Water Utility Climate Alliance, a group of ten large urban water utilities that collaborates on climate research, decision-making, and adaptation. SPU has also been active on several federal advisory committees related to climate change, and participates in two European Union-funded research projects focused on innovation in water management in light of climate change and urban water resilience.

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 County seat.

The City is a general purpose government that provides a broad range of services typical of local municipalities, such as streets, parks, libraries, human services, law enforcement, firefighting and emergency medical services, planning, zoning, animal control, municipal court, and utilities. The City owns and operates water, electric, solid waste, and drainage and wastewater utilities, although the County provides wastewater treatment service. The

County also provides certain services throughout the County and within the City, including courts of general jurisdiction, felony prosecution and defense, jail, public health, and transit services.

The City is organized under the mayor-council form of government and operates under its City Charter. The Mayor, the city attorney, and the Municipal Court judges are all elected to four-year terms. 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 re-election, 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 and utility rates, makes appropriations, and adopts and approves the annual operating budget and capital improvement plans for the City. The City Council members serve on a full-time basis.

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

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 2015 may be obtained from the Department of Finance and Administrative Services and is available at *http://www.seattle.gov/cafrs/default.htm*. The Water Fund's financial statements are also audited by an independent auditor, and the 2015 audited financial statements are attached as Appendix C.

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

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 September 30, 2016, the combined investment portfolios of the City, not including pensions, totaled $1,855 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 September 30, 2016, the earnings yield on the City's investment portfolios was 1.42%, and the average maturity of the City's investment portfolios was 1,058 days. Approximately 19.7%, or $342.8 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-Sponsored Enterprises	29%
Mortgage-Backed Securities	17%
Taxable Municipal Bonds	16%
U.S. Treasuries(1)	12%
Commercial Paper	10%
State Local Government Investment Pool	8%
Repurchase Agreements	4%
Bank Deposit Notes	4%

(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"). In January 2016, the City announced plans, resulting from labor negotiations, to create a second plan within SCERS, referred to as "SCERS II." Legislation necessary to implement SCERS II was passed in August 2016, and will become effective for new hires beginning in 2017. See "Update on SCERS Pension Benefit Agreement with Coalition and Non-Coalition City Unions" below.

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, 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 ("NPL") 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, 2015) and the State Department of Retirement Systems' Comprehensive Annual Financial Reports for LEOFF (for the fiscal year ended June 30, 2015) were prepared in accordance with GASB 67.

The City's 2015 Financial Statements have been prepared in accordance with GASB 68. As of December 31, 2015, the Water Fund reported a liability of $82.7 million, representing its proportionate share of NPL for SCERS. 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 2015 Financial Statements. The NPL was measured as of December 31, 2014, and the TPL used to calculate the NPL was determined by the actuarial valuation as of December 31, 2013, rolled forward to December 31, 2014. The Water Fund's proportion of the NPL was based on contributions to SCERS during the fiscal year ended December 31, 2014. As of December 31, 2014, the Water Fund's proportion was 7.46%. Schedules of the Water Fund's proportionate share of NPL and of the Water Fund's contributions are provided as required supplementary information to the Water Fund's 2015 Audited Financial Statements.

The City's financial statements for the fiscal year ended December 31, 2015, were prepared in accordance with GASB 68. The City's Comprehensive Annual Financial Report for 2015 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 City Council, the City's Director of Finance, the City's Human Resources Director, two active members and one retired member of the system, and one outside board member who is appointed by the other six board members. Elected and appointed Board members serve for three-year terms.

SCERS is a pension trust fund of the City and provides retirement, death, and disability benefits. 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. According to the actuarial valuation prepared as of January 1, 2016, there were 6,223 retirees and beneficiaries receiving benefits, and 8,882 active members of SCERS. There are an additional 1,220 terminated employees who are vested and entitled to future benefits and another 977 who are not vested and not entitled to benefits beyond contributions and accumulated interest. From January 1, 2015, to January 1, 2016, the net number of active members increased by

1.6%, the net number of retirees receiving benefits increased by 3.4%, and the net number of vested terminated members increased by 2.7%.

Certain demographic data from the most recent actuarial valuation (with a valuation date as of January 1, 2016), which was completed on June 17, 2016 (the "2015 Actuarial Valuation"), is shown below:

TABLE 11
PLAN MEMBER DEMOGRAPHIC INFORMATION

	Retirees and Beneficiaries Receiving Benefits		Active Employees	
Age Range	**Number[1]**	**Percent**	**Number**	**Percent**
<25	-		85	1.0%
25-39	-		2,103	23.7%
40-49	9 [2]	0.1% [2]	2,210	24.9%
50-59	325	5.3%	2,754	31.0%
60-69	2,390	39.0%	1,623	18.3%
70+	3,408	55.6%	107	1.2%

(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: 2015 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, 2014, and December 31, 2015, was transmitted on July 11, 2016, by CliftonLarsonAllen LLP (the "2015 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 2015 Actuarial Valuation (with a valuation date as of January 1, 2016). The next actuarial valuation (with a valuation date as of January 1, 2017) is expected to be completed by mid-2017. Historically, the City prepared actuarial valuations biennially, but has prepared them annually since 2010.

As of January 1, 2016 (as set forth in the 2015 Actuarial Valuation), the actuarial value of net assets available for benefits was $2.397 billion and the actuarial accrued liability was $3.605 billion. The 2015 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 increased from $1,165.9 million as of January 1, 2015, to $1,208.0 million as of January 1, 2016. The funding ratio increased from 66.0% as of January 1, 2015, to 66.5% as of January 1, 2016, which increase is primarily due to the UAAL amortization payment made by the City during the prior year, partially offset by the recognition of deferred asset losses in the actuarial value of assets ("AVA"). For the year ending December 31, 2015, SCERS assets returned about 0.3% on a market basis (gross of investment expenses), a rate of return less than the assumed rated of 7.50%. The result is an actuarial loss on assets for 2015, but only one-fifth of this loss will be recognized in the current year 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:

TABLE 12
HISTORICAL SCERS 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
2006	$ 1,791.8	$ 2,017.5	$ (225.7)	88.8%	$ 447.0	50.5 %
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 %

(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: 2015 Actuarial Valuation

In accordance with GASB 67, the SCERS 2015 Annual Report calculated TPL and NPL based on the actuarial valuation dated as of January 1, 2016, rolled forward using generally accepted actuarial procedures (assuming a 7.50% investment rate of return and 4.00% salary increases) to December 31, 2015, as follows: TPL was calculated to be $3,612.2 million; plan fiduciary net position ("Plan Net Position") was calculated to be $2,313.0 million, and NPL was calculated to be $1,299.2 million, for a funding ratio (Plan Net Position as a percentage of TPL) of 64.0%. A Schedule of the Water Fund's Proportionate Share of the Net Pension Liability and Schedule of the Water Fund's Contributions are set forth in the required supplementary information in Appendix C—2015 Audited Financial Statements of the Water Fund.

SCERS CONTRIBUTION RATES. Member and employer contribution rates are established by Chapter 4.36 of the SMC, which provides that the City contribution must match the normal contributions of members and does not permit the employer rate to drop below the employee rate. 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 2015 Actuarial Valuation calculation, a 27-year amortization period was used. This policy may be revised by the City Council in future years. The 2015 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, based on a percentage of employee compensation (exclusive of overtime), are shown in the table below:

TABLE 13
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%	25.26%	25.26%	100%	26.38%	98%
2016	15.29%	10.03%	25.32%	25.32%	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 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. Beginning in 2016, GASB 27 was superseded by GASB 68, so this calculation will no longer be performed.

Source: Seattle Municipal Code; 2016 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. See Table 13—Employer and Employee SCERS Contribution Rates and Table 14—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 reported in the 2015 Actuarial Valuation are shown in the table below:

TABLE 14
PROJECTED ACTUARIALLY REQUIRED TOTAL CONTRIBUTION RATES BY EMPLOYER AND EMPLOYEE

Contribution Year[(1)]	Assuming 7.50% Returns	Confidence Range[(2)]
2017	25.32%	25.32-25.32
2018	25.28%	25.99-24.56
2019	25.40%	26.98-23.87
2020	25.78%	28.47-23.24
2021	26.10%	30.14-22.36
2022	26.10%	31.73-20.95

(1) Contribution year lags valuation year by one. For example, contribution year 2017 is based on the 2015 Actuarial Valuation (as of January 1, 2016) results, amortized over 27 years beginning in 2016 if the contribution rate increase takes place in 2016.

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

Source: 2015 Actuarial Valuation

Employer contributions were $90 million in 2014, of which approximately $6.7 million was from the Water Fund. In 2015, employer contributions were approximately $101 million, of which approximately $7.3 million was from the Water Fund. The employer share for employees of each of the utility funds is allocated to and paid out of the funds of each respective utility.

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.

SCERS' net assets decreased by $9.7 million (-0.4%) during 2015, including member and employer contributions of $166.9 million and net revenue from investment activity totaling $7.1 million. Expenses increased by $13.0 million in 2015, primarily attributed to an $9.1 million increase in retiree benefit payments.

Table 15 below shows the historical market value of SCERS' net assets (as of each December 31). Table 16 shows the revenue or loss from investment activity for the last ten years.

TABLE 15
MARKET VALUE OF ASSETS

Year (As of December 31)	Market Value of Assets (MVA)[1]
2006	$ 2,011.2
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

(1) In millions.

Source: SCERS Actuarial Valuations

TABLE 16
SCERS INVESTMENT RETURNS

Year	Net Investment Income (Loss)	
(As of December 31)	Amount[1]	%[2]
2006	$ 242.7	13.9%
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%

(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 17
HISTORICAL SCERS DISTRIBUTION OF INVESTMENTS BY CLASS

Investment Categories (January 1)	2016	2015	2014	2013	2012
Fixed Income	28.4%	24.2%	23.7%	23.1%	22.8%
Domestic and International Stocks	53.3%	33.4%	32.1%	30.4%	30.8%
Real Estate	12.8%	11.0%	10.6%	11.3%	12.7%
Alternative Investments	5.4%	4.8%	4.9%	6.2%	8.1%
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.

Update on SCERS Pension Benefit Agreement with Coalition and Non-Coalition City Unions. As part of an agreement with the Coalition of City Unions, reached in December 2015, and agreements with individual bargaining units that are not part of the Coalition, the City Council passed ratifying legislation in August 2016 that creates a new defined benefit retirement plan, SCERS II, covering non-uniformed employees. The new plan is open to employees first hired on or after January 1, 2017. The current SCERS plan is expected to close to new entrants as of that date. SCERS II includes, among other adjustments, 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 II to provide a more cost-effective method for the City to provide retirement benefits to its employees. It would have no effect on uniformed employees.

See "The City of Seattle—Labor Relations."

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 December 31, 2015, membership in these plans consisted of 799 fire employees (15 of whom are active employees) and 719 police employees (11 of whom are active employees). 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, 2016, 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 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 actuarial assumptions: inflation rate (CPI), 2.25%; investment rate of return, 3.50%; 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). For 2015, the City funded 100% of the ARC but only a portion of the projected payment necessary to fully fund the AAL by 2023. 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, 2016, the actuarial value of net assets available for benefits in the Firefighters' Pension Fund was $14.9 million, and the AAL was $82.9 million. As a result, the UAAL was $68.0 million and the funded ratio was 18.0%. The City's employer contribution to the fund in 2015 was $7.0 million, representing 143% 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, 2016, the actuarial value of net assets available for benefits in the Police Relief and Pension Fund was $4.7 million, and the AAL was $95.8 million. As a result, the UAAL was $91.1 million and the funded ratio was 5.1%. The City's employer contribution to the fund in 2015 was $7.9 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 $14.2 million in 2015 and $13.9 million in 2014. The following table outlines the contribution rates of employees and employers under LEOFF.

TABLE 18
LEOFF CONTRIBUTION RATES EXPRESSED AS A PERCENTAGE OF COVERED PAYROLL
(As of December 31, 2015)

	Plan 1	Plan 2
Employer	0.18% (1)	5.23% (1)
Employee	0.00	8.41%
State	N/A	3.36%

(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 2015 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 1, 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 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 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 or LEOFF plans. The last valuation was as of January 1, 2015, and showed the UAAL for the implicit rate subsidy was $44.4 million; the City's estimated annual cost in 2015 was $3.7 million and the City's estimated contribution in 2015 was $1.1 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, 2016, the UAAL for OPEB in the City's Firefighters' Pension Fund was $311.4 million; the estimated annual cost for 2016 was $16.9 million and the estimated annual contribution for 2016 was $11.2 million. As of January 1, 2016, the UAAL for OPEB in the Police Relief and Pension Fund was $357.0 million; the estimated annual cost for 2016 was $24.3 million and the estimated annual contribution for 2016 was $14.2 million.

For additional information regarding the City's OPEB liability, see Note 11 to the City's 2015 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.

In September 2016, the City adopted legislation approving three agreements that were reached in August 2016 with IBEW Local 77 for the Construction Maintenance and Equipment Operator, Material Controller, and Information Technology Professionals units. The agreements with these bargaining units have also been fully implemented and are effective through December 31, 2018.

The City is currently in negotiations with IBEW Local 77 for a new bargaining unit of Power Marketers with Seattle City Light, and is preparing for negotiations with IBEW Local 77 for the Seattle City Light and SDOT agreements that expire in January 2017.

The City remains in negotiations with certain other non-Coalition bargaining groups who are operating under expired agreements: 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 have returned to mediation. Under State law, police are prohibited from striking, so if mediation fails, the parties would be subject to binding arbitration.

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

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 II beginning January 1, 2017. See "Pension Plans—Update on SCERS Pension Benefit Agreement with Coalition and Non-Coalition City Unions."

Emergency Management and Preparedness

The City's Office of Emergency Management ("OEM") is responsible for managing and coordinating the City's resources and responsibilities in dealing with emergencies. The OEM prepares for emergencies, trains City staff in emergency response, 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.

Considerations Related to Alaskan Way Viaduct and Seawall Replacement Program

The 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 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 Pike Place Market Preservation and Development Authority's MarketFront Project. For a description of specific elements of the AWVSR Program that affect the Water System, see "Water System—Capital Improvement Program—Shared Cost Projects."

Status of State's Project. The State's Project was delayed by more than two years due to the malfunctioning of a deep bore tunneling machine (the "TBM") and is currently scheduled for completion in 2019. The contractor resumed tunneling in February 2016 following repairs and implementation of new quality and safety plans. Tunneling could be suspended again at any time, resulting in additional delays.

Direct Cost Overruns. The State's Project is being undertaken pursuant to a contract between 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 Project, including infrastructure owned by the Water System. See "Water System—Capital Improvement Program—Shared Cost Projects." In general, these agreements provide that the City is responsible for relocating certain utility infrastructure that conflicts with the State's 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.

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 the Waterfront Seattle projects on a timeline that is yet to be determined. As with the State's 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 Water System. The budgeted CIP for each City utility, including that of the Water System, incorporates the estimated cost and timing of expenditures associated with its respective utility infrastructure projects. See "Water System—Capital Improvement Program—Shared Cost Projects." 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 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, City 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 Affecting 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

Various lawsuits and claims are pending against the City involving claims for money damages. Based on its past experience, the City 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 Water Fund 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. A form of the opinion of Bond Counsel with respect to the Bonds is attached hereto as Appendix B. The opinion of Bond Counsel is given based on factual representations made to Bond Counsel and under existing law as of the date of initial delivery of the Bonds. Bond Counsel assumes no obligation to revise or supplement its opinion to reflect any facts or circumstances that may thereafter come to its attention or any changes in law that may thereafter occur. The opinion of Bond Counsel is an expression of its professional judgment on the matters expressly addressed in its opinion and does not constitute a guarantee of result. Bond Counsel will be compensated only upon the issuance and sale of the Bonds.

Limitations on Remedies and Municipal Bankruptcies

Any remedies available to the owners of the Bonds are in many respects dependent upon judicial actions which are in turn often subject to discretion and delay and could be both expensive and time-consuming to obtain. If the City fails to comply with its covenants under the Bond 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 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 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 Washington municipal corporations have nonetheless 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 broad discretionary powers under the Bankruptcy Code.

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 of corporations, which may affect the alternative minimum tax liability of such corporations.

In the further opinion of Bond Counsel, the excess of the stated redemption price at maturity of a Bond over the issue price of such Bond (the first price at which a substantial amount of the Bonds of a maturity is to be sold to the public) constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to an owner of a Bond before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by an owner of a Bond will increase the owner's basis in the applicable Bond. The amount of original issue discount that accrues to an owner of the Bonds is excluded from the gross income of such owner for federal income tax purposes, and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. Such original issue discount may be included as an adjustment in the calculation of alternative minimum taxable income of corporations, which may affect the alternative minimum tax liability of such corporations.

Bond Counsel's opinion as to the exclusion from gross income for federal income tax purposes of interest on the Bonds is based upon certain representations of fact and certifications made by the City, the Underwriter of the Bonds, 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 not become includable in 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 amount by which an owner's original basis for determining gain or loss on the sale or exchange of the applicable Bond (generally, the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable bond premium, which must be amortized under Section 171 of the Code; such amortizable bond premium reduces the owner's basis in the applicable Bond (and the amount of tax-exempt interest received), and is not deductible for federal income tax purposes. The basis reduction as a result of the amortization of bond premium may result in an owner realizing a taxable gain when a Bond is sold by the owner for an amount equal to or less (under certain circumstances) than the original cost of the Bond to the owner. Purchasers of the Bonds should consult their own tax advisors as to the treatment, computation, and collateral consequences of amortizable bond premium.

The accrual or receipt of interest on the Bonds may otherwise affect the federal income tax liability of the owners of the Bonds. The extent of these other tax consequences will depend upon such owner's particular tax status and other items of income or deduction. Bond Counsel has expressed no opinion regarding any such consequences. Purchasers of the Bonds, particularly purchasers that are corporations (including S corporations and foreign corporations operating branches in the United States), property or casualty insurance companies, banks, thrifts, or other financial institutions, certain recipients of social security or railroad retirement benefits, taxpayers otherwise entitled to claim the earned income credit, taxpayers otherwise entitled to claim the refundable credit for coverage under a qualified health plan, or taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, should consult their tax advisors as to the tax consequences of purchasing or owning the Bonds.

The IRS has initiated an expanded program for the auditing of tax-exempt bond issues, including both random and targeted audits. It is possible that the Bonds will be selected for audit by the IRS. It is also possible that the market value of the Bonds might be affected as a result of such an audit of the Bonds (or by an audit of similar bonds). No assurance can be given that in the course of an audit, as a result of an audit, or otherwise, Congress or the IRS might not change the Code (or interpretation thereof) subsequent to the issuance of the Bonds to the extent that it adversely affects the exclusion from gross income of interest 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 legal documents 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 exclusion from gross income for federal income tax purposes of interest 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, a Professional Corporation.

Continuing Disclosure Undertaking

Basic Undertaking to Provide Annual Financial Information and Notice of Listed Events. To meet the requirements of United States Securities and Exchange Commission ("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, accompanied by identifying information as prescribed by the MSRB:

(i) Annual financial information and operating data of the type included in this Official Statement and described below under "Type of Annual Financial Information Undertaken to be Provided." The timely filing of unaudited financial statements will satisfy the requirement and filing deadlines pertaining to filing annual financial statements described in the Bond Legislation, provided that audited financial statements are to be filed if and when they are otherwise prepared and available to the City.

(ii) Timely notice (not in excess of 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), 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.

(iii) 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 Water System, prepared in accordance with applicable 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 Net Revenue of the Water System;

(iii) debt service coverage ratios;

(iv) general customer statistics, such as number and type of customers and revenues by customer class; and

(v) current water rates.

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 permitted or required by State law, commencing with the City's fiscal year ended December 31, 2016. The annual financial information may be provided in a single document or 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 Owner or 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.

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 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. As soon as practicable after the City learns of any material failure to comply with the Undertaking, the City will proceed with due diligence to cause such noncompliance to be corrected. 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 Owner of a Bond will be to take such actions as that Owner 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.

Other 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 and believes that in the last five years, it has not failed to comply in any material respect with such undertakings. Nonetheless, in connection with the City's Local Improvement District No. 6750 Bonds, 2006, certain supplemental information regarding the collection of special assessments was not timely filed. The City has since compiled this supplemental information and filed it with the MSRB.

OTHER BOND INFORMATION

Ratings on the Bonds

The Bonds have been rated "Aa1" 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 reflect only the views of the rating agencies, and an explanation of the significance of the ratings may be obtained from each rating agency. 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.

Financial Advisor

The City has retained Piper Jaffray & Co., Seattle, Washington, as financial advisor (the "Financial Advisor") in connection with the preparation of the City's financing plans and with respect to the authorization and issuance of the Bonds. The Financial 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 Financial 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 Financial Advisor may not participate in the underwriting of any City debt.

Underwriting

The Bonds are being purchased by Citigroup Global Markets Inc. (the "Underwriter") at a price of $215,834,705.35 and will be reoffered at a price of $216,276,640.30. The Underwriter may offer and sell the Bonds to certain dealers (including dealers depositing the Bonds into investment trusts) and others at prices lower than the initial offering prices set forth on page i of this Official Statement, and such initial offering prices may be changed from time to time by the Underwriter. After the initial public offering, the public offering prices may be varied from time to time.

Conflicts of Interest

Some of the fees of the Financial Advisor and Bond Counsel are contingent upon the sale of the Bonds. From time to time Bond Counsel serves as counsel to the Financial 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 Lee
Glen Lee
Director of Finance

APPENDIX A

BOND ORDINANCE

Ordinance 125183, 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 124339 authorized the issuance of the refunding portion of the Bonds and is substantially similar to Ordinance 125183.

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CITY OF SEATTLE

ORDINANCE 125183

COUNCIL BILL 118825

AN ORDINANCE relating to the municipal water system of The City of Seattle; adopting a system or plan of additions or betterments to and extensions of the existing municipal water system; authorizing the issuance and sale of water system revenue bonds, in one or more series, for the purposes of paying part of the cost of carrying out that system or plan, providing for the reserve requirement, and paying the costs of issuance of the bonds; providing for certain terms, conditions, covenants, and the manner of sale of the bonds; describing the lien of the bonds; creating certain accounts of the City relating to the bonds; amending certain definitions set forth in the Omnibus Refunding Bond Ordinance relating to municipal water system refunding revenue bonds; and ratifying and confirming certain prior acts.

WHEREAS, The City of Seattle, Washington ("City"), owns, maintains, and operates a municipal water system as part of Seattle Public Utilities ("Municipal Water System"), which Municipal Water System has from time to time required various additions, improvements, and extensions; and

WHEREAS, the City needs to acquire and construct certain additions and betterments to and extensions of the Municipal Water System as set forth in this ordinance ("Plan of Additions"); and

WHEREAS, the City previously issued its water system revenue bonds described in Exhibit A to this ordinance ("Outstanding Parity Bonds") and pursuant to the bond legislation for each such issue of Outstanding Parity Bonds permitted, upon satisfaction of certain conditions ("Parity Conditions"), the future issuance of additional bonds having a charge and lien on the net revenue of the Municipal Water System on a parity of lien with those Outstanding Parity Bonds; and

WHEREAS, pursuant to the Omnibus Refunding Bond Ordinance (defined in Section 1 of this ordinance), the City has provided for the refunding of certain Parity Bonds designated as

Refundable Bonds, and the City has determined to amend the Omnibus Refunding Bond Ordinance to make certain clarifications to conform to the provisions of this ordinance; and

WHEREAS, the City has determined that it is in the best interest of the City to authorize, subject to the provisions of this ordinance, the issuance and sale of water system revenue bonds as Parity Bonds, to pay part of the cost of carrying out the Plan of Additions, to provide for the reserve requirement and to pay the costs of issuance of those bonds; NOW, THEREFORE,

BE IT ORDAINED BY THE CITY OF SEATTLE AS FOLLOWS:

Section 1. **Definitions.** As used in this ordinance, the following capitalized terms shall have the following meanings:

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

"Adjusted Annual Debt Service" for any fiscal year means Annual Debt Service minus (a) an amount equal to ULID Assessments due in that year and not delinquent, (b) an amount equal to earnings from investments in the Reserve Subaccount, and (c) Annual Debt Service provided for by Parity Bond proceeds.

"Adjusted Gross Revenue" means, for any period, Gross Revenue plus withdrawals from the Rate Stabilization Account made during that period, and minus (a) ULID Assessments, (b) earnings from investments in the Reserve Subaccount and (c) deposits into the Rate Stabilization Account made during that period.

"Adjusted Net Revenue" means Adjusted Gross Revenue less Operating and Maintenance Expense.

"Annual Debt Service" for any calendar year means the sum of the amounts required in such calendar year to pay the interest due in such calendar year on all Parity Bonds outstanding, excluding interest to be paid from the proceeds of the sale of Parity Bonds or other bonds; the principal of all outstanding Serial Bonds due in such calendar year; and the Sinking Fund Requirement, if any, for such calendar year.

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

(b) For purposes of calculating and determining compliance with the Coverage Requirement, the Reserve Requirement and the conditions for the issuance of Future Parity Bonds and/or entering into Parity Payment Agreements, the following shall apply:

(i) **Generally.** Except as otherwise provided by subparagraph (ii) below with respect to Variable Interest Rate Bonds and by subparagraph (iii) below with respect to Parity

Bonds with respect to which a Payment Agreement is in force, interest on any issue of Parity Bonds shall be calculated based on the actual amount of accrued, accreted or otherwise accumulated interest that is payable in respect of that issue taken as a whole, at the rate or rates set forth in the applicable Parity Bond Legislation.

(ii) **Interest on Variable Interest Rate Bonds.** The amount of interest deemed to be payable on any issue of Variable Interest Rate Bonds shall be calculated on the assumption that the interest rate on those bonds would be equal to the rate that is 90% of the average RBI during the four calendar quarters preceding the quarter in which the calculation is made.

(iii) **Interest on Parity Bonds With Respect to Which a Payment Agreement is in Force.** Debt service on Parity Bonds with respect to which a Payment Agreement is in force shall be based on the net economic effect on the City expected to be produced by the terms of the Parity Bonds and the terms of the Payment Agreement, including but not limited to the effects produced by the following: (A) Parity Bonds that would, but for a Payment Agreement, be treated as obligations bearing interest at a Variable Interest Rate instead shall be treated as obligations bearing interest at a fixed interest rate, and (B) Parity Bonds that would, but for a Payment Agreement, be treated as obligations bearing interest at a fixed interest rate instead shall be treated as obligations bearing interest at a Variable Interest Rate. Accordingly, the amount of interest deemed to be payable on any Parity Bonds with respect to which a Payment Agreement is in force shall be an amount equal to the amount of interest that would be payable at the rate or rates stated in those Parity Bonds plus Payment Agreement Payments minus Payment Agreement Receipts. For the purposes of calculating as nearly as practicable Payment Agreement Receipts and Payment Agreement Payments under a Payment Agreement that includes a variable rate component determined by reference to a pricing mechanism or index that is not the same as the pricing mechanism or index used to determine the variable rate interest component on the Parity Bonds to which the Payment Agreement is related, it shall be assumed that the fixed rate used in calculating Payment Agreement Payments will be equal to 105% of the fixed rate specified by the Payment Agreement and that the pricing mechanism or index specified by the Payment Agreement is the same as the pricing mechanism or index specified by the Parity Bonds. Notwithstanding the other provisions of this subparagraph, the City shall not be required to (but may in its discretion) take into account in determining Annual Debt Service the effects of any Payment Agreement that has a term of ten years or less.

(iv) **Parity Payment Agreements.** No additional debt service shall be taken into account with respect to a Parity Payment Agreement for any period during which Payment Agreement Payments on that Parity Payment Agreement are taken into account in determining Annual Debt Service on related Parity Bonds under subsection (iii) of this definition. However, for any period during which Payment Agreement Payments are not taken into account in calculating Annual Debt Service on any outstanding Parity Bonds because the Parity Payment Agreement is not then related to any outstanding Parity Bonds, payments on that Parity Payment Agreement shall be taken into account by assuming:

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

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

(v) **Balloon Bonds.** For purposes of calculating debt service on any Balloon Bonds, it shall be assumed that the principal of those Balloon Bonds, together with interest thereon at a rate equal to the assumed RBI-based rate, will be amortized in equal annual installments over a term of 30 years.

"Authorized Denomination" means $5,000 or any integral multiple thereof within a maturity of a Series, or such other minimum denomination as may be specified in the Bond Resolution.

"Average Annual Debt Service" means, at the time of calculation, the sum of the Annual Debt Service remaining to be paid to the last scheduled maturity of the applicable series of Parity Bonds divided by the number of years such bonds are scheduled to remain outstanding.

"Balloon Bonds" means any series of Parity Bonds designated as Balloon Bonds in the applicable Parity Bond Legislation.

"Beneficial Owner" means, with regard to a Bond, the owner of any beneficial interest in that Bond.

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

"Bond Insurance" means any bond insurance, guaranty, surety bond or similar credit enhancement device providing for or securing the payment of all or part of the principal of and interest on any Parity Bonds.

"Bond Purchase Contract" means a written offer to purchase a Series of the Bonds, which offer has been accepted by the City in accordance with this ordinance. In the case of a competitive sale, the official notice of sale, the Purchaser's bid and the award by the City shall comprise the offer and the award by the City in accordance with this ordinance shall be deemed the acceptance of that offer for purposes of this ordinance.

"Bond Register" means the books or records maintained by the Bond Registrar for the purpose of identifying ownership of each Bond.

"Bond Registrar" means the Fiscal Agent (unless the Bond Resolution provides for a different Bond Registrar with respect to a particular Series), or any successor bond registrar selected in accordance with the Registration Ordinance.

"Bond Resolution" means a resolution of the City Council adopted pursuant to this ordinance approving the Bond Sale Terms and taking other actions consistent with this ordinance.

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

"Bonds" means the Water System revenue bonds issued pursuant to this ordinance.

"Capital Appreciation Bond" means any Parity Bond, all or a portion of the interest on which is compounded and accumulated at the rates or in the manner, and on the dates, set forth in the applicable Parity Bond Legislation and is payable only upon redemption or on the maturity date of such Parity Bond. A Parity Bond that is issued as a Capital Appreciation Bond, but which later converts to an obligation on which interest is paid periodically, shall be a Capital Appreciation Bond until the conversion date and thereafter shall no longer be a Capital Appreciation Bond, but shall be treated as having a principal amount equal to its Accreted Value on the conversion date.

"CIP" means those portions of the City's "2016-2021 Capital Improvement Program" relating to the Municipal Water System, adopted by the City in Ordinance 124927, together with any previously adopted Capital Improvement Program of the City. For purposes of this ordinance, the CIP includes all amendments, updates, supplements or replacements that may be adopted from time to time by ordinance.

"City" means The City of Seattle, Washington, a municipal corporation duly organized and existing under the laws of the State.

"City Council" means the City Council of the City, as duly and regularly constituted from time to time.

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

"Construction Account" means the Water System Construction Subaccount, 2017, created by this ordinance in the Water System Construction Account, which account was previously created in the Water Fund.

"Contract Resource Obligation" means an obligation of the City which is designated as a Contract Resource Obligation and is entered into in accordance with Section 20.

"Coverage Requirement" means Adjusted Net Revenue equal to at least 1.25 times Adjusted Annual Debt Service on all Parity Bonds then outstanding.

"Covered Parity Bonds" means all Outstanding Parity Bonds, each Series of the Bonds and each series of Future Parity Bonds, except any series with respect to which the City elects, in the ordinance or resolution authorizing the issuance or sale of such series, that from and after the redemption or defeasance of all Outstanding Parity Bonds identified in Exhibit A, such series shall not be treated as a series of Covered Parity Bonds and shall not be secured by the amounts in the Reserve Subaccount.

"DTC" means The Depository Trust Company, New York, New York.

"Director of Finance" means the Director of the Finance Division of the Department of Finance and Administrative Services of the City, or any other officer who succeeds to substantially all of the responsibilities of that office.

"Event of Default" shall have the meaning assigned to that term in Section 25(a).

"Fiscal Agent" means the fiscal agent of the State, as the same may be designated by the State from time to time.

"Future Parity Bond Legislation" means any ordinance or resolution passed or adopted by the City Council providing for the issuance and sale of a series of Future Parity Bonds, and any other ordinance or resolution amending or supplementing the provisions of any such ordinance or resolution.

"Future Parity Bonds" means, with reference to any Series, all revenue bonds and obligations of the Municipal Water System (other than that Series and any other Parity Bonds then outstanding), issued or entered into after the Issue Date of such Series, the payment of which constitutes a charge and lien on Net Revenue equal in rank with the charge and lien upon such revenue required to be paid into the Parity Bond Account in accordance with Section 15. Future Parity Bonds may include Parity Payment Agreements and any other obligations issued in compliance with Section 17.

"Government Obligations" has the meaning given in RCW 39.53.010, as now in effect or as may hereafter be amended.

"Gross Revenue" means (a) all income, revenues, receipts and profits derived by the City through the ownership and operation of the Municipal Water System; (b) 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 Municipal Water System; (c) Payment Agreement Receipts, to the extent that such receipts are not offset by Payment Agreement Payments; and (d) the investment income earned on money held in any fund or account of the City, including any bond redemption funds and the accounts therein, in connection with the ownership and operation of the Municipal Water System. Gross Revenue does not include: (a) income derived from investments irrevocably pledged to the payment of any defeased bonds payable from Gross Revenue; (b) investment income set aside for or earned on money in any fund or account created or maintained solely for the purpose of complying with the arbitrage rebate provisions of the Code; (c) any gifts, grants, donations or other funds received by the City from any State or federal agency or other person if such gifts, grants, donations or other funds are the subject of any limitation or reservation imposed by the donor or grantor or imposed by law or administrative regulation to which the donor or grantor is subject, limiting the application of such funds in a manner inconsistent with the application of Gross Revenue hereunder; (d) the proceeds of any borrowing for capital improvements (or the refinancing thereof); (e) the proceeds of any liability or other insurance, including but not limited to insurance proceeds compensating the City for the loss of a capital asset, but excluding business interruption insurance or other insurance of like nature insuring against the loss of revenues; (f) general *ad valorem* taxes, excise taxes and special assessments (other than ULID Assessments), including interest and penalties thereon; and (g) earnings of any separate utility system that may be created, acquired, or constructed by the City pursuant to Section 19.

"Independent Utility Consultant" means an independent person or firm having a favorable reputation for skill and experience with municipal water systems of comparable size and character to the Municipal Water System in such areas as are relevant to the purpose for which they were retained.

"Issue Date" means, with respect to a Bond, the date, as determined by the Director of Finance, on which that Bond is issued and delivered to the Purchaser in exchange for its purchase price.

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

"Maximum Annual Debt Service" means, at the time of calculation, the maximum amount of Annual Debt Service which shall become due in the current calendar year or in any future calendar year on the Parity Bonds then outstanding.

"MSRB" means the Municipal Securities Rulemaking Board.

"Municipal Water System" means the water system of the City as it now exists, and all additions thereto and betterments and extensions thereof at any time made, together with any utility systems of the City hereafter combined with the Municipal Water System. The Municipal Water System shall not include any separate utility system that may be created, acquired or constructed by the City as provided in Section 19.

"Net Revenue" means, for any period, Gross Revenue less Operating and Maintenance Expense.

"Omnibus Refunding Bond Ordinance" means Ordinance 124339 (which amended and restated Ordinance 121939, as previously amended by Ordinance 122837), as amended by Section 26 of this ordinance, and as it may be amended from time to time in the future.

"Operating and Maintenance Expense" means all expenses incurred by the City in causing the Municipal Water System of the City to be operated and maintained in good repair, working order and condition, including without limitation: (a) deposits, premiums, assessments or other payments for insurance, if any, on the Municipal Water System; (b) payments into pension funds; (c) State-imposed taxes; (d) amounts due under Contract Resource Obligations (but only at the times described in Section 20); (e) payments made to any other person or entity for the receipt of water supply or transmission or other commodity or service; and (f) payments with respect to any other expenses of the Municipal Water System that are properly treated as Operating and Maintenance Expense under generally accepted accounting principles applicable to municipal corporations. Operating and Maintenance Expense does not include: depreciation, amortization or other similar recognitions of non-cash expense items made for accounting purposes only; taxes levied or imposed by the City or payments in lieu of City taxes; payments of claims or judgments; or capital additions or capital replacements to the Municipal Water System.

"Outstanding Parity Bonds" means the outstanding Parity Bonds described in Exhibit A and any other Parity Bonds outstanding as of the Issue Date of a Series of the Bonds.

"Owner" means, without distinction, the Registered Owner and the Beneficial Owner of a Bond.

"Parity Bond Account" means the Water Revenue Parity Bond Account created by Ordinance 116705 in the Water Fund for the purpose of paying and securing the principal of and interest on Parity Bonds.

"Parity Bond Legislation" means any ordinance or resolution passed or adopted by the City Council providing for the issuance and sale of a series of Parity Bonds, and any other ordinance or resolution amending or supplementing the provisions of any Parity Bond Legislation.

"Parity Bonds" means the Outstanding Parity Bonds, the Bonds, and any outstanding Future Parity Bonds and Parity Payment Agreements.

"Parity Conditions" means the conditions for issuing Future Parity Bonds under the Parity Bond Legislation.

"Parity Payment Agreement" means a Payment Agreement under which the City's payment obligations are expressly stated to constitute a charge and lien on Net Revenue equal in rank with the charge and lien upon such revenue required to be paid into the Parity Bond Account to pay interest on Parity Bonds.

"Payment Agreement" means a written agreement for the purpose of managing or reducing the City's exposure to fluctuations or levels of interest rates or for other interest rate, investment, asset or liability management purposes, entered into on either a current or forward basis by the City and a Qualified Counterparty as authorized by any applicable laws of the State in connection with, or incidental to, the issuance, incurring or carrying of particular bonds, notes, bond anticipation notes, commercial paper or other obligations for borrowed money, or lease, installment purchase or other similar financing agreements or certificates of participation therein, 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.

"Payment Agreement Payments" means the amounts periodically required to be paid by the City to the Qualified Counterparty pursuant to a Payment Agreement.

"Payment Agreement Receipts" means the amounts periodically required to be paid by the Qualified Counterparty to the City pursuant to a Payment Agreement.

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

"Plan of Additions" means, together, the CIP and the Water System Plan, as modified from time to time. The Plan of Additions includes the purchase and installation of all materials, supplies, appliances, equipment and facilities, the acquisition of all permits, franchises, property and property rights, other capital assets and all engineering, consulting and other professional services and studies (whether performed by the City or by other public or private entities) necessary or convenient to carry out the Plan of Additions. The Plan of Additions includes all amendments, updates, supplements or replacements to the CIP or the Water System Plan, all of which automatically shall constitute amendments to the Plan of Additions. The Plan of Additions also may be modified to include other improvements, without amending the CIP or the Water System Plan, if the City determines by ordinance that those amendments or other improvements constitute a system or plan of additions to or betterments or extensions of the Municipal Water System.

"Principal and Interest Subaccount" means the subaccount of that name created in the Parity Bond Account for the payment of the principal of and interest on Parity Bonds.

"Purchaser" means the entity or entities who have been selected in accordance with this ordinance to serve as underwriter, purchaser or successful bidder in a sale of any Series.

"Qualified Counterparty" means a party (other than the City or a party related to the City) who is the other party to a Payment Agreement, (a)(i) whose senior debt obligations are rated in one of the three highest rating categories of each Rating Agency (without regard to any gradations within a rating category), or (ii) whose obligations under the Payment Agreement are guaranteed for the entire term of the Payment Agreement by a bond insurer or other institution which has been assigned a credit rating in one of the two highest rating categories of each Rating Agency; and (b) who is otherwise qualified to act as the other party to a Payment Agreement under any applicable laws of the State.

"Qualified Insurance" means Bond Insurance provided by an insurance company that, as of the time of issuance of such Bond Insurance, is rated in one of the two highest rating categories (without regard to any gradations within a rating category) by at least two nationally recognized rating agencies.

"Qualified Letter of Credit" means any letter of credit, standby bond purchase agreement or similar instrument issued by a financial institution for the account of the City on behalf of the Beneficial Owner of any Parity Bond, which institution maintains an office, agency or branch in the United States and, as of the time of issuance of such letter of credit, is rated in one of the two highest rating categories by at least two nationally recognized rating agencies.

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

"Rate Stabilization Account" means the account of that name created in the Water Fund pursuant to Ordinance 116705 and redesignated for accounting purposes as the Revenue Stabilization Subfund of the Water Fund pursuant to Ordinance 120875.

"Rating Agency" means any nationally recognized rating agency then maintaining a rating on a series of Parity Bonds at the request of the City.

"Record Date" means, unless otherwise defined in the Bond Resolution, in the case of each interest or principal payment or redemption 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, the Record Date shall mean the Bond Registrar's close of business on the day prior to the date on which the Bond Registrar sends the notice of redemption.

"Registered Owner" means, with regard to a Bond, the person in whose name that Bond is registered on the Bond Register. For so long as the City uses a book-entry only system under the Letter of Representations, the Registered Owner shall mean the Securities Depository.

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

"Reserve Requirement" means the lesser of (a) Maximum Annual Debt Service on all Parity Bonds outstanding at the time of calculation, or (b) 1.25 times Average Annual Debt Service on all Parity Bonds outstanding at the time of calculation. In no event shall the Reserve

Requirement exceed 10% of the proceeds of each series of Parity Bonds then outstanding, determined as of the Issue Date of each such series. ***From and after the defeasance or redemption of all Outstanding Parity Bonds, the Reserve Requirement shall mean the lesser of (a) Maximum Annual Debt Service on all Covered Parity Bonds outstanding at the time of calculation, or (b) 1.25 times Average Annual Debt Service on all Covered Parity Bonds outstanding at the time of calculation. In no event shall the Reserve Requirement exceed 10% of the proceeds of each series of Covered Parity Bonds then outstanding, determined as of the Issue Date of each such series.***

"Reserve Security" means any Qualified Insurance or Qualified Letter of Credit obtained by the City to satisfy part or all of the Reserve Requirement, and which is not cancelable on less than three years' notice.

"Reserve Subaccount" means the subaccount of that name created in the Parity Bond Account for the purpose of securing the payment of the principal of and interest on Parity Bonds.

"Rule 15c2-12" means Rule 15c2-12 promulgated by the SEC under the Securities Exchange Act of 1934, as amended.

"SEC" means the United States Securities and Exchange Commission.

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

"Serial Bonds" means Parity Bonds maturing in specified years, for which no Sinking Fund Requirements are mandated.

"Series" means a series of the Bonds issued pursuant to this ordinance.

"Sinking Fund Requirement" means, for any calendar year, the principal amount and premium, if any, of Term Bonds required to be purchased, redeemed, paid at maturity or paid into any Parity Bond Account for such calendar year as established by the Parity Bond Legislation authorizing the issuance of such Term Bonds.

"State" means the State of Washington.

"State Auditor" means the office of the Auditor of the State or such other department or office of the State authorized and directed by State law to make audits.

"Tax Credit Subsidy Bond" means any Taxable Bond that is designated by the City as a tax credit bond pursuant to the Code, and which is further designated as a "qualified bond" under Section 6431 or similar provision of the Code, and with respect to which the City is eligible to claim a Tax Credit Subsidy Payment.

"Tax Credit Subsidy Payment" means a payment by the federal government with respect to a Tax Credit Subsidy Bond.

"Tax-Exempt Bond" means any Bond, the interest on which is intended on the Issue Date to be excluded from gross income for federal income tax purposes.

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

"Term Bond" means any Bond that is issued subject to mandatory redemption prior to its maturity in periodic mandatory redemption payments.

"ULID" means a utility local improvement district of the City created for the acquisition or construction of additions to and betterments and extensions of the Municipal Water System.

"ULID Assessments" means all assessments levied and collected in a ULID, if and only if those assessments are pledged to be paid into the Parity Bond Account, in which case they shall be included in Gross Revenue. ULID Assessments shall include all installments of principal, payments of interest, and penalties and interest on delinquencies, but shall not include any prepaid assessments paid into a construction fund or account.

"Undertaking" means each undertaking to provide continuing disclosure entered into pursuant to Section 23, in substantially the form attached as Exhibit B.

"Valuation Date" means, with respect to any Capital Appreciation Bond, the date or dates set forth in the relevant Parity Bond Legislation or Bond Purchase Contract on which specific Accreted Values are assigned to that Capital Appreciation Bond.

"Variable Interest Rate" means any variable interest rate or rates to be borne by any Parity Bonds. The method of computing such a variable interest rate shall be set in accordance with the applicable Parity Bond Legislation, which shall specify either (a) the particular period or periods of time or manner of determining such period or periods of time for which each value of such variable interest rate shall remain in effect or (b) the time or times upon which any change in such variable interest rate shall become effective.

"Variable Interest Rate Bond" means, for any period of time, any Parity Bond that bears a Variable Interest Rate during that period, except that a Parity Bond shall not be treated as a Variable Interest Rate Bond if the net economic effect of interest rates on a particular Parity Bond of a series and interest rates on other Parity Bonds of the same series, as set forth in the applicable Parity Bond Legislation, or the net economic effect of a Payment Agreement with respect to a particular Parity Bond, in either case is to produce obligations that bear interest at a fixed interest rate; and a Parity Bond with respect to which a Payment Agreement is in force shall be treated as a Variable Interest Rate Bond if the net economic effect of the Payment Agreement is to produce an obligation that bears interest at a Variable Interest Rate.

"Water Fund" means the fund of that name into which is paid the Gross Revenue of the Municipal Water System.

"Water System Plan" means the long range water system plan known as the 2013 Water System Plan adopted by the City in Ordinance 124071, as that plan may be amended, updated, supplemented or replaced from time to time.

Section 2. **Adoption of Plan of Additions.** The City specifies, adopts and orders the Plan of Additions to be carried out as generally provided for in the documents comprising the Plan of Additions. The estimated cost of the Plan of Additions, as near as may be determined, is declared to be $385,807,000 of which approximately $104,000,000 is expected to be financed from the proceeds of the Bonds and investment earnings thereon.

Section 3. **Authorization of Bonds.** The City is authorized to borrow money and issue Municipal Water System revenue bonds, payable from the sources described in Section 13, in the maximum principal amount stated in Section 5 to (a) pay part of the cost of carrying out the Plan of Additions; (b) provide for meeting the Reserve Requirement; (c) capitalize interest on, if necessary, and pay the costs of issuance of the Bonds; and (d) for other Municipal Water System purposes approved by ordinance. The Bonds may be issued in one or more Series and may be combined with other Municipal Water System revenue bonds (including refunding bonds) authorized separately. The Bonds shall be designated Municipal Water System revenue bonds, shall be numbered separately, and shall have any name, year and series or other label as deemed necessary or appropriate by the Director of Finance.

Section 4. **Manner of Sale of Bonds.** The Director of Finance may provide for the sale of each Series (or any portion thereof) by public sale, negotiated sale, limited offering or private placement with a Purchaser chosen through a selection process acceptable to the Director of

Finance. The Director of Finance is authorized to specify a date and time of sale of and a date and time for delivery of each Series; to give notice of that sale; to determine any bid parameters or other bid requirements and criteria for determining the award of the bid; to provide for the use of an electronic bidding mechanism; and to specify other matters that in his or her determination are necessary, appropriate, or desirable in order to carry out the sale of each Series. Each Series must be sold on Bond Sale Terms in accordance with Section 5.

Section 5. **Bond Sale Terms; Bond Resolution.** The Director of Finance is appointed to serve as the City's designated representative in connection with the issuance and sale of the Bonds in accordance with RCW 39.46.040(2) and this ordinance. The Director of Finance is authorized to accept, on behalf of the City, an offer to purchase one or more Series of the Bonds on Bond Sale Terms consistent with the parameters set forth in this section. No such acceptance shall be effective until adoption of a Bond Resolution approving the Bond Sale Terms. Once adopted, the Bond Resolution shall be deemed a part of this ordinance as if set forth herein.

(a) **Maximum Principal Amount.** The Bonds may be issued in one or more Series and shall not exceed the aggregate principal amount of $110,400,000.

(b) **Date or Dates.** Each Bond shall be dated its Issue Date, as determined by the Director of Finance, which Issue Date may not be later than December 31, 2019.

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

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

(e) **Final Maturity.** The Bonds shall mature no later than 40 years after the Issue Date.

(f) **Redemption Rights.** The Bond Sale Terms may include provisions for the optional and mandatory redemption and for the optional and mandatory tender of Bonds, as determined by the Director of Finance in his discretion, subject to the following:

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

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

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

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

(i) As of the Issue Date of each Series, the average expected life of the capital facilities to be financed with the proceeds (or allocable share of proceeds) of that Series must exceed the weighted average maturity of the Series (or share thereof) allocated to financing those capital facilities.

(ii) As of the Issue Date of each Series, (A) the Finance Director must determine that the Parity Conditions have been met or satisfied, so that such Series may be issued as Parity Bonds, and (B) the City Council must find in the Bond Resolution that, in creating the Parity Bond Account and in fixing the amounts to be paid into it in accordance with this ordinance, the City Council has had due regard for the cost of maintenance and operation of the Municipal Water System, and is not setting aside into the Parity Bond Account a greater amount than in the judgment of the City Council, based on the rates to be established from time to time consistent with Section 16(b), will be available over and above such cost of maintenance and operation.

(iii) The Bond Sale Terms for any Series may provide for Bond Insurance, a Reserve Security, Qualified Letter of Credit, credit enhancement, or for a Parity Payment Agreement. To that end, the Bond Sale Terms may include such additional terms, conditions and covenants as may be necessary or desirable, including but not limited to restrictions on investment of Bond proceeds and pledged funds, and requirements to give notice to or obtain the consent of a credit enhancement provider or a Qualified Counterparty.

(iv) The Bond Sale Terms must establish the method of providing for the Reserve Requirement, consistent with Section 15(a)(ii).

(v) Any Series may be designated or qualified as Tax-Exempt Bonds, Taxable Bonds, or Tax Credit Subsidy Bonds, and may include such additional terms and covenants relating to federal tax matters as the Director of Finance deems necessary or appropriate, consistent with Section 22.

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

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

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

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

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

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

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

Upon the resignation of the Securities Depository from its functions as depository, or upon a determination by the City to discontinue services of the Securities Depository, the City may appoint a substitute Securities Depository. 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, then ownership of Bonds may be transferred to any person as provided herein and the Bonds no longer shall be held in book-entry form.

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

Section 7. **Payment of Bonds.** Principal of and interest on each Bond shall be payable solely out of the Parity Bond Account, in lawful money of the United States. Principal of and interest on each Bond registered in the name of the Securities Depository is payable in the manner set forth in the Letter of Representations. 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. However, the City 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. The Bonds are not subject to acceleration under any circumstances.

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

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

(b) **Mandatory Redemption.** If not redeemed or purchased at the City's option prior to maturity, Term Bonds (if any) shall be redeemed, at a price equal to the principal amount thereof to be redeemed plus accrued interest, on the dates and in the Sinking Fund Requirements as set forth in the Bond Resolution. 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) shall be credited at the par amount thereof against the remaining Sinking Fund 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 shall be allocated on a pro rata basis.

In addition, the Bond Resolution may set forth terms under which a Bond may be subject to extraordinary mandatory redemption prior to maturity upon the occurrence of an extraordinary event, at the price, in principal amounts and on the dates set forth therein.

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

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

Section 9. **Notice of Redemption.** Unless otherwise set forth in the Bond Resolution, the City shall 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 the requirements of this sentence shall be deemed to have been fulfilled when notice has been mailed as so provided, whether or not it is actually received by the Owner of any Bond. Interest on Bonds called for redemption shall cease to accrue on the date fixed for redemption unless the Bond or Bonds called are not redeemed when presented pursuant to the call.

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 shall be of no effect, and the Bonds for which the notice of optional redemption has been rescinded shall remain outstanding.

Section 10. **Failure to Pay Bonds.** If any Bond is not paid when properly presented at its maturity or redemption date, the City shall be obligated to pay, solely from the Parity Bond Account and the other sources pledged in this 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 Account and that Bond has been called for payment by giving notice of that call to the Registered Owner of that Bond.

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

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

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

Section 12. **Construction Account; Deposit of Proceeds.** An account to be known as the Water System Construction Subaccount, 2017 is created in the Water System Construction Account, which account was previously created in the Water Fund. The principal proceeds of the sale of the Bonds remaining after the deposit of accrued interest on the Bonds, if any, into the Principal and Interest Subaccount and the deposit of any proceeds as determined by the Bond Resolution into the Reserve Subaccount, shall be deposited into the Construction Account, unless otherwise specified in the Bond Resolution or directed by the Director of Finance, to be used for the purpose of paying part of the costs of carrying out the Plan of Additions and to pay capitalized interest on, if necessary, and the costs of issuance of the Bonds. Until needed to pay such costs, the City may invest principal proceeds and interest thereon temporarily in any Permitted Investments, and the investment earnings may, as determined by the Director of Finance, be retained in the Construction Account and be spent for the purposes of that account or deposited in the Parity Bond Account.

Section 13. **Security for the Bonds; Parity with other Bonds.** The Bonds shall be special limited obligations of the City payable from and secured solely by the Net Revenue (including all ULID Assessments, if any) and by money in the Parity Bond Account and subaccounts therein, ***except that from and after the date on which all Outstanding Parity Bonds have been redeemed or defeased, money in the Reserve Subaccount shall secure only Covered Parity Bonds***. Net Revenue (including all ULID Assessments, if any) is pledged to make the payments into the Parity Bond Account and to make the payments into the Reserve Subaccount required by this ordinance and the Parity Bond Legislation. This pledge shall constitute a charge and lien upon such Net Revenue prior and superior to all other liens and charges whatsoever.

The Bonds shall be on a parity with the Outstanding Parity Bonds and all Future Parity Bonds, without regard to date of issuance or authorization and without preference or priority of right or lien. Nothing in this ordinance prevents the City from issuing revenue bonds or other obligations which are a charge or lien upon Net Revenue subordinate to the payments required to be made from Net Revenue into the Parity Bond Account and the subaccounts therein. The City covenants that for as long as any Bond is outstanding that it will not issue any other revenue obligations (or create any special fund or account therefor), which will have any priority over or which will rank on a parity with the payments required in respect of the Parity Bonds, and that it will issue Future Parity Bonds only in accordance with the Parity Conditions.

The Bonds shall 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 by this ordinance.

Section 14. **Priority Expenditure of Gross Revenue; Flow of Funds.** Gross Revenue shall be used for the following purposes only and shall be applied in the following order of priority:

(a) To pay the Operating and Maintenance Expense;

(b) To pay interest on Parity Bonds and net payments on Parity Payment Agreements when due;

(c) To pay the principal of Parity Bonds as it comes due at maturity or to meet Sinking Fund Requirements, and to make payments due under any agreement with a provider of a

Reserve Security which agreement requires those payments to be treated on a parity of lien with the Parity Bonds;

(d) To make all payments required to be made into the Reserve Subaccount, to make all payments required to be made under any agreement with a provider of a Reserve Security, which agreement requires those payments to be treated on a parity of lien with the payments required to be made into the Reserve Subaccount, and to make the deposits required to be made into a special account in the Water Fund upon the expiration of a Reserve Security, in accordance with Section 15(a)(ii) until the expiration of that section;

(e) To make all payments required to be made into any revenue bond, note, warrant or other revenue obligation redemption fund, debt service account or reserve account created to pay or secure the payment of the principal of and interest on any revenue bonds, notes, warrants or other obligations of the City having a lien upon Net Revenue of the Municipal Water System subordinate to the lien thereon for the payment of the principal of and interest on the Parity Bonds; and

(f) To retire by redemption or purchase any outstanding revenue bonds or other revenue obligations of the Municipal Water System; to make necessary additional betterments, improvements and repairs to or extensions and replacements of the Municipal Water System; to pay City taxes or other payments in lieu of taxes payable from Gross Revenue; to make deposits into the Rate Stabilization Account; or for any other lawful Municipal Water System purposes.

Section 15. **Parity Bond Account.** The Parity Bond Account is divided into two subaccounts: the Principal and Interest Subaccount and the Reserve Subaccount. The Director of Finance may create sinking fund subaccounts or other subaccounts in the Parity Bond Account for the payment or securing the payment of Parity Bonds, as long as the maintenance of such subaccounts does not conflict with the rights of the owners of Parity Bonds.

(a) **Required Payments Into Parity Bond Account.** So long as any Parity Bonds are outstanding, the City shall set aside and pay into the Parity Bond Account all ULID Assessments on their collection and, out of Net Revenue, certain fixed amounts without regard to any fixed proportion, namely:

(i) Into the Principal and Interest Subaccount (A) upon receipt thereof, the accrued interest, if any, received by the City from the Purchaser, and (B) on or before each interest or principal and interest payment date of any Parity Bonds an amount which, together with other money on deposit therein, will be sufficient to pay the interest, or principal and interest and Sinking Fund Requirements, to become due and payable on the Parity Bonds on that payment date, and net payments due on Parity Payment Agreements; and

(ii) Into the Reserve Subaccount, an amount necessary to provide for the Reserve Requirement within the time and in the manner required by this ordinance and the Parity Bond Legislation. The amount necessary, if any, to satisfy the Reserve Requirement upon the issuance of a Series of the Bonds may be funded (A) on the Issue Date by a deposit of bond sale proceeds, available funds of the Municipal Water System, or a Reserve Security; or (B) in annual installments from Net Revenue so that the Reserve Requirement is fully funded by no later than the fifth anniversary of the Issue Date. The manner of funding the Reserve Requirement for the Bonds shall be set forth in the Bond Resolution. For the purpose of determining the amount credited to the Reserve Subaccount, obligations in which money in the Reserve Subaccount has been invested shall be valued as determined on the most recent annual financial report of the Municipal Water System, and the additional amounts, if any, needed to be deposited into the

Reserve Subaccount to satisfy the Reserve Requirement shall be based on that valuation. The City may provide all or any part of the Reserve Requirement through a Reserve Security.

For so long as any Outstanding Parity Bonds remain outstanding, a Reserve Security obtained to satisfy all or any part of the Reserve Requirement must meet the requirements of this paragraph: (A) the amount available to be drawn upon under a Reserve Security shall be credited against the Reserve Requirement; and (B) on receipt of a notice of cancellation of any Reserve Security, the City shall either (1) substitute a Reserve Security in the amount required to make up the deficiency created in the Reserve Subaccount, or (2) create a special account in the Water Fund and deposit therein, on or before the 25th day of each of the 36 succeeding calendar months (commencing with the 25th day of the calendar month next following the date of the notice) 1/36th of the amount sufficient, together with other money and investments on deposit in the Reserve Subaccount, to equal the Reserve Requirement in effect as of the date the cancellation becomes effective. Amounts on deposit in that special account shall not be available to pay debt service on Parity Bonds or for any other purpose of the City, and shall be transferred to the Reserve Subaccount on the effective date of any cancellation of a Reserve Security to make up all or part of the deficiency caused thereby. Amounts in that special account or in the Reserve Subaccount may be transferred back to the Water Fund and used for any purpose if and when a substitute Reserve Security is obtained. ***From and after the redemption or defeasance of all Outstanding Parity Bonds, the foregoing paragraph shall no longer be of any force or effect.***

The Director of Finance may transfer any money from any funds or accounts of the City legally available therefor, except bond redemption funds, refunding escrow funds or defeasance funds, to meet the required payments to be made into the Parity Bond Account. The Director of

Finance may provide for the purchase, redemption or defeasance of any Parity Bonds by the use of money on deposit in any subaccount in the Parity Bond Account as long as the money remaining in those subaccounts is sufficient to satisfy the required deposits in those subaccounts for the remaining Parity Bonds.

(b) **Reserve Subaccount.** The City covenants that it will at all times, so long as any Covered Parity Bonds are outstanding, maintain the Reserve Subaccount at the Reserve Requirement (taking into account scheduled payments to fund the Reserve Requirement over time), as it is adjusted from time to time, except for withdrawals as authorized by this ordinance. The Director of Finance may make withdrawals of cash from the Reserve Subaccount in the event of a deficiency in the Principal and Interest Subaccount to meet current installments of either principal (or Sinking Fund Requirements) or interest. ***From and after the redemption or defeasance of all Outstanding Parity Bonds, the withdrawals authorized by this paragraph shall be limited to the amounts necessary to meet maturing installments of either principal (or Sinking Fund Requirements) or interest with respect to Covered Parity Bonds.*** Any deficiency created in the Reserve Subaccount by reason of any such withdrawal shall, within 12 months, be made up from ULID Assessments and Net Revenue available after making necessary provisions for the required payments into the Principal and Interest Subaccount. The money in the Reserve Subaccount may be applied to the payment of the last outstanding Parity Bonds, and when the total amount in the Parity Bond Account (including investment earnings) equals the total amount of principal and interest for all then-outstanding Parity Bonds to the last maturity thereof, no further payment need be made into the Parity Bond Account. Money in the Reserve Subaccount (including investment earnings) in excess of the Reserve Requirement may be withdrawn and deposited in the Principal and Interest Subaccount and spent for the purpose of retiring Parity

Bonds or may be deposited in any other fund or account and spent for any other lawful Municipal Water System purpose.

(c) **Investment of Money in Parity Bond Account.** All money in the Parity Bond Account may be kept in cash or invested in Permitted Investments maturing not later than the date when needed (for investments in the Principal and Interest Subaccount) or the last maturity of any outstanding Parity Bonds (for investments in the Reserve Subaccount). In no event shall any money in the Parity Bond Account or any other money reasonably expected to be used to pay principal of and/or interest on the Parity Bonds be invested at a yield which would cause any Series issued as Tax-Exempt Bonds or Tax Credit Subsidy Bonds to be arbitrage bonds within the meaning of Section 148 of the Code. Income from investments in the Principal and Interest Subaccount shall be deposited in that subaccount. Income from investments in the Reserve Subaccount shall be deposited in that subaccount until the amount therein is equal to the Reserve Requirement for all Parity Bonds, and thereafter shall be deposited in the Principal and Interest Subaccount. Notwithstanding the provisions for deposit or retention of earnings in the Parity Bond Account, any earnings which are subject to a federal tax or rebate requirement may be withdrawn from the Parity Bond Account for deposit in a separate fund or account for that purpose. If no longer required for such rebate, money in that separate fund or account shall be returned to the Parity Bond Account.

(d) **Failure to Deposit Money in Parity Bond Account.** If the City fails to set aside and pay into the Parity Bond Account, or the subaccounts therein, the amounts set forth above, the registered owner of any of the outstanding Parity Bonds may bring action against the City for failure to make the required deposits to the Parity Bond Account only in accordance with Section 25 regarding Events of Default.

Section 16. **Parity Bond Covenants.** The City covenants with the Owner of each Bond at any time outstanding, as follows:

(a) **Operation and Maintenance.** It will pay all Operating and Maintenance Expense and otherwise meet the obligations of the City under this ordinance. It will at all times maintain, preserve and keep the Municipal Water System in good repair, working order and condition, will make all necessary and proper additions, betterments, renewals and repairs thereto, and improvements, replacements and extensions thereof so that at all times the business carried on in connection therewith will be properly and advantageously conducted, and will at all times operate or cause to be operated the properties of the Municipal Water System and the business in connection therewith in an efficient manner and at a reasonable cost.

(b) **Establishment and Collection of Rates and Charges.** It will establish, maintain, revise as necessary, and collect rates and charges for services and facilities provided by the Municipal Water System which will be fair and equitable, and will adjust those rates and charges from time to time so that:

(i) The Gross Revenue will be sufficient to (A) pay all Operating and Maintenance Expense, (B) pay when due all amounts that the City is obligated to pay into the Parity Bond Account and the subaccounts therein, and (C) pay all taxes, assessments or other governmental charges lawfully imposed on the Municipal Water System or the revenue therefrom or payments in lieu thereof and any and all other amounts which the City may now or hereafter become obligated to pay from the Gross Revenue by law or contract; and

(ii) The Adjusted Net Revenue in each fiscal year will be at least equal to the Coverage Requirement; and

(iii) Except to aid the poor or infirm and for fire-fighting purposes, it will not furnish or supply or permit the furnishing or supplying of any service or facility in connection with the operation of the Municipal Water System free of charge to any person, firm or corporation, public or private.

Upon the defeasance or redemption of all of the Outstanding Parity Bonds, paragraph (i) in the preceding subsection (b) shall be deleted in its entirety.

The failure of the City to comply with this covenant shall not be an Event of Default if the City promptly retains an Independent Utility Consultant to recommend to the City Council adjustments in the rates of the Municipal Water System necessary to meet the requirements of this covenant and if the City Council adopts the recommended modifications within 180 days of the date the failure became known to the City Council.

(c) **Sale or Disposition of the Municipal Water System.** The City may sell, transfer or otherwise dispose of any of the works, plant, properties, facilities or other part of the Municipal Water System or any real or personal property comprising a part of the Municipal Water System only consistent with one or more of the following:

(i) The City in its discretion may carry out such a sale, transfer or disposition (each, a "transfer") if the facilities or property transferred are not material to the operation of the Municipal Water System, or shall have become unserviceable, inadequate, obsolete or unfit to be used in the operation of the Municipal Water System or are no longer necessary, material or useful to the operation of the Municipal Water System; or

(ii) The City in its discretion may carry out such a transfer if the aggregate depreciated cost value of the facilities or property being transferred under this subsection in any fiscal year comprises no more than 5% of the total assets of the Municipal Water System; or

(iii) The City in its discretion may carry out such a transfer if the proceeds from such transfer are used to acquire new useful operating facilities or properties of the Municipal Water System, or are used to retire outstanding Parity Bonds or other revenue obligations of the Municipal Water System, if, at the time of such transfer, the City has on file a certificate of both the Director of Finance and the Director of Seattle Public Utilities (or any officer who succeeds to substantially all of the responsibilities of either office) demonstrating that, in their opinion, upon such transfer and the use of proceeds of the transfer as proposed by the City, the remaining facilities of the Municipal Water System will retain their operational integrity and, based on the financial statements for the most recent fiscal year available, the proposed transfer would not prevent the Municipal Water System from complying with the Coverage Requirement during the five fiscal years following the fiscal year in which the transfer is to occur. The certificate shall take into account, (A) the reduction in revenue and expenses, if any, resulting from the transfer; (B) the use of any proceeds of the transfer for the redemption of Parity Bonds, (C) the estimate of revenue from customers anticipated to be served by any additions to and betterments and extensions of the Municipal Water System financed in part by the proposed portion of the proceeds of the transfer, and (D) any other adjustment permitted in the preparation of a certificate under Section 17(a)(vi). Before such a transfer, the City also must obtain confirmation from each of the Rating Agencies to the effect that the rating then in effect will not be reduced or withdrawn upon such transfer.

(d) **Liens Upon the Municipal Water System.** Except as otherwise provided in this ordinance, it will not at any time create or permit to accrue or to exist any lien or other encumbrance or indebtedness upon the Gross Revenue or any part thereof, prior or superior to the lien thereon for the payment of the Parity Bonds, and will pay and discharge, or cause to be paid and discharged, any and all lawful claims for labor, materials or supplies which, if unpaid, might become a lien or charge upon the Gross Revenue or any part thereof, prior or superior to, or on a parity with, the lien of the Parity Bonds, or which might impair the security of the Parity Bonds.

(e) **Books and Records.** It will keep proper books, records and accounts with respect to the operations, income and expenditures of the Municipal Water System in accordance with generally accepted accounting practices relating to municipal utilities and any applicable rules and regulations prescribed by the State, and will cause those books, records and accounts to be audited on an annual basis by the State Auditor (or, if such audit is not made by the State Auditor within 270 days after the close of any fiscal year of the City, by a certified public accountant selected by the City). It will prepare annual financial and operating statements as soon as practicable after the close of each fiscal year showing in reasonable detail the financial condition of the Municipal Water System as of the close of the previous year, and the income and expenses for such year, including the amounts paid into the Parity Bond Account and into any and all special funds or accounts created pursuant to the provisions of this ordinance, the status of all funds and accounts as of the end of such year, and the amounts expended for maintenance, renewals, replacements and capital additions to the Municipal Water System. Such statements shall be sent to the owner of any Parity Bond upon written request received by the City. The City may charge a reasonable cost for providing such financial statements.

(f) **Collection of Delinquent Accounts.** On at least an annual basis, it will determine all accounts that are delinquent and will take such actions as the City determines are reasonably necessary to enforce payment of those delinquent accounts.

(g) **Maintenance of Insurance.** It at all times will carry fire and extended coverage, public liability and property damage and such other forms of insurance with responsible insurers and with policies payable to the City on such of the buildings, equipment, works, plants, facilities and properties of the Municipal Water System as are ordinarily carried by municipal or privately owned utilities engaged in the operation of like systems, and against such claims for damages as are ordinarily carried by municipal or privately owned utilities engaged in the operation of like systems, or it will self-insure or participate in an insurance pool or pools with reserves adequate, in the reasonable judgment of the City, to protect the Municipal Water System and the Owners of the Parity Bonds against loss.

(h) **Condemnation Awards and Insurance Proceeds.** If the City receives any condemnation awards or proceeds of an insurance policy in connection with any loss of or damage to any property of the Municipal Water System, it shall apply the condemnation award or insurance proceeds, in the City's sole discretion, either (i) to the cost of replacing or repairing the lost or damaged properties, (ii) to the payment, purchase or redemption of Parity Bonds, or (iii) to the cost of improvements to the Municipal Water System.

Section 17. **Future Parity Bonds.**

(a) The City reserves the right to issue Future Parity Bonds and to enter into Parity Payment Agreements for purposes of the Municipal Water System or to refund a portion of the Parity Bonds if the following conditions are met and complied with at the time of the issuance of those Future Parity Bonds or upon entering into the Parity Payment Agreement:

(i) There must be no deficiency in the Parity Bond Account and no Event of Default with respect to any Parity Bonds shall have occurred and be continuing.

(ii) The Future Parity Bond Legislation must provide that all ULID Assessments shall be paid directly into the Parity Bond Account.

(iii) The Future Parity Bond Legislation must provide for the payment of the principal thereof and the interest thereon out of the Parity Bond Account.

(iv) The Future Parity Bond Legislation must provide for the payment of any Sinking Fund Requirements from money in the Principal and Interest Subaccount.

(v) The Future Parity Bond Legislation must provide for the deposit into the Reserve Subaccount of (A) an amount, if any, necessary to fund the Reserve Requirement upon the issuance of those Future Parity Bonds from Future Parity Bond proceeds or other money legally available; (B) one or more Reserve Securities or an amount plus Reserve Securities necessary to fund the Reserve Requirement upon the issuance of those Future Parity Bonds, or (C) amounts necessary to fund the Reserve Requirement from ULID Assessments and Net Revenue within five years from the date of issuance of those Future Parity Bonds, in five approximately equal annual payments.

(vi) There shall be on file with the City either:

(A) A certificate of the Director of Finance demonstrating that during any 12 consecutive calendar months out of the immediately preceding 24 calendar months Adjusted Net Revenue was at least equal to the Coverage Requirement for all Parity Bonds plus the Future Parity Bonds proposed to be issued (and assuming that the debt service of the proposed Future Parity Bonds for that 12-month period was the Average Annual Debt Service for those proposed bonds); or

(B) A certificate of the Director of Finance and the Director of Seattle Public Utilities (or any officer who succeeds to substantially all of the responsibilities of that office) that, in their opinion, Adjusted Net Revenue for the five fiscal years next following the earlier of (1) the end of the period during which interest on those Future Parity Bonds is to be capitalized or, if no interest is capitalized, the fiscal year in which the Future Parity Bonds are issued, or (2) the date on which substantially all new facilities financed with those Future Parity Bonds are expected to commence operations, such Adjusted Net Revenue further adjusted as provided in paragraphs (1) through (4) below, will be at least equal to the Coverage Requirement. That certificate may take into account the following adjustments:

(1) Any changes in rates in effect and being charged, or rates expected to be charged in accordance with a program of specific rates, rate levels or increases in overall rate revenue approved by ordinance or resolution;

(2) Net revenue from customers of the Municipal Water System who have become customers during the 12-consecutive-month period or thereafter, and their estimate of net revenue from any customers to be connected to the Municipal Water System who have paid the required connection charges, adjusted to reflect one year's net revenue from those customers;

(3) Their estimate of net revenue from customers anticipated to be served by facilities or improvements financed in substantial part by those Future Parity Bonds (or additional Parity Bonds expected to be issued during the five-year period); and

(4) Net revenue from any person, firm, corporation or municipal corporation under any executed contract for water or other utility service, which revenue was not included in historical Net Revenue of the Municipal Water System.

If the Future Parity Bonds proposed to be issued are for the sole purpose of refunding Parity Bonds, no such coverage certification shall be required if the Adjusted

Annual Debt Service on the Parity Bonds after the issuance of the Future Parity Bonds is not, for any year in which the Parity Bonds being refunded were outstanding, more than $5,000 over the Adjusted Annual Debt Service on the Parity Bonds prior to the issuance of those Future Parity Bonds.

(b) Nothing contained herein shall prevent the City from issuing Future Parity Bonds to refund maturing Parity Bonds, money for the payment of which is not otherwise available, or revenue bonds that are a charge or lien upon Gross Revenue subordinate to the charge or lien of the Parity Bonds, or from pledging to pay assessments levied for ULID improvements constructed from the proceeds of subordinate lien bonds into a bond redemption fund created for the payment of the principal of and interest on those subordinate lien bonds.

(c) Notwithstanding in this section to the contrary, in the ordinance or resolution authorizing the issuance or sale of a series of Future Parity Bonds, the City may elect that from and after the redemption or defeasance of all Outstanding Parity Bonds, such series shall not be deemed to be a series of Covered Parity Bonds, shall not be secured by the amounts in the Reserve Subaccount, and shall be excluded from the calculation of the Reserve Requirement.

Section 18. **Rate Stabilization Account.** The Rate Stabilization Account has been created as a separate account in the Water Fund. The City may at any time, as determined by the Director of Finance, deposit in the Rate Stabilization Account Gross Revenue and any other money received by the Municipal Water System and available for this purpose, consistent with Section 14. The Director of Finance may, upon authorization by resolution of the City Council, withdraw any or all of the money in the Rate Stabilization Account for inclusion in Adjusted Gross Revenue for any fiscal year. Such deposits or withdrawals may be made up to and including the date 90 days after the end of the fiscal year for which the deposit or withdrawal will be included as Adjusted Gross Revenue. No deposit of Gross Revenue may be made into the Rate Stabilization Account to the extent that such deposit would prevent the City from meeting the Coverage Requirement in the relevant fiscal year.

Section 19. **Separate Utility Systems.** The City may create, acquire, construct, finance, own and operate one or more additional systems for water supply, transmission or other commodity or service relating to the Municipal Water System. The revenue of that separate utility system shall not be included in Gross Revenue and may be pledged to the payment of revenue obligations issued to purchase, construct, condemn or otherwise acquire or expand the separate utility system. Neither Gross Revenue nor Net Revenue shall be pledged by the City to the payment of any obligations of a separate utility system except (a) as a Contract Resource Obligation, or (b) with respect to Net Revenue, on a basis subordinate to the lien of the Parity Bonds on that Net Revenue.

Section 20. **Contract Resource Obligations.** The City may at any time enter into one or more Contract Resource Obligations for the acquisition, from facilities to be constructed, of water supply, transmission or other commodity or service relating to the Municipal Water System, as follows:

(a) The City may determine that, and may agree under a Contract Resource Obligation to provide that, all payments under that Contract Resource Obligation (including payments prior to the time that water supply or transmission or other commodity or service is being provided, or during a suspension or after termination of such other supply or service) shall be an Operating and Maintenance Expense if the following requirements are met at the time such a Contract Resource Obligation is entered into:

(i) No Event of Default has occurred and is continuing; and

(ii) There shall be on file a certificate of an Independent Utility Consultant stating that (A) the payments to be made by the City in connection with the Contract Resource Obligation are reasonable for the supply or transmission rendered; (B) the source of any new supply, and any facilities to be constructed to provide the supply or transmission, are sound from a water or other commodity supply or transmission planning standpoint, are technically and economically feasible in accordance with prudent utility practice, and are likely to provide supply or transmission no later than a date set forth in the Independent Utility Consultant's certification; and (C) the Adjusted Net Revenue (further adjusted by the Independent Utility Consultant's estimate of the payments to be made in accordance with the Contract Resource Obligation) for the five fiscal years following the year in which the Contract Resource Obligation is incurred, as such Adjusted Net Revenue is estimated by the Independent Utility Consultant in accordance with the provisions of and adjustments permitted in Section 17(a)(vi)(B), will be at least equal to the Coverage Requirement.

(b) Payments required to be made under Contract Resource Obligations shall not be subject to acceleration.

(c) Nothing in this section shall be deemed to prevent the City from entering into other agreements for the acquisition of water supply, transmission or other commodity or service from existing facilities and from treating those payments as Operating and Maintenance Expense. Nothing in this section shall be deemed to prevent the City from entering into other agreements for the acquisition of water supply, transmission or other commodity or service from facilities to be constructed and from agreeing to make payments with respect thereto, such payments constituting a charge and lien on Net Revenue subordinate to that of the Parity Bonds.

Section 21. **Refunding and Defeasance of the Bonds.** The Bonds are hereby designated "Refundable Bonds" for purposes of the Omnibus Refunding Bond Ordinance. 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, premium (if any), and interest on any Bond, or 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 maturing at a time or times and in an amount sufficient, together with known earned income from the investment thereof, to redeem and retire, release, refund or defease the defeased Bonds in accordance with their terms, 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 this ordinance and in Net Revenue and the funds and accounts pledged to the payment of such defeased Bonds, other than the right to receive the funds so set aside and pledged, thereafter shall cease and become void. Such Owners thereafter shall have the right to receive payment of the principal of and interest or redemption price on the defeased Bonds from the trust account. After establishing and fully funding such a trust account, the defeased Bonds shall be deemed to be no longer outstanding, and the Director of Finance then may apply any money in any other fund or account established for the payment or redemption of the defeased Bonds to any lawful purposes. Notice of refunding or defeasance shall be given, and selection of Bonds for any partial refunding or defeasance shall be conducted, in the manner set forth in this ordinance for the redemption of Bonds.

If the refunding or defeasance plan provides that the defeased Bonds or the refunding bonds to be issued be secured by money and/or Government Obligations pending the prior redemption of the defeased Bonds and if such refunding or defeasance plan also provides that certain money and/or Government Obligations are pledged irrevocably for the prior redemption of the defeased Bonds included in that refunding or defeasance plan, then only the debt service on the Bonds which are not defeased Bonds and the refunding bonds, the payment of which is not so secured by the refunding plan, shall be included in the computation of the Coverage Requirement for the issuance of Future Parity Bonds and the annual computation of the Coverage Requirement for determining compliance with the rate covenants.

Section 22. **Provisions Relating to Certain Federal Tax Consequences of the Bonds.**

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

(b) **Tax Credit Subsidy Bonds or other Taxable Bonds.** The Director of Finance may, without further action by the Council, designate any Series of the Bonds as Taxable Bonds or as Tax Credit Subsidy Bonds, and (in the case of Tax Credit Subsidy Bonds) may make provision in the Bonds or other written document(s) for such additional covenants of the City as may be necessary or appropriate in order for the City to (i) receive from the United States Treasury the applicable federal credit payments in respect of such Tax Credit Subsidy Bonds and (ii) otherwise become and remain eligible for tax benefits under the Code.

Section 23. **Official Statement; Continuing Disclosure.**

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

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

(c) **Undertaking to Provide Continuing Disclosure.** To meet the requirements of paragraph (b)(5) of Rule 15c2-12, as applicable to a Purchaser of a Series, the Director of Finance is authorized to execute an Undertaking for such Series in substantially the form attached as Exhibit B.

Section 24. **Supplemental or Amendatory Ordinances.** This ordinance shall not be supplemented or amended in any respect subsequent to the Issue Date, except as provided in and in accordance with and subject to the provisions of this section.

(a) **Amendments Without Bond Owner Consent.** From time to time and at any time, without the consent of or notice to the owners of the Parity Bonds, the City may pass or adopt supplemental or amendatory ordinances or resolutions for any of the following purposes:

(i) To cure any formal defect, omission, inconsistency or ambiguity in a manner not adverse to the owners of any Parity Bonds;

(ii) To impose upon the Bond Registrar (with its consent) for the benefit of the owners of any Parity Bonds any additional rights, remedies, powers, authority, security, liabilities or duties which may lawfully be granted, conferred or imposed and which are not contrary to or inconsistent with this ordinance as theretofore in effect;

(iii) To add to the covenants and agreements of, and limitations and restrictions upon, the City in this ordinance other covenants, agreements, limitations and restrictions to be observed by the City which are not contrary to or inconsistent with this ordinance as theretofore in effect;

(iv) To confirm, as further assurance, any pledge under, and the subjection to any claim, lien or pledge created or to be created by the Bond Legislation of any other money, securities or funds;

(v) To authorize different denominations of the Bonds and to make correlative amendments and modifications to this ordinance regarding exchangeability of Bonds of different authorized denominations, redemptions of portions of Bonds of particular authorized denominations and similar amendments and modifications of a technical nature;

(vi) To comply with any future federal law or interpretation to preserve the exclusion of the interest on the Tax-Exempt Bonds from gross income for federal income tax purposes and the entitlement of the City to receive from the United States Treasury the applicable Tax Credit Subsidy Payments in respect of any Series sold and issued as Tax Credit Subsidy Bonds;

(vii) To modify, alter, amend or supplement this ordinance in any other respect which is not materially adverse to the owners of the Parity Bonds and which does not involve a change described in subsection (c) of this section; and

(viii) To add to the covenants and agreements of, and limitations and restrictions upon, the City in this ordinance, other covenants, agreements, limitations and restrictions to be observed by the City which are requested by a provider of Bond Insurance or provider of a Reserve Security and which are not materially adverse to the owners of the Parity Bonds.

Before the City may pass or adopt any such supplemental or amendatory ordinance or resolution pursuant to this subsection, there must be delivered to the City an opinion of Bond Counsel, stating that such supplemental or amendatory ordinance or resolution is authorized or permitted pursuant to this subsection and, upon the effective date thereof, will be valid and binding upon the City in accordance with its terms, and will not adversely affect the exclusion from gross income for federal income tax purposes of interest on any Bonds issued as Tax-Exempt Bonds.

(b) **Amendments With Bond Owner Consent.** With the consent of registered owners of not less than 60% in aggregate principal amount of the Parity Bonds then outstanding, the City Council may pass or adopt any supplemental or amendatory ordinance or resolution, other than one effecting a change described in subsection (c), that is deemed necessary or desirable by the City for the purpose of modifying, altering, amending, supplementing or rescinding, in any particular, any of the terms or provisions contained in this ordinance.

(c) **Amendments Prohibited Except Upon Unanimous Consent.** Unless approved in writing by the registered owner of each Parity Bond then outstanding, nothing contained in this section shall permit, or be construed as permitting, (i) a change in the times, amounts or currency of payment of the principal of or interest on any outstanding Parity Bond, or a reduction in the principal amount or redemption price of any outstanding Parity Bond or a change in the method of determining the rate of interest thereon, (ii) a preference or priority of any Parity Bond over any other Parity Bond, or (iii) a reduction in the aggregate principal amount of Parity Bonds.

(d) **Notice to Bond Owners.** If at any time the City Council passes or adopts a supplemental or amendatory ordinance or resolution for any of the purposes of subsection (b) or (c), the Bond Registrar shall cause notice of the proposed supplemental or amendatory ordinance or resolution to be given by first-class United States mail (i) to all registered owners of the then outstanding Parity Bonds, (ii) to each provider of Bond Insurance or a Reserve Security, and (iii) to each Rating Agency. Such notice shall briefly set forth the nature of the proposed supplemental or amendatory ordinance or resolution and shall state that a copy is on file at the office of the City Clerk for inspection by all owners of the outstanding Parity Bonds.

(e) **Effective Date; Consents.** Within two years after the date of the mailing of such notice, such supplemental or amendatory ordinance or resolution, substantially as described in such notice, may go into effect, but only if there shall have first been delivered to the Bond Registrar (i) the required consents, in writing, of registered owners of the Parity Bonds, and (ii) an opinion of Bond Counsel stating that such supplemental or amendatory ordinance or resolution is authorized or permitted by this ordinance and, upon the effective date thereof, will be valid and binding upon the City in accordance with its terms and will not adversely affect the exclusion from gross income for federal income tax purposes of interest on any Tax-Exempt Bonds.

If registered owners of not less than the percentage of Parity Bonds required by this section shall have consented to and approved the passage or adoption of such a supplemental or amendatory ordinance or resolution, no owner of a Parity Bond shall have any right (i) to object to the passage or adoption of such supplemental ordinance or resolution, (ii) to object to any of the terms and provisions contained therein or the operation thereof, (iii) in any manner to question the propriety of the passage or adoption thereof, (iv) to enjoin or restrain the City from passing or adopting the same, or (v) to enjoin or restrain the City, any authorized official thereof, or the Bond Registrar from taking any action pursuant to the provisions thereof. For purposes of determining whether consents representing the requisite percentage of principal amount of Parity Bonds have been obtained, the Accreted Value of Capital Appreciation Bond shall be deemed to be the principal amount. It shall not be necessary to obtain approval of the particular form of any proposed supplemental ordinance or resolution, but it shall be sufficient if the consent shall approve the substance thereof.

Upon the effective date of any supplemental or amendatory ordinance or resolution passed or adopted pursuant to the provisions of this section, this ordinance shall be, and be deemed to be, modified and amended in accordance therewith, and the respective rights, duties and obligations under this ordinance of the City, the Bond Registrar and all owners of Parity Bonds then outstanding, shall thereafter be determined, exercised and enforced under this ordinance subject in all respects to such modifications and amendments.

(f) **Special Amendments.** The Registered Owners from time to time of the Bonds, by taking and holding the same, shall be deemed to have consented to the adoption by the City of any supplemental or amendatory ordinance or resolution passed pursuant to the provisions of this section for any one or more of the following purposes:

(i) When calculating "Annual Debt Service," to permit or require Tax Credit Subsidy Payments expected to be received by the City in any period to be credited against amounts required to be paid in respect of interest on the Parity Bonds in that period; and

(ii) To permit or require Tax Credit Subsidy Payments to be deposited into the Principal and Interest Subaccount and credited against the Net Revenue otherwise required to be deposited into the Principal and Interest Subaccount.

(iii) To permit the reimbursement obligations of the City under any Qualified Letter of Credit or Qualified Insurance (other than a Qualified Letter of Credit or Qualified Insurance obtained to satisfy all or part of the Reserve Requirement) to be secured by a lien and charge on Net Revenue equal in rank with the lien an charge upon such Net Revenue required to be paid into the Parity Bond Account to pay and secure the payment of the principal of and interest on Parity Bonds.

Section 25. **Defaults and Remedies.**

(a) **Events of Default.** The following shall constitute Events of Default with respect to the Bonds:

(i) If a default is made in the payment of the principal of or interest on any of the Bonds when the same shall become due and payable; or

(ii) If the City defaults in the observance and performance of any other of the covenants, conditions and agreements on the part of the City set forth in this ordinance or in any Parity Bond Legislation (except as otherwise provided herein or in such Parity Bond Legislation) and such default or defaults have continued for a period of six months after the City has received from the Bond Owners' Trustee (as defined below) or from the registered owners of not less than 25% in principal amount of the Parity Bonds a written notice specifying and demanding the cure of such default. However, if the default in the observance and performance of any other of the covenants, conditions and agreements is one which cannot be completely remedied within the six months after written notice has been given, it shall not be an Event of Default with respect to the Bonds as long as the City has taken active steps within the six months after written notice has been given to remedy the default and is diligently pursuing such remedy; or

(iii) If the City files a petition in bankruptcy or is placed in receivership under any state or federal bankruptcy or insolvency law.

Notwithstanding anything in this section to the contrary, the failure of the City or any obligated person to comply with the Undertaking shall not constitute an Event of Default under this ordinance, the Bond Resolution or the Bonds, and the sole remedy of any holder of a Bond shall be to seek an order of specific performance from an appropriate court to compel the City to comply with the Undertaking.

(b) **Bond Owners' Trustee.** So long as such Event of Default has not been remedied, a trustee (the "Bond Owners' Trustee") may be appointed by the registered owners of 25% in principal amount of the then outstanding Parity Bonds, by an instrument or concurrent instruments in writing signed and acknowledged by such registered owners of the Parity Bonds or by their attorneys-in-fact duly authorized and delivered to such Bond Owners' Trustee, notification thereof being given to the City. That appointment shall become effective immediately upon acceptance thereof by the Bond Owners' Trustee. Any Bond Owners' Trustee appointed under the provisions of this subsection shall be a bank or trust company organized under the laws of the State of Washington or the State of New York or a national banking association. The bank or trust company acting as Bond Owners' Trustee may be removed at any time, and a successor Bond Owners' Trustee may be appointed, by the registered owners of a majority in principal amount of the Parity Bonds, by an instrument or concurrent instruments in writing signed and acknowledged by such registered owners of the Parity Bonds or by their attorneys-in-fact duly authorized. The Bond Owners' Trustee may require such security and indemnity as may be reasonable against the costs, expenses and liabilities that may be incurred in the performance of its duties.

In the event that any Event of Default in the sole judgment of the Bond Owners' Trustee is cured and the Bond Owners' Trustee furnishes to the City a certificate so stating, that Event of Default shall be conclusively deemed to be cured and the City, the Bond Owners' Trustee and the registered owners of the Parity Bonds shall be restored to the same rights and position which they would have held if no Event of Default had occurred.

The Bond Owners' Trustee appointed in the manner herein provided, and each successor thereto, is declared to be a trustee for the registered owners of all the Parity Bonds and is empowered to exercise all the rights and powers herein conferred on the Bond Owners' Trustee.

(c) **Suits at Law or in Equity.** Upon the occurrence of an Event of Default and during the continuance thereof, the Bond Owners' Trustee may, and upon the written request of the registered owners of not less than 25% in principal amount of the Parity Bonds outstanding shall, take such steps and institute such suits, actions or other proceedings, all as it may deem appropriate for the protection and enforcement of the rights of the registered owners of the Parity Bonds, to collect any amounts due and owing to or from the City, or to obtain other appropriate relief, and may enforce the specific performance of any covenant, agreement or condition contained in this ordinance or set forth in any of the Parity Bonds.

Nothing contained in this section shall, in any event or under any circumstance, be deemed to authorize the acceleration of the maturity of principal on the Parity Bonds, and the remedy of acceleration is expressly denied to the registered owners of the Parity Bonds under any circumstances including, without limitation, upon the occurrence and continuance of an Event of Default.

Any action, suit or other proceedings instituted by the Bond Owners' Trustee hereunder shall be brought in its name as the Bond Owners' Trustee and all such rights of action upon or under any of the Parity Bonds or the provisions of this ordinance may be enforced by the Bond Owners' Trustee without the possession of any of those Parity Bonds and without the production of the same at any trial or proceedings relative thereto except where otherwise required by law. Any such suit, action or proceeding instituted by the Bond Owners' Trustee shall be brought for the ratable benefit of all of the registered owners of those Parity Bonds, subject to the provisions of this ordinance. The respective registered owners of the Parity Bonds, by taking and holding the same, shall be conclusively deemed irrevocably to appoint the Bond Owners' Trustee the true and lawful trustee of the respective registered owners of those Parity Bonds, with authority to institute any such action, suit or proceeding; to receive as trustee and deposit in trust any sums becoming distributable on account of those Parity Bonds; to execute any paper or documents for the receipt of money; and to do all acts with respect thereto that the registered owner himself or herself might have done in person. Nothing herein shall be deemed to authorize or empower the Bond Owners' Trustee to consent to accept or adopt, on behalf of any owner of the Parity Bonds, any plan of reorganization or adjustment affecting the Parity Bonds or any right of any registered owner thereof, or to authorize or empower the Bond Owners' Trustee to vote the claims of the registered owners thereof in any receivership, insolvency, liquidation, bankruptcy, reorganization or other proceeding to which the City is a party.

(d) **Application of Money Collected by Bond Owners' Trustee.** Any money collected by the Bond Owners' Trustee at any time pursuant to this section shall be applied in the following order of priority:

(i) to the payment of the charges, expenses, advances and compensation of the Bond Owners' Trustee and the charges, expenses, counsel fees, disbursements and compensation of its agents and attorneys;

(ii) to the payment to the persons entitled thereto of all installments of interest then due on the Parity Bonds in the order of maturity of such installments and, if the amount available shall not be sufficient to pay in full any installment or installments maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon to the persons entitled thereto, without any discrimination or preference; and

(iii) to the payment to the persons entitled thereto of the unpaid principal amounts of any Parity Bonds which shall have become due (other than Parity Bonds previously called for redemption for the payment of which money is held pursuant to the provisions hereto), whether at maturity or by proceedings for redemption or otherwise, in the order of their due dates and, if the amount available shall not be sufficient to pay in full the principal amounts due on the same date, then to the payment thereof ratably, according to the principal amounts due thereon to the persons entitled thereto, without any discrimination or preference.

(e) **Duties and Obligations of Bond Owners' Trustee.** The Bond Owners' Trustee shall not be liable except for the performance of such duties as are specifically set forth herein. During an Event of Default, the Bond Owners' Trustee shall exercise such of the rights and powers vested in it hereby, and shall use the same degree of care and skill in its exercise, as a prudent person would exercise or use under the circumstances in the conduct of his or her own affairs. The Bond Owners' Trustee shall have no liability for any act or omission to act hereunder except for the Bond Owners' Trustee's own negligent action, its own negligent failure to act or its own willful misconduct. The duties and obligations of the Bond Owners' Trustee shall be determined solely by the express provisions of this ordinance, and no implied powers, duties or obligations of the Bond Owners' Trustee shall be read into this ordinance.

The Bond Owners' Trustee shall not be required to expend or risk its own funds or otherwise incur individual liability in the performance of any of its duties or in the exercise of any of its rights or powers as the Bond Owners' Trustee, except as may result from its own negligent action, its own negligent failure to act or its own willful misconduct.

The Bond Owners' Trustee shall not be bound to recognize any person as a registered owner of any Parity Bond until his or her title thereto, if disputed, has been established to its reasonable satisfaction.

The Bond Owners' Trustee may consult with counsel and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by it hereunder in good faith and in accordance with the opinion of such counsel. The Bond

Owners' Trustee shall not be answerable for any neglect or default of any person, firm or corporation employed and selected by it with reasonable care.

(f) **Suits by Individual Parity Bond Owners Restricted.** No owner of any one or more Parity Bonds shall have any right to institute any action, suit or proceeding at law or in equity for the enforcement of same unless:

(i) an Event of Default has happened and is continuing; and

(ii) a Bond Owners' Trustee has been appointed; and

(iii) such owner previously shall have given to the Bond Owners' Trustee written notice of the Event of Default on account of which such suit, action or proceeding is to be instituted; and

(iv) the registered owners of 25% in principal amount of the Parity Bonds, after the occurrence of such Event of Default, have made written request of the Bond Owners' Trustee and have afforded the Bond Owners' Trustee a reasonable opportunity to institute such suit, action or proceeding; and

(v) there have been offered to the Bond Owners' Trustee security and indemnity satisfactory to it against the costs, expenses and liabilities to be incurred therein or thereby; and

(vi) the Bond Owners' Trustee has refused or neglected to comply with such request within a reasonable time.

No owner of any Parity Bond shall have any right in any manner whatever by his or her action to affect or impair the obligation of the City to pay from Net Revenue the principal of and interest on such Parity Bonds to the respective registered owners thereof when due.

Section 26. **Amendment of Omnibus Refunding Bond Ordinance.** The following provisions of the Omnibus Refunding Bond Ordinance are amended to read as set forth in this section. Amendments are shown as revisions to the clean amended and restated version of the Omnibus Refunding Bond Ordinance, which was attached to Ordinance 124339 as Exhibit C, with additions shown in double underlining and deletions enclosed in double parentheses and struck through. References to section numbers and defined terms used in the amended text set forth below refer to the sections and definitions contained within the amended Omnibus Refunding Bond Ordinance. For purposes of the springing amendments set forth in this section, the term "Outstanding Parity Bonds" shall mean those series of Parity Bonds identified on Exhibit A to this amendatory ordinance.

(a) **Amendments to Section 1.** The following definitions are amended as follows:

"Authorized Denominations" means $5,000 or any integral multiple thereof within a maturity of a Series<u>, or such other minimum denomination as may be specified in the Bond Resolution</u>.

<u>**"Covered Parity Bonds"** means each series of Parity Bonds, except any series with respect to which the City elects, in the ordinance or resolution authorizing the issuance or sale of such series, that from and after the redemption or defeasance of all Parity Bonds originally issued prior to 2016, such series shall not be treated as a series of Covered Parity Bonds and shall not be secured by the amounts in the Reserve Subaccount.</u>

"Gross Revenue" means (a) all income, revenues, receipts and profits derived by the City through the ownership and operation of the Municipal Water System; (b) 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 Municipal Water System; (c) Payment Agreement Receipts, to the extent that such receipts are not offset by Payment Agreement Payments; and (d) the investment income earned on money held in any fund or account of the City, including any bond redemption funds and the accounts therein, in connection with the ownership and operation of the Municipal Water System. Gross Revenue does not include: ((~~(a) insurance proceeds compensating the City for the loss of a capital asset; (b)~~)) (a) income derived from investments irrevocably pledged to the payment of any defeased bonds payable from Gross Revenue; ((~~(c)~~)) (b) investment income set aside for or earned on money in any fund or account created or maintained solely for the purpose of complying with the arbitrage rebate provisions of the Code; ((~~(d)~~)) (c) any gifts, grants, donations or other funds received by the City from any State or federal agency or other person if such gifts, grants, donations or other funds are the subject of any limitation or reservation imposed by the donor or grantor or imposed by law or administrative regulation to which the donor or grantor is subject, limiting the application of such funds in a manner inconsistent with the application of Gross Revenue hereunder; ((~~(e)~~)) (d) the proceeds of any borrowing for capital improvements (or the refinancing thereof); ((~~(f)~~)) (e) the proceeds of any liability or other insurance, including but not limited to insurance proceeds compensating the City for the loss of a capital asset, but ((~~(~~)) excluding business interruption insurance or other insurance of like nature insuring against the loss of revenues ((~~)~~)) ; ((~~(g)~~)) (f) general *ad valorem* taxes, excise taxes and special assessments (other than ULID Assessments), including interest and penalties thereon; and ((~~(h)~~)) (g) earnings of any separate utility system that may be created, acquired, or constructed by the City pursuant to Section 20.

"Operating and Maintenance Expense" means all expenses incurred by the City in causing the Municipal Water System of the City to be operated and maintained in good repair, working order and condition, including without limitation: (a) deposits, premiums, assessments or other payments for insurance, if any, on the Municipal Water System; (b) payments into pension funds; (c) State-imposed taxes; (d) amounts due under Contract Resource Obligations (but only at the times described in Section 21); (e) payments made to another person or entity for the receipt of water supply or transmission or other commodity or service; and (f) payments with respect to any other expenses of the Municipal Water System that are properly treated as operating and maintenance expenses under generally accepted accounting principles applicable to municipal corporations. Operating and Maintenance Expense does not include: ((~~any~~)) depreciation, amortization or other similar recognitions of non-cash expense items made for accounting purposes only; ((~~or~~)) taxes levied or imposed by the City ((~~,~~)) or payments ((~~to the City~~)) in lieu of City taxes ((~~,~~)) ; payments of claims or judgments; or capital additions or capital replacements to the Municipal Water System.

"Reserve Requirement" means ((~~as of any date~~)) the lesser of (a) Maximum Annual Debt Service ((~~or 125% of~~)) on all Parity Bonds outstanding at the time of calculation, or (b) 1.25 times Average Annual Debt Service on ((~~the~~)) all Parity Bonds outstanding at the time of calculation. In no event shall the Reserve Requirement exceed 10% of the proceeds of each series of

Parity Bonds then outstanding, determined as of the Issue Date of each such series. ***From and after the defeasance or redemption of all Outstanding Parity Bonds, the Reserve Requirement shall mean the lesser of (a) Maximum Annual Debt Service on all Covered Parity Bonds outstanding at the time of calculation, or (b) 1.25 times Average Annual Debt Service on all Covered Parity Bonds outstanding at the time of calculation. In no event shall the Reserve Requirement exceed 10% of the proceeds of each series of Covered Parity Bonds then outstanding, determined as of the Issue Date of each such series.***

"Qualified Letter of Credit" means any letter of credit, standby bond purchase agreement or similar instrument issued by a financial institution for the account of the City on behalf of the Beneficial Owner of any Parity Bond, which institution maintains an office, agency or branch in the United States and, as of the time of issuance of such letter of credit, is rated in one of the two highest rating categories by at least two nationally recognized rating agencies.

"ULID Assessments" means all assessments levied and collected in a ULID, if and only if those assessments are pledged to be paid into the Parity Bond Account, in which case they shall be included in Gross Revenue. ULID Assessments shall include all installments of principal, payments of interest, and penalties and interest on delinquencies, but shall not include any prepaid assessments paid into a construction fund or account.

(b) **Amendments to Section 5.** The following subsection (d) is added to Section 5 (Bond Registrar; Registration and Transfer of Bonds):

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

(c) **Amendments to Section 14.** The following amendments are made to Section 14 (Security for the Bonds; Parity with other Bonds):

Section 14. **Security for the Bonds; Parity with other Bonds.** The Bonds shall be special limited obligations of the City payable from and secured solely by the Net Revenue ((~~and~~)) (including all ULID Assessments, if any) and by money in the Parity Bond Account and the subaccounts therein, ***except that from and after the date on which all Outstanding Parity Bonds have been redeemed or defeased, money in the Reserve Subaccount shall secure only Covered Parity Bonds***. The Net Revenue ((~~and~~)) (including all ULID Assessments, if any), ((~~and all money and investments held in the Parity Bond Account, the Rate Stabilization Account and the Construction Account (except money and investments held in a separate fund or account created for the purpose of compliance with rebate requirements under the Code), are~~)) is pledged to make the payments ((~~of~~)) into the Parity Bond ((~~s~~)) Account and to make payments into the Reserve Subaccount required by this ordinance and the Parity Bond

Legislation. This pledge shall constitute a charge and lien upon the Net Revenue prior and superior to any other charges whatsoever.

The Bonds shall be on a parity with the Outstanding Parity Bonds and all Future Parity Bonds, without regard to date of issuance or authorization and without preference or priority of right or lien. Nothing in this ordinance prevents the City from issuing revenue bonds or other obligations which are a charge or lien upon the Net Revenues subordinate to the payments required to be made from Net Revenue into the Parity Bond Account and the subaccounts therein. <u>The City covenants that for as long as any Bond is outstanding that it will not issue any other revenue obligations (or create any special fund or account therefor), which will have any priority over or which will rank on a parity with the payments required in respect of the Parity Bonds, and that it will issue Future Parity Bonds only accordance with the Parity Conditions.</u>

The Bonds shall 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 by this ordinance.

(d) **Amendments to Subsections (a) and (b) of Section 16.** The following amendments are made to subsections (a) and (b) of Section 16 (Parity Bond Account):

Section 16. **Parity Bond Account.**

* * *

(a) **Required Payments into Parity Bond Account.** So long as any Parity Bonds are outstanding, the City shall set aside and pay into the Parity Bond

Account all ULID Assessments on their collection and, out of the Net Revenue, certain fixed amounts without regard to any fixed proportion, namely:

(i) Into the Principal and Interest Subaccount (A) upon receipt thereof, the accrued interest, if any, received by the City from the Purchaser, and (B) on or before each interest or principal and interest payment date of any Parity Bonds an amount which, together with other money on deposit therein, will be sufficient to pay the interest, or principal and interest and Sinking Fund Requirements, to become due and payable on the Parity Bonds on that payment date, and net payments due on Parity Payment Agreements; and

(ii) Into the Reserve Subaccount an amount necessary to provide for the Reserve Requirement ((~~for the Parity Bonds~~)) within the time and in the manner required by this ordinance and the Parity Bond Legislation. The amount necessary to satisfy the Reserve Requirement upon the issuance of a Series may be funded ((~~i~~)) (A) on the Issue Date, by a deposit from the bond sale proceeds, other available funds of the Municipal Water System or a Reserve Security, or ((~~ii~~)) (B) in annual installments from Net Revenue so that the Reserve Requirement is fully funded by no later than the fifth anniversary of the Issue Date. The manner of funding the Reserve Requirement for the Bonds shall be set forth in the Bond Resolution. For the purpose of determining the amount credited to the Reserve Subaccount, obligations in which money in the Reserve Subaccount has been invested shall be valued ((~~at the greater of cost or accreted value~~)) as determined on the most recent annual financial report of the Municipal Water System, and the additional amounts, if any, needed to be deposited into the

Reserve Subaccount to satisfy the Reserve Requirement shall be based on that valuation.

The City may provide all or any part of the Reserve Requirement through a Reserve Security ((~~,~~)) . For so long as any Outstanding Parity Bonds remain outstanding, a Reserve Security obtained to satisfy all or any part of the Reserve Requirement is subject to the following: (A) the amount available to be drawn upon under a Reserve Security shall be credited against the Reserve Requirement; and (B) on receipt of a notice of cancellation of any Reserve Security, the City shall either (1) substitute a Reserve Security in the amount required to make up the deficiency created in the Reserve Subaccount, or (2) create a special account in the Water Fund and deposit therein, on or before the 25th day of each of the 36 succeeding calendar months (commencing with the 25th day of the calendar month next following the date of the notice) 1/36th of the amount sufficient, together with other money and investments on deposit in the Reserve Subaccount, to equal the Reserve Requirement in effect as of the date the cancellation becomes effective. Amounts on deposit in that special account shall not be available to pay debt service on Parity Bonds or for any other purpose of the City, and shall be transferred to the Reserve Subaccount on the effective date of any cancellation of a Reserve Security to make up all or part of the deficiency caused thereby. Amounts in that special account or in the Reserve Subaccount may be transferred back to the Water Fund and used for any purpose if and when a substitute Reserve Security is obtained. ***From and after the redemption or***

<u>defeasance of all Outstanding Parity Bonds, the foregoing paragraph shall no longer be of any force or effect.</u>

The Director of Finance may transfer any money from any funds or accounts of the City legally available therefor, except bond redemption funds, refunding escrow funds or defeasance funds, to meet the required payments to be made into the Parity Bond Account. The Director of Finance may provide for the purchase, redemption or defeasance of any Parity Bonds by the use of money on deposit in any subaccount in the Parity Bond Account as long as the money remaining in those subaccounts is sufficient to satisfy the required deposits in those subaccounts for the remaining Parity Bonds.

(b) **Reserve Subaccount.** The City covenants that it will at all times so long as any Parity Bonds are outstanding, maintain the Reserve Subaccount at the Reserve Requirement (taking into account scheduled payments to fund the Reserve Requirement over time), as it is adjusted from time to time, except for withdrawals as authorized by this ordinance. The Director of Finance may make withdrawals of cash from the Reserve Subaccount in the event of a deficiency in the Principal and Interest Subaccount to meet maturing installments of either principal (or Sinking Fund Requirements) or interest. ***<u>From and after the redemption or defeasance of all Outstanding Parity Bonds, the withdrawals authorized shall be limited to the amounts necessary to meet maturing installments of either principal (or Sinking Fund Requirements) or interest with respect to Covered Parity Bonds.</u>*** Any deficiency created in the Reserve Subaccount by reason of any such withdrawal shall, within 12 months, be made up from ULID Assessments and Net Revenue available after making necessary provisions for the required payments into the Principal and Interest Subaccount. The money in the Reserve Subaccount may be applied to the payment of the last outstanding Parity Bonds, and when the total amount in the Parity Bond Account (including investment earnings) equals the total amount of principal and interest for all then-outstanding Parity Bonds to the last maturity thereof, no further payment need be made into the Parity Bond Account. Money in the Reserve Subaccount (including investment earnings) in excess of the Reserve Requirement may be withdrawn and deposited in the Principal and Interest Subaccount and spent for the purpose of retiring Parity Bonds or may be deposited in any other fund or account and spent for any other lawful Municipal Water System purpose.

(e) **Amendments to Subsection (b) of Section 17.** The following amendments are made to subsection (b) of Section 17 (Parity Bond Covenants):

(b) **Establishment and Collection of Rates and Charges.** It will establish, maintain, revise as necessary, and collect rates and charges for services and facilities provided by the Municipal Water System which will be fair and equitable, and will adjust those rates and charges from time to time so that:

(i) The Gross Revenue will be sufficient to (A) pay all Operating and Maintenance Expense, (B) pay when due all amounts that the City is obligated to pay into the Parity Bond Account and the subaccounts therein, and (C) pay all taxes, assessments or other governmental charges lawfully imposed on the Municipal Water System or the revenue therefrom or payments in lieu thereof and any and all other amounts which the City may now or hereafter become obligated to pay from the Gross Revenue by law or contract; and

(ii) The Adjusted Net Revenue in each fiscal year will be at least equal to the Coverage Requirement; and

(iii) Except to aid the poor or infirm and for fire-fighting purposes, it will not furnish or supply or permit the furnishing or supplying of any service or facility in connection with the operation of the Municipal Water System free of charge to any person, firm or corporation, public or private.

Upon the defeasance or redemption of all of the Outstanding Parity Bonds, subparagraph (i) of the preceding subsection (b) shall be deleted in its entirety.

The failure of the City to comply with ((~~subparagraphs (i) and (ii) above~~)) <u>this covenant</u> shall not be an Event of Default if the City promptly retains an Independent Utility Consultant to recommend to the City Council adjustments in the rates of the Municipal Water System necessary to meet the requirements of those subparagraphs and if the City Council adopts the recommended modifications within 180 days of the date the failure became known to the City Council.

(f) **New Subsection Added to Section 18.** The following subsection (c) is added to Section 18 (Future Parity Bonds):

<u>(c) Notwithstanding anything in this section to the contrary, in the ordinance or resolution authorizing the issuance or sale of a series of Future Parity Bonds, the City may elect that from and after the redemption or defeasance of all</u>

<u>Outstanding Parity Bonds, such series shall not be deemed to be a series of Covered Parity Bonds, shall not be secured by the amounts in the Reserve Subaccount, and shall be excluded from the calculation of the Reserve Requirement.</u>

(g) **Amendments to Subsection (d) of Section 25.** The following amendments are made to subsection (d) of Section 25 (Supplemental or Amendatory Ordinances):

(d) The Registered Owners from time to time of the ((~~outstanding~~)) Bonds, by taking and holding the same, shall be deemed to have consented to the adoption by the City of any supplemental or amendatory ordinance or resolution passed pursuant to the provisions of this section for any one or more of the following purposes:

(i) When calculating "Annual Debt Service," to permit or require Tax Credit Subsidy Payments expected to be received by the City in any period to be credited against amounts required to be paid in respect of interest on the Parity Bonds in that period; and

(ii) To permit or require Tax Credit Subsidy Payments to be deposited into the Principal and Interest Subaccount and credited against the Net Revenue otherwise required to be deposited into the Principal and Interest Subaccount.

<u>In addition, the Registered Owners from time to time of any series of Bonds issued after 2016, by taking and holding the same, shall be deemed to have consented to the adoption by the City of any supplemental or amendatory ordinance or resolution passed pursuant to the provisions of this section to permit</u>

the reimbursement obligations of the City under any Qualified Letter of Credit or Qualified Insurance (other than a Qualified Letter of Credit or Qualified Insurance obtained to satisfy all or part of the Reserve Requirement) to be secured by a lien and charge on Net Revenue equal in rank with the lien and charge upon such Net Revenue required to be paid into the Parity Bond Account to pay and secure the payment of the principal of and interest on Parity Bonds.

(h) **Effect of Amendments; Other Sections Unaffected.** With respect to any bonds authorized by the Omnibus Refunding Bond Ordinance that are outstanding as of the effective date of this amendatory ordinance, the intent of these amendments is to effect only clarifications of ambiguities. Unless the requisite consent of Owners of the Parity Bonds has been obtained, any amendment contained herein that is found by a court of competent jurisdiction to adversely affect owners of such outstanding bonds shall be of no force or effect and the provisions of the Omnibus Refunding Bond Ordinance prior to the effective date of this amendatory ordinance shall continue in effect as to such outstanding bonds. All other provisions of the Omnibus Refunding Bond Ordinance remain in full force and effect, except as amended by previously adopted springing amendments to sections of the Omnibus Refunding Bond Ordinance which by their terms provided that they were to go into effect upon the redemption or defeasance of the outstanding 2003 and 2004 Bonds. The City hereby confirms that the 2003 and 2004 Bonds have been redeemed or defeased in full, and that those prior amendments have become effective in accordance with their terms.

Section 27. **General Authorization.** In addition to the specific authorizations in this ordinance, the Mayor and the Director of Finance and each of the other appropriate officers of the City are each authorized and directed to do everything as in his or her judgment may be necessary, appropriate, or desirable in order to carry out the terms and provisions of, and complete the transactions contemplated by, this ordinance. In particular and without limiting the foregoing:

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

(b) The Mayor and the Director of Finance are each separately authorized to execute and deliver (i) any and all contracts or other documents as are consistent with this ordinance and for which the City's approval is necessary or to which the City is a party (including but not limited to agreements with escrow agents, refunding trustees, providers of Bond Insurance or Reserve Securities, remarketing agents, underwriters, lenders, fiscal agents, Qualified Counterparties, custodians, and the Bond Registrar); and (ii) such other contracts or documents incidental to the issuance and sale of a Series; the establishment of the initial interest rate or rates on a Bond; or the tender, purchase, remarketing, or redemption of a Bond, as may in his or her judgment be necessary or appropriate.

Section 28. **Severability.** The provisions of this ordinance are declared to be separate and severable. If a court of competent jurisdiction, all appeals having been exhausted or all appeal periods having run, finds any provision of this ordinance to be invalid or unenforceable as to any person or circumstance, such offending provision shall, if feasible, be deemed to be modified to be within the limits of enforceability or validity. However, if the offending provision cannot be so modified, it shall be null and void with respect to the particular person or circumstance, and all other provisions of this ordinance in all other respects, and the offending provision with respect to all other persons and all other circumstances, shall remain valid and enforceable.

Section 29. **Ratification of Prior Acts.** Any action taken consistent with the authority of this ordinance, after its passage but prior to the effective date, is ratified, approved and confirmed.

Section 30. **Section Headings.** Section headings in this ordinance are used for convenience only and shall not constitute a substantive portion of this ordinance.

Section 31. **Effective Date.** This ordinance shall take effect and be in force 30 days after its approval by the Mayor, but if not approved and returned by the Mayor within ten days after presentation, it shall take effect as provided by Seattle Municipal Code Section 1.04.020.

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

President ____________ of the City Council

Approved by me this 28 day of November, 2016.

Edward B. Murray, Mayor

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

Monica Martinez Simmons, City Clerk

(Seal)

Exhibits:
Exhibit A – Outstanding Water Parity Bonds
Exhibit B – Form of Undertaking to Provide Continuing Disclosure

EXHIBIT A

OUTSTANDING WATER PARITY BONDS

Issue Name	Dated Date	Original Par Amount	Bond Legislation		
			New Money Ord.	Refunding Ord.	Bond Sale Res.
Water System Revenue and Refunding Bonds, 2006	10/23/2006	$189,970,000	Ord. 122210	Ord. 121939	Res. 30919
Water System Improvement and Refunding Revenue Bonds, 2008	12/15/2008	$205,080,000	Ord. 122797	Ord. 121939 (as amended by Ord. 122837)	Res. 31099
Water System Revenue Bonds, 2010A (Taxable Build America Bonds – Direct Payment)	1/21/2010	$109,080,000	Ord. 123168	- -	Res. 31182
Water System Improvement and Refunding Revenue Bonds, 2010B	1/21/2010	$81,760,000	Ord. 123168	Ord. 121939 (as amended by Ord. 122837)	Res. 31182
Water System Refunding Revenue Bonds, 2012	5/30/2012	$238,770,000	- -	Ord. 121939 (as amended by Ord. 122837)	Res. 31382
Water System Improvement and Refunding Revenue Bonds, 2015	6/10/2015	$340,840,000	Ord. 124340	Ord. 124339 (amending and restating Ord. 121939)	Res. 31586

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 [Water System 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 requirement and filing deadlines pertaining to filing annual financial statements under subsection (b), provided that audited financial statements are to be filed if and when they are otherwise prepared and available to the City.

(ii) Timely notice (not in excess of 10 business days after the occurrence of the event) of the occurrence of any of the following events with respect to the Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notice of Proposed Issue (IRS Form 5701 – TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds; (7) modifications to rights of holders of the Bonds, if material; (8) bond calls (other than scheduled mandatory redemptions of Term Bonds), if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the City, as such "Bankruptcy Events" are defined in Rule 15c2-12; (13) the consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of the assets of the City other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (14) appointment of a successor or additional trustee or the change of name of a trustee, if material.

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

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

(i) Shall consist of (1) annual financial statements of the Water System prepared in accordance with applicable generally accepted accounting principles applicable to governmental units (except as otherwise noted herein), as such principles may be changed from time to time and as permitted by State law; (2) a statement of outstanding bonded debt secured by Net Revenue of the Water System; (3) debt service coverage ratios; (4) general customer statistics, such as number and type of customers and revenues by customer class; and (5) current water rates;

(ii) Shall be provided 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 ending December 31, 20__; and

(iii) May be provided in a single document or 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.

(c) Amendment of Undertaking. This Undertaking is subject to amendment after the primary offering of the Bonds without the consent of any Owner or holder of any Bond, or of 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. The City will give notice to the MSRB of the substance (or provide a copy) of any amendment to this 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 financial information will include a narrative explanation of the effect of that change on the type of information to be provided.

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

(e) Termination of Undertaking. The City's obligations under this Undertaking shall terminate upon the legal defeasance, prior redemption, or payment in full of all of the Bonds. In addition, the City's obligations under this Undertaking shall terminate if those provisions of Rule 15c2-12 which require the City to comply with this 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.

(f) Remedy for Failure to Comply with Undertaking. As soon as practicable after the City learns of any material failure to comply with the Undertaking, the City will proceed with due diligence to cause such noncompliance to be corrected. No failure by the City or other obligated person to comply with this Undertaking shall constitute a default in respect of the Bonds. The sole remedy of any Owner of a Bond shall be to take such actions as that Owner 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.

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

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

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

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

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

(v) Effecting any necessary amendment of the Undertaking.

APPENDIX B

FORM OF BOND COUNSEL OPINION

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STRADLING YOCCA CARLSON & RAUTH

A PROFESSIONAL CORPORATION
ATTORNEYS AT LAW
800 FIFTH AVENUE, SUITE 4100
SEATTLE, WA 98104
TELEPHONE 206.829.3000
FACSIMILE

CALIFORNIA
NEWPORT BEACH
SACRAMENTO
SAN DIEGO
SAN FRANCISCO
SANTA BARBARA
SANTA MONICA
COLORADO
DENVER
NEVADA
RENO
WASHINGTON
SEATTLE

[Date of Approving Opinion]

The City of Seattle, Washington

Re: The City of Seattle, Washington
$194,685,000 Water System Improvement and Refunding Revenue Bonds, 2017

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 "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, we have relied upon representations contained in the certified proceedings and other certifications of public officials furnished to us.

The Bonds are issued pursuant to the laws of the State of Washington and Ordinance 125183, Ordinance 121939 (as amended by Ordinance 122837 and as amended and restated by Ordinance 124339, as further amended by Ordinance 125183), and Resolution 31726 of the City (collectively, the "Bond Legislation") to provide the funds (i) to pay for part of the costs of various projects of the Municipal Water System, (ii) to make a deposit into the Reserve Subaccount, (iii) refund certain of the City's outstanding Water System Revenue and Refunding Bonds, 2006, and (iv) to pay the costs of issuing the Bonds and of administering the Refunding Plan, 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.

Under the Internal Revenue Code of 1986, as amended (the "Code"), the City is required to comply with certain requirements after the date of issuance of the Bonds in order to maintain the exclusion of the interest on the Bonds from gross income for federal income tax purposes, including, without limitation, requirements concerning the qualified use of Bond proceeds and the facilities financed or refinanced with Bond proceeds, limitations on investing gross proceeds of the Bonds in higher yielding investments in certain circumstances and the arbitrage rebate requirement to the extent applicable to the Bonds. The City has covenanted in the Bond Legislation to comply with those requirements, but if the City fails to comply with those requirements, interest on the Bonds could become taxable retroactive to the date of issuance of the Bonds. We have not undertaken and do not undertake to monitor the City's compliance with such requirements.

As of the date of initial delivery of the Bonds to the purchaser thereof and full payment therefor, it is our opinion that under existing law:

1. The City is a duly organized and legally existing first class city under the laws of the State of Washington;

2. The City has duly authorized and approved the Bond Legislation, and the Bonds are issued in full compliance with the provisions of the Constitution and laws of the State of Washington, the Bond Legislation and the ordinances of the City relating thereto;

3. The Bonds constitute valid obligations of the City payable from the Net Revenue of the Municipal Water System and secured solely by money in the Water Revenue Parity Bond Account and the subaccounts therein (including the Reserve Subaccount, but only until such time as the Bonds are no longer "Covered Parity Bonds" under the Bond Legislation), except only to the extent that enforcement of payment may be limited by bankruptcy, insolvency or other laws affecting creditors' rights and by principles of equity if equitable remedies are sought;

4. The Bonds are not general obligations of the City; and

5. Assuming compliance by the City after the date of issuance of the Bonds with applicable requirements of the Code, the interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the alternative minimum tax applicable to individuals; however, while interest on the Bonds also is not an item of tax preference for purposes of the alternative minimum tax applicable to corporations, interest on the 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 Bonds received by certain S corporations may be subject to tax, and interest on the 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 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.

We express no opinion herein concerning the completeness or accuracy of any official statement, offering circular or other sales or disclosure material relating to the issuance of the Bonds or otherwise used in connection with the Bonds. We bring to your attention the fact the foregoing opinions are expressions of our professional judgment on the matters expressly addressed and do not constitute guarantees of result.

Respectfully submitted,

APPENDIX C

2015 AUDITED FINANCIAL STATEMENTS OF THE WATER FUND

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

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

December 31, 2015 and 2014

MOSS-ADAMS LLP

Certified Public Accountants | Business Consultants

CONTENTS

MOSS-ADAMS LLP
Certified Public Accountants | Business Consultants

REPORT OF INDEPENDENT AUDITORS

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

Report on Financial Statements

We have audited the accompanying financial statements of Seattle Public Utilities – Water Fund (the "Fund"), which comprise the statements of net position as of December 31, 2015 and 2014, and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Seattle Public Utilities – Water Fund as of December 31, 2015 and 2014, and the results of its operations and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 14 of the financial statements, the Fund adopted the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*. 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 management's discussion and analysis, the schedule of Seattle Public Utilities' proportionate share of the net pension liability and schedule of Seattle Public Utilities' contributions, listed in the table of contents, be presented to supplement the basic financial statements. This 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 basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The other information presented on pages 44 – 47 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion or provide any assurance on it.

Moss Adams LLP

Seattle, Washington
April 28, 2016

As management of Seattle Public Utilities ("SPU"), a department of the City of Seattle (the "City"), we offer readers of SPU's financial statements this narrative overview and analysis of the financial activities of the Water Fund (the "Fund") for the fiscal years ended December 31, 2015 and 2014. The revenues, expenses, assets, deferred outflows of resources, liabilities, and deferred inflows of resources of Seattle's water system are recorded in the Water Fund, the functions of which are primarily supported by user fees and charges to customers. The financial situation of other aspects of Seattle City government, including other utility services and general government operations, are reported elsewhere.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Basic Financial Statements – The basic financial statements of the Fund report information similar to the presentation used by private sector companies. These statements offer short-term and long-term financial information about its activities. The basic financial statements begin on page 13 of this report and are comprised of three components: (1) Statements of Net Position, (2) Statements of Revenues, Expenses, and Changes in Net Position, and (3) Statements of Cash Flows.

The Statements of Net Position present information, as of December 31, 2015 and 2014, on all of the Fund's assets, deferred outflows of resources, liabilities and deferred inflows of resources. The difference between assets combined with deferred outflows of resources and liabilities combined with deferred inflows of resources is reported as net position. They also provide information about the nature and amounts of investments in resources (assets and deferred outflows of resources), obligations to the Fund's creditors (liabilities and deferred inflows of resources), and provide the basis for assessing the liquidity and financial flexibility of the Fund.

The Statements of Revenues, Expenses, and Changes in Net Position present changes in the Fund's net position for the years ended December 31, 2015 and 2014. All changes in net position are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. These statements reflect the results of the Fund's operations for the years identified to provide information about the Fund's credit worthiness and its ability to successfully recover all its costs through service fees and other charges.

The Statements of Cash Flows are required to provide information about the Fund's cash receipts and cash payments during the years ended December 31, 2015 and 2014, and to provide answers to questions about sources, uses, and impacts to cash, these statements report cash receipts, cash payments, and net changes in cash resulting from operations, investing and financing activities for the reporting period.

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

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

FINANCIAL ANALYSIS

Increases or decreases in net position may serve over time as a useful indicator of whether the Fund's financial position is improving or deteriorating. At December 31, 2015 and 2014, the Fund's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources, resulting in surpluses in total net position of $360.1 million and $393.0 million, respectively. In 2015, the Fund's overall position decreased by $32.9 million (8.4%) as compared to 2014 with an increase of $31.5 million (8.7%). The following summary statement of net position present the assets and deferred outflows of resources of the Fund and show the mix of liabilities, deferred inflows of resources and net position used to acquire these assets:

SUMMARY STATEMENT OF NET POSITION

	December 31, 2015	2014	2013
ASSETS			
Current assets	$ 78,167,413	$ 78,293,752	$ 65,148,012
Capital assets, net	1,241,010,581	1,205,241,887	1,196,848,221
Other	142,883,299	104,355,153	116,079,264
Total assets	1,462,061,293	1,387,890,792	1,378,075,497
DEFERRED OUTFLOWS OF RESOURCES	39,308,608	18,914,284	20,164,950
Total assets and deferred outflows of resources	$ 1,501,369,901	$ 1,406,805,076	$ 1,398,240,447
LIABILITIES			
Current liabilities	$ 84,602,668	$ 75,570,277	$ 69,099,335
Revenue bonds	899,911,354	877,255,855	915,557,268
Other	121,553,555	33,062,990	32,630,286
Total liabilities	1,106,067,577	985,889,122	1,017,286,889
DEFERRED INFLOWS OF RESOURCES			
Revenue stablization fund	35,193,116	27,875,563	19,418,011
NET POSITION			
Net investment in capital assets	388,808,815	351,175,275	327,186,569
Restricted	12,526,734	11,790,073	12,174,403
Unrestricted	(41,226,341)	30,075,043	22,174,575
TOTAL NET POSITION	360,109,208	393,040,391	361,535,547
Total liabilities, deferred inflows of resources and net position	$ 1,501,369,901	$ 1,406,805,076	$ 1,398,240,447

FINANCIAL ANALYSIS (Continued)

2015 Compared to 2014

Assets – Current assets decreased $0.1 million (a negative 0.2%) from 2014. This is primarily due to a decrease in operating cash of $1.2 million. The decrease was offset by increases in accounts receivable, net of allowance for doubtful accounts of $0.8 million and unbilled revenues of $0.2 million.

Capital assets increased $35.8 million (3.0%) from 2014. Construction in progress and other plant assets increased $79.2 million; increase is mostly due to infrastructure improvements, rehabilitation, facility improvements and water reservoir coverings. This increase was offset by $43.5 million increase in accumulated depreciation (Note 3).

Other assets increased $38.5 million (36.9%) from 2014. The largest portion of the change was due to increase in restricted cash and equity in pooled investments of $38.6 million mainly as a result of the issuance of 2015 bonds and an increase in regulatory assets of $0.8 million. This increase was offset by decreases of $0.8 million in other charges and $0.1 million for long term prepayments and notes and contracts receivable.

Deferred Outflows of Resources – Deferred outflow of resources increased by $20.4 million (107.8%) from 2014. This increase is related to $10.5 million in deferred loss on advanced refunding from the 2015 issuance of revenue and refunding bonds and $9.9 million related to the implementation of GASB Statements No. 68 and 71 and the recognition of deferred outflows of resources for pension contributions and changes in assumptions.

Liabilities – Current liabilities increased $9.0 million (12.0%) from 2014. This change resulted from increases of $6.6 million in current portion of bonds payable, $2.1 million in salaries, benefits and payroll taxes payable, $1.5 million in accounts payable, $1.3 million in other current liabilities, $1.0 million in claims payable and $0.5 million in due to other funds. These increases were offset by decreases of $3.8 million in interest payable and $0.2 million in Habitat Conservation Plan ("HCP") liability.

Other liabilities increased $88.5 million (267.6%) over 2014. The largest portion of this increase, $82.7 million, resulted from the implementation GASB Statement No. 68 and the recognition of the Fund's net pension liability. Additional increases included $6.2 million in loans, $0.7 million in the long term portion of the HCP liability, and $0.1 million in the unfunded and other post-employment benefits liability. These increases were offset by a decrease of $1.2 million in claims liability.

Deferred Inflows of Resources – Rate stabilization account increased by $7.3 million (26.3%) from 2014 due to a cash transfer from the operating fund and interest earned in 2015.

FINANCIAL ANALYSIS (CONTINUED)

Net Position – Net investment in capital assets was the largest portion of the Fund's net position ($388.8 million or 108%). This amount reflects the Fund's investment in capital assets such as land, buildings, and equipment, less any related outstanding debt used to acquire those assets. The Fund uses these assets to provide services to customers; consequently, these assets are not available for future spending. Although the Fund's investment in its capital assets is reported net of related debt, the resources needed to repay the debt are provided by fees paid by customers for services provided by these assets. In 2015, net investment in capital assets increased $37.6 million from 2014 primarily from an increase in construction in progress.

The Fund's restricted net position ($12.5 million or 3.5%) represent resources that are subject to restrictions on how they may be used. Restricted net position increased $0.7 million primarily due to the increases in restrictions in conservation and other costs.

The Fund's unrestricted net position (a negative $41.2 million or 11.5%) represent resources that are not subject to external restrictions and may be used to meet the Fund's obligations to creditors. This portion decreased $71.3 million in 2015 as compared to 2014. The two main components for this change include an increase in investment in capital assets, and a decrease for the recognition of the pension liability as required by GASB Statement No. 68 for reporting pensions (Note 9).

2014 Compared to 2013

Assets – Current assets increased $13.1 million (20.2%) from 2013. This is primarily due to an increase in operating cash of $14.7 million as a result of construction fund transfer. This increase was offset by decreases in accounts receivable, net of allowance for doubtful accounts of $0.4 million, unbilled revenues of $0.3 million and due from other governments of $0.9 million.

Other assets decreased $11.7 million (10.1%) from 2013. The largest portion of the change was due to reductions in restricted cash and equity in pooled investments of $9.1 million as a result of construction fund transfer, regulatory assets of $1.2 million, other charges of $0.9 million and conservation cost of $0.5 million.

Deferred Outflows of Resources – Deferred loss on advanced refunding of bonds decreased by $1.3 million due to scheduled amortization.

FINANCIAL ANALYSIS (CONTINUED)

Liabilities – Current liabilities increased $6.5 million (9.4%) from 2013. This is mainly attributable to increases in accounts payable of $2.1 million and other current liabilities of $1.7 million as a result of deposits received for services to be delivered in the future. Other increases include $1.5 million in current portion of bonds payable, $1.1 million in due to other funds, $0.3 million in HCP liability and $0.4 million in salaries, benefits, and payroll taxes payable. These increases were offset by a $0.6 million decrease in interest payable.

Other liabilities increased $0.4 million (1.3%) over 2013 mainly due to the increase in compensated absences payable.

Deferred Inflows of Resources – The rate stabilization account increased by $8.5 million (43.6%) due to a cash transfer from the operating fund and interest earned in 2014.

Net Position – Net investment in capital assets was the largest portion of the Fund's net position ($351.2 million or 89.3%). This amount reflects the Fund's investment in capital assets such as land, buildings, and equipment, less any related outstanding debt used to acquire those assets. The Fund uses these assets to provide services to customers; consequently, these assets are not available for future spending. Although the Fund's investment in its capital assets is reported net of related debt, the resources needed to repay the debt are provided by fees paid by customers for services provided by these assets. In 2014, net investment in capital assets increased $24.0 million from 2013 primarily from a reduction in debt allocated to capital assets.

The Fund's restricted net position ($11.8 million or 3.0%) represent resources that are subject to restrictions on how they may be used. Restricted net position decreased $0.4 million primarily due to the decreases in restrictions in conservation and other costs.

The Fund's unrestricted net position ($30.1 million or 7.7%) represent resources that are not subject to external restrictions and may be used to meet the Fund's obligations to creditors. This portion increased $7.9 million in 2014.

FINANCIAL ANALYSIS (CONTINUED)

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

SUMMARY STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

	December 31,		
	2015	2014	2013
Operating revenues	$ 251,977,342	$ 242,946,509	$ 235,593,735
Operating expenses	(193,606,066)	(184,445,459)	(176,531,527)
Net operating income	58,371,276	58,501,050	59,062,208
Other expenses, net of other revenues	(30,559,620)	(35,928,293)	(38,388,558)
Fees, contributions, and grants	10,393,558	8,932,087	7,517,598
Change in net position	$ 38,205,214	$ 31,504,844	$ 28,191,248

2015 Compared to 2014

Operating revenues increased approximately $9.0 million (3.7%) over 2014. This change was driven by an increase in direct service revenue of $7.1 million resulting from an increase in consumption and $2.2 million increase in other revenues. These increases were offset by decreases of $1.4 million in wholesale revenue and $1.2 million in rate stabilization revenue. 2015 was not a typical year for water consumption. The area experienced very dry conditions a month earlier than expected. As a result, the Fund implemented the Water Shortage Contingency Plan in coordination with other large cities in the area. This voluntary reduction plan along with cooler temperatures later in the summer pushed consumption down. However, the early summer spike was large enough to provide increased revenues.

Operating expenses increased $9.2 million (5.0%) from 2014. Notable factors affecting this change include increases of $4.1 million in field operations, $2.3 million in project delivery, $1.8 million in customer service, and $0.1 million in pre-capital planning and development. Additional increases include city taxes of $1.5 million related to the overall increase in revenues, along with a $0.7 million in other taxes. The increase was offset by a reduction in depreciation and amortization of $1.4 million.

Other expenses, net of other revenues decreased by $5.4 million (a negative 14.9%) over 2014. The change was primarily due to decreases in interest expense of $2.1 million, gain on sale of capital assets of $3.2 million and bond related amortization of $0.3 million. These increases were offset by a reduction in investment income of $0.2 million.

FINANCIAL ANALYSIS (CONTINUED)

Capital fees, contributions and grants increased by $1.5 million (16.4%) over 2014 primarily due to increases in capital contributions for other meters and services of $3.6 million, connection charges of $1.2 million and hydrants of $0.1 million. These increases were offset by decreases in donated plant of $3.1 million and $0.3 million in agency and interlocal services.

2014 Compared to 2013

Operating revenues increased approximately $7.4 million (3.1%) over 2013. This change was driven by an increase in direct service revenue of $11.8 million resulting from an increase in rates. The increase was offset by decreases of $2.4 million in wholesale revenue, $0.9 million for other ancillary services and $1.1 million in the revenue stabilization account.

Operating expenses increased $7.9 million (4.5%) from 2013. Notable factors affecting this change include increases in city taxes of $1.9 million related to the overall increase in revenues. Depreciation and amortization also increased by $1.6 million due to an increase in depreciable assets. Additional increases to expenses include $7.3 million in the general and administrative branch, $0.7 million in the utility systems management and $0.5 million in other taxes. The increase was offset by decreases in field operations of $2.7 million and customer service cost of $1.4 million.

Other expenses, net of other revenues decreased by $2.5 million (6.4%) over 2013. The change was primarily due to an increase in investment income of $1.5 million and other income of $0.1 million. These increases were offset by decreases in interest payments of $1.9 million, contributions and grants of $0.6 million, and loss on sale of capital assets of $0.4 million.

Capital fees, contributions and grants increased by $1.4 million (18.8%) over 2013 primarily due to increases in donated assets of $2.8 million, $0.4 million in connection charges and $0.1 million in hydrants. These increases were offset by decreases in capital grants of $0.8 million, agencies and interlocal services of $0.5 million, capital contributions from private contract watermains of $0.4 million, and capital contributions for other meters and services of $0.2 million.

CAPITAL ASSETS

The following table summarizes capital assets, net of accumulated depreciation, by major asset category as of December 31, 2015, 2014, and 2013:

SUMMARY OF CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION

	December 31,		
	2015	2014	2013
Land and land rights	$ 44,453,438	$ 44,261,296	$ 43,269,483
Buildings	137,638,742	129,734,770	132,995,939
Structures	246,598,683	237,889,257	239,710,769
Machinery and equipment	722,853,338	725,008,774	731,463,161
Computer systems	12,865,870	17,872,911	22,880,796
Construction in progress	75,006,536	48,906,371	25,343,136
Other property	1,593,974	1,568,508	1,184,937
Capital assets, net of accumulated depreciation	$ 1,241,010,581	$ 1,205,241,887	$ 1,196,848,221

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

2015 Compared to 2014

The Fund's investment in capital assets for the year ended December 31, 2015 was $1.24 billion, net of accumulated depreciation. This represents an increase of $35.8 million (3.0%) compared to 2014. Highlights of the Fund's major capital assets placed in service during 2015 include the following:

- Water infrastructure improvements and rehabilitation totaling $14.7 million.
- Facility improvements to Landsburg site totaling $14.7 million.
- Reservoir covering and improvement totaling $10.9 million.
- Distribution infrastructure system improvements totaling $3.2 million.
- Heavy equipment purchases totaling $2.4 million.
- Technology infrastructure improvements totaling $2.3 million.

CAPITAL ASSETS (CONTINUED)

The Fund had $75 million in construction work in progress as of December 31, 2015. Major projects under construction are the following:

- Morse Lake Pump Plant Project totaling $21.9 million.
- Alaskan Way Viaduct and Sea Wall totaling $19.5 million.
- Business and technology infrastructure upgrades totaling $9.5 million.
- Reservoir covering and improvement totaling $6.2 million.
- Water system improvements and rehabilitation totaling $3.9 million.

2014 Compared to 2013

The Fund's investment in capital assets for the year ended December 31, 2014 was $1.21 billion, net of accumulated depreciation. This represents an increase of $8.4 million (0.7%) compared to 2013. Highlights of the Fund's major capital assets placed in service during 2014 include the following:

- Water infrastructure improvements and rehabilitation totaling $14.6 million.
- Technology infrastructure improvements totaling $1.9 million.
- Water Conservation projects totaling $1.9 million.
- Bridges, water distribution system, water main, and water transmission pipelines improvements totaling $3.9 million.
- Watershed Road Improvements and Stream Restoration totaling $1.1 million.

The Fund had $48.9 million in construction work in progress as of December 31, 2014. Projects under construction are the following:

- Reservoir covering and improvement projects totaling $18.2 million.
- Operational, regional, and other facilities totaling $11.0 million.

CAPITAL ASSETS (CONTINUED)

- Alaskan Way Viaduct and Sea Wall $7.2 million.

- Business and technology infrastructure upgrades totaling $5.5 million.

- Water system improvements and rehabilitation totaling $2.7 million.

DEBT ADMINISTRATION

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

2015 Compared to 2014

At December 31, 2015 the Fund had $851.6 million in bonded debt and $22.3 million in loans, as compared to $853.5 million and $16.1 million, respectively, at December 31, 2014. Bonded debt decreased $1.9 million, attributed to scheduled payments of debt principal on existing bonds and refunding of older bonds with the issuance of 2015 bonds. However, loans increased $6.2 million due to a new loan for the Morse Lake Pump Plant Project offset by scheduled principal payments on existing loans.

2014 Compared to 2013

At December 31, 2014 the Fund had $853.5 million in bonded debt and $16.1 million in loans, as compared to $887 million and $17.2 million, respectively, at December 31, 2013. Bonded debt decreased $33.5 million, attributed to scheduled payments of debt principal on existing bonds. Loans also decreased $1.1 million due to scheduled principal payments on existing loans.

REQUESTS FOR INFORMATION

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

	December 31, 2015	December 31, 2014
ASSETS		
CURRENT ASSETS		
Operating cash and equity in pooled investments	$ 42,330,385	$ 43,553,317
Receivables		
Accounts, net of allowance	14,305,436	13,519,267
Interest and dividends	961,683	910,043
Unbilled revenues	13,834,345	13,650,679
Notes and other contracts	111,920	107,206
Due from other funds	893,464	759,960
Due from other governments	556,943	582,866
Materials and supplies inventory	5,101,645	5,138,821
Prepayments and other current assets	71,592	71,593
Total current assets	78,167,413	78,293,752
NONCURRENT ASSETS		
Restricted cash and equity in pooled investments	95,244,121	56,623,220
Prepayments long-term	1,161,780	1,233,372
Notes and contracts receivable	394,570	413,501
Conservation costs	31,557,939	31,552,189
Regulatory assets	11,756,158	10,987,699
Other charges	2,768,731	3,545,172
Capital assets		
Land and land rights	44,453,438	44,261,296
Plant in service, excluding land	1,844,526,840	1,791,608,517
Less accumulated depreciation	(724,570,207)	(681,102,805)
Construction in progress	75,006,536	48,906,371
Other property, net	1,593,974	1,568,508
Total noncurrent assets	1,383,893,880	1,309,597,040
Total assets	1,462,061,293	1,387,890,792
DEFERRED OUTFLOWS OF RESOURCES		
Unamortized loss on advanced refunding	29,452,669	18,914,284
Pension contributions and changes in assumptions	9,855,939	-
Total deferred outflow of resources	39,308,608	18,914,284
Total assets and deferred outflows of resources	$ 1,501,369,901	$ 1,406,805,076

See accompanying notes.

STATEMENTS OF NET POSITION (CONTINUED)

	December 31, 2015	December 31, 2014
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	$ 10,262,415	$ 8,736,287
Salaries, benefits, and payroll taxes payable	4,649,470	2,542,577
Compensated absences payable	457,487	467,358
Due to other funds	5,645,855	5,146,325
Interest payable	12,363,623	16,207,331
Taxes payable	746,338	706,876
Revenue bonds due within one year	41,615,000	35,015,000
Claims payable	2,248,626	1,195,990
HCP liability	905,676	1,138,306
Loans payable, due within one year	1,124,987	1,124,987
Other	4,583,191	3,289,240
Total current liabilities	84,602,668	75,570,277
NONCURRENT LIABILITIES		
Compensated absences payable	4,840,564	4,845,492
Claims payable	2,599,653	3,801,726
HCP liability	7,155,530	6,492,537
Loans	21,217,092	14,996,469
Vendor and other deposits payable	24,899	-
Unfunded other post retirement benefits	2,703,122	2,564,849
Net pension liability	82,684,775	-
Other noncurrent liabilities	327,920	361,917
Revenue bonds	851,565,000	853,465,000
Less bonds due within one year	(41,615,000)	(35,015,000)
Bond discount and premium, net	89,961,354	58,805,855
Total noncurrent liabilities	1,021,464,909	910,318,845
Total liabilities	1,106,067,577	985,889,122
DEFERRED INFLOWS OF RESOURCES		
Revenue stabilization fund	35,193,116	27,875,563
NET POSITION		
Net investment in capital assets	388,808,815	351,175,275
Restricted for:		
Other charges	5,030,243	4,725,537
Conservation costs	3,614,404	3,404,140
Habitat conservation program	3,882,087	3,660,396
Unrestricted	(41,226,341)	30,075,043
Total net position	360,109,208	393,040,391
Total liabilities, deferred inflows of resources and net position	$ 1,501,369,901	$ 1,406,805,076

See accompanying notes.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

	Years Ended December 31,	
	2015	2014
OPERATING REVENUES		
Charges for services and other revenues	$ 251,977,342	$ 242,946,509
OPERATING EXPENSES		
Planning and development	1,581,944	1,446,621
Utility systems management	14,621,658	14,576,410
Field operations	31,367,569	27,314,986
Project delivery	6,664,203	4,331,978
Customer services	8,033,948	6,252,340
General and administrative	38,946,599	38,916,393
City business and occupation taxes	32,132,597	30,656,984
Other taxes	10,214,505	9,483,508
Depreciation and other amortization	50,043,043	51,466,239
Total operating expenses	193,606,066	184,445,459
OPERATING INCOME	58,371,276	58,501,050
NONOPERATING REVENUES (EXPENSES)		
Investment income	2,838,206	3,082,424
Interest expense	(39,392,454)	(41,524,740)
Amortization of bond premiums and discounts	3,940,353	3,286,413
Amortization of bond refunding loss	(1,648,961)	(1,250,666)
Gain (loss) on sale of capital assets	2,517,736	(720,309)
Contributions and grants	216,752	181,620
Other, net	968,748	1,016,965
Total nonoperating revenues (expenses)	(30,559,620)	(35,928,293)
Income before capital contributions and grants	27,811,656	22,572,757
Capital contributions and grants	10,393,558	8,932,087
CHANGE IN NET POSITION	38,205,214	31,504,844
NET POSITION		
Beginning of year	393,040,391	361,535,547
Cumulative effect of change in accounting principle	(71,136,397)	-
Net position	321,903,994	361,535,547
End of year	$ 360,109,208	$ 393,040,391

See accompanying notes.

SEATTLE PUBLIC UTILITIES – WATER FUND
(An Enterprise Fund of the City of Seattle)
STATEMENTS OF CASH FLOWS

	Years Ended December 31, 2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	$ 261,206,406	$ 256,195,188
Cash paid to suppliers	(32,734,476)	(25,846,287)
Cash paid to employees	(62,300,285)	(62,565,567)
Cash paid for taxes	(42,169,227)	(39,862,648)
Net cash provided by operating activities	124,002,418	127,920,686
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Noncapital grants received	234,822	201,721
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from sale of bonds and other long-term debt	391,563,888	-
Principal payments on long-term debt and refunding	(364,181,697)	(34,669,988)
Capital expenditures and other charges paid	(84,404,214)	(51,926,099)
Interest paid on long-term debt	(45,560,136)	(43,601,148)
Build America Bonds Federal Interest Subsidy	1,979,455	1,981,591
Capital fees and grants received	8,876,445	4,388,114
Debt issuance costs	(1,906,949)	-
Proceeds from sale of capital assets	5,986,826	196,317
Net cash used in capital and related financing activities	(87,646,382)	(123,631,213)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received on investments	807,111	1,086,083
NET INCREASE IN CASH AND EQUITY IN POOLED INVESTMENTS	37,397,969	5,577,277
CASH AND EQUITY IN POOLED INVESTMENTS		
Beginning of year	100,176,537	94,599,260
End of year	$ 137,574,506	$ 100,176,537
CASH AT THE END OF THE YEAR CONSISTS OF		
Operating cash and equity in pooled investments	$ 42,330,385	$ 43,553,317
Noncurrent restricted cash and equity in pooled investments	95,244,121	56,623,220
Total cash at the end of the year	$ 137,574,506	$ 100,176,537

See accompanying notes.

SEATTLE PUBLIC UTILITIES – WATER FUND
(An Enterprise Fund of the City of Seattle)
STATEMENTS OF CASH FLOWS (CONTINUED)

	Years Ended December 31,	
	2015	2014
RECONCILIATION OF NET OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Net operating income	$ 58,371,276	$ 58,501,050
Adjustments to reconcile net operating income to net cash provided by operating activities		
Amortization of pension assumptions	1,692,440	-
Depreciation and amortization	50,043,043	51,466,239
Other receipts and payments	2,204,211	2,221,709
Changes in operating assets and liabilities		
Accounts receivable	(786,169)	379,987
Unbilled revenues	(183,666)	314,746
Due from other funds	(133,504)	(55,612)
Due from other governments	(76,654)	780,816
Materials and supplies inventory	37,176	(66,623)
Other assets	85,809	191,340
Accounts payable	1,526,128	2,055,100
Salaries, benefits, and payroll taxes payable	2,106,893	441,890
Compensated absences payable	(14,799)	458,291
Due to other funds	499,530	1,053,540
Due to other governments	-	(68,908)
Claims payable	(149,437)	122,115
Taxes payable	39,462	2,211
Regulatory liabilitiy - revenue stabilization fund	7,317,553	8,457,552
Credits and other	1,423,126	1,665,243
Total adjustments	65,631,142	69,419,636
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 124,002,418	$ 127,920,686
NONCASH TRANSACTIONS		
Contributed infrastructure	$ 1,601,620	$ 4,669,799

Note 1 – Operations and Summary of Significant Accounting Policies

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

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

SPU receives certain services from other departments and agencies of the City, including some that are normally considered to be general and administrative. The Fund is charged a share of these costs and additionally pays public utility tax to the City's General Fund. During 2015 and 2014, the Fund paid $11,715,381 and $11,275,015, respectively, to the City for its share of general and administrative services. Additionally, the Fund paid $32,132,597 and $30,656,984 in 2015 and 2014, respectively, to the City for public utility taxes.

Water services provided to other City departments and agencies are billed at rates prescribed by City ordinances. The Fund collected $4,416,410 and $4,039,071 in 2015 and 2014, respectively, from the City for water services provided.

The utility billing function is co-managed by both SPU and Seattle City Light ("SCL"). SPU provides customer service through the call center and walk-in center. SCL operates and manages the billing system, Combined Customer Services System ("CCSS"). SPU and SCL billed and reimbursed each other for these services in 2015 and 2014. Within SPU, the costs and reimbursements were shared among its three utility funds (Water, Drainage and Wastewater, and Solid Waste). The Fund received reimbursements related to the call center and walk-in center of $2,009,825 and $1,794,922 in 2015 and 2014, respectively. The Fund paid $156,522 and $163,355 for CCSS services in 2015 and 2014, respectively, which does not include reimbursements to SCL for the Fund's share of capital costs to upgrade the CCSS system.

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

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

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

Cash and Equity in Pooled Investments – Cash resources of the Fund are combined with cash resources of the City to form a pool of cash that is managed by the City's Finance and Administration Services Department. Under the City's investment policy, the Finance and Administration Services Department invests all temporary cash surpluses either directly or through a "sweep account." Interest earned on the pooled investments is prorated to individual funds at the end of each month on the basis of their average daily cash balances during the month when interest was earned. The Fund's share of the pool is included in the accompanying Statements of Net Position under the caption "cash and equity in pooled investments." The pool operates like a demand deposit account in that all City departments may deposit cash at any time and can also withdraw cash out of the pool without prior notice or penalty. Accordingly, the Statements of Cash Flows reconcile to cash and equity in pooled investments. Cash and equity in pooled investments are reported at fair value. The restricted cash and equity in pooled investments are comprised of unexpended bond proceeds, bond reserve funds, vendor's escrow deposits, rate stabilization account, and growth infrastructure proceeds.

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

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

Allowance for Doubtful Accounts – A reserve has been established for uncollectible accounts receivable based on actual historical write-off trends and knowledge of specific circumstances that indicate collection of an account may be unlikely. As of December 31, 2015 and 2014, the Fund's allowance for doubtful accounts was $368,486 and $314,932, respectively.

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

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

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

Revenue Stabilization Fund – The Revenue Stabilization Fund ("RSF") was established by City Ordinance 122841 to reduce year-to-year variation in rates. Amounts deposited into the RSF are excluded from the Statement of Revenues, Expenses, and Changes in Net Position and treated as a credit in accordance with GASB Statement No. 62. There was a deposit to the RSF of $7.0 million in 2015. The RSF is included in the "Revenue Stabilization Account" identified in the Fund's bond covenants. These covenants provide that withdrawals and deposits from the "Revenue Stabilization Account" shall augment or reduce adjusted net revenue available for the payment of debt service. During 2015 and 2014, there were no withdrawals.

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

Other Charges – Other charges include costs such as the Water System Plan, leasehold improvements and payments to the Muckleshoot Indian Tribe. The Fund amortizes these charges over a 2 to 33 year period.

Capital Assets – Capital assets are stated at cost or, if contributed, at fair value at the date of contribution. Costs include direct material, labor, and indirect costs such as engineering, supervision, payroll taxes, pension benefits, and interest relating to the financing of projects under construction. The cost of current repairs and maintenance is charged to expense, while the cost of additions and improvements is capitalized. SPU's policy is to capitalize assets with a cost of $5,000 or more. The Fund receives donated assets such as water mains from developers and other governmental agencies. These donated assets are treated as a special item under Capital Contributions and Grants in the Statements of Revenues, Expenses, and Changes in Net Position.

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

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

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

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

Buildings and fixtures	10 to 50 years
Earthen source of supply developments	100 years
Transmission and distribution pipelines, reservoirs, and tanks	15 to 100 years
Water mains	33 to 57 years
Pumps, wells, and treatment equipment	10 to 50 years
Machinery and equipment	3 to 20 years
Computer systems	3 to 11 years

Composite rates based on year of addition are used for depreciating the transmission and distribution pipelines, water mains asset group, reservoirs, and tanks. For most assets, it is SPU's policy to begin depreciation in the year following acquisition and to record a full year's depreciation in the year of disposition. This does not apply to heavy equipment, for which depreciation begins in the month following the equipment's in-service date to more accurately allocate equipment costs to various activities.

Deferred Outflows/Inflows of Resources – In addition to assets, the Statement of Net Position, when applicable, will report a separate section for deferred outflows of resources. It represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The fund has deferred loss on refunding debt which qualifies for reporting in this category. A deferred loss on refunding bonds results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. As a result of implementing GASB Statement No. 68 and No. 71, the Fund has also recorded deferred outflows of resources for pension contributions made subsequent to the measurement date and for the difference between projected and actual earnings on investments (Note 9).

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

In addition to liabilities, the Statement of Net Position, when applicable, will report a separate section for deferred inflows of resources. It represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until then. The Fund has a revenue stabilization account which qualifies for reporting in this category.

BPA Account – In 2003, the Bonneville Power Administration ("BPA") purchased an easement in the amount of $6.0 million from the Fund to construct a power transmission line through the Cedar River Watershed. This $6.0 million, together with $657,149 in timber sales related to the easement, were deposited into the BPA account and classified as restricted assets. At December 31, 2015 and 2014, the cash balance in the BPA account was $454,110 and $449,561, respectively. Monies in the BPA account are considered a portion of the "Revenue Stabilization Account" described in bond covenants, and therefore shall augment or reduce adjusted net revenue available for the payment of debt service. The Fund will recognize the revenues deposited in the BPA account in the calculation of adjusted net revenues available for the payment of debt service as they are withdrawn to fund certain activities in the Cedar River Watershed.

Compensated Absences – Employees earn vacation based upon their date of hire and years of service, and may accumulate earned vacation up to a maximum of 480 hours. Unused vacation at retirement or normal termination is considered vested and payable to the employee. Earned but unused vacation is accrued as a liability of the Fund. Employees also earn up to 12 days of sick leave per year and may accumulate sick leave balances without limit. The Fund records a liability for estimated sick leave payments.

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

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

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

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

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

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

Operating Expenses – Certain expenses of the Fund are reported on the Statements of Revenues, Expenses, and Changes in Net Position by functional category. The types of work performed within each category are as follows:

- **Planning and development** – Provides planning services and other related costs prior to the start of capital projects.

- **Utility systems management** – Accounts for the overall management of the Fund's infrastructure assets, assuring they are properly designed, constructed, operated, and protected.

- **Field operations** – Operates and maintains the Fund's water system.

- **Project delivery** – Provides project management and engineering services to the Fund and executes the Fund's capital projects from start to completion.

- **Customer services** – Invoices the Fund's customers for services provided and is the primary point of contact for customers.

Taxes – The Fund is charged a public utility tax by the City at a rate of 15.54% of Fund revenues, net of certain credits and certain revenues. In addition, the Fund paid a 5.029% public utility tax to the State on a certain portion of revenues identified as utility revenues. The Fund also paid business and occupation tax to the City at the rate of 0.215% and to the State at the rate of 1.5% for certain other non-utility revenues.

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

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

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

Net investment in capital assets, consists of capital assets, less accumulated depreciation, reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Net position is restricted when constraints placed on net position use are either (1) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or (2) imposed by law through constitutional provisions or enabling legislation. The Fund's restricted net position as of December 31, 2015 and 2014 are related to the BPA and RSF accounts and certain other charges.

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

Arbitrage Rebate Requirement – The Fund is subject to the Internal Revenue Code ("IRC"), Section 148(f), related to its tax-exempt revenue bond. The IRC requires that earnings on gross proceeds of any revenue bonds that are in excess of the amount prescribed will be surrendered to the Internal Revenue Service. As such, the Fund would record such a rebate as a liability. The Fund had no liability for arbitrage as of December 31, 2015 and 2014.

Accounting Standard Changes – GASB has issued Statement No. 68, *Accounting and Financial Reporting for Pensions*. This Statement was required to be adopted for reported periods beginning after June 15, 2014. For employers such as SPU and the Fund who provide certain employees' pension benefits under a group pension plan such as SCERS, this Statement requires the individual employers contributing to such group plans to report a pro-rata share of the net plan liability. The Fund has adopted and recorded these changes in its financial statements for the year ended December 31, 2015. The cumulative effect of prior year amounts has been reflected as a cumulative adjustment to net position in the Statement of Revenues, Expenses and Changes in Net Position in 2015.

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

GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. The effective date for this Statement was simultaneous with the required adoption of Statement No. 68. This Statement specifically addressed the recording and reporting of pension plan contributions made subsequent to the measurement date of plan liabilities and changed thereto in any given fiscal year. The fund adopted the provision of this Statement, as it did for Statement No. 68, in the year ended December 31, 2015.

GASB has issued Statement No. 72, *Fair Value Measurement and Application*, to provide guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The Statement is effective for periods beginning after June 15, 2015. The Fund will evaluate the impact of this standard and will include required disclosures beginning in its fiscal year ending December 31, 2016.

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. Estimates and assumptions are used to record unbilled revenues, allowance for doubtful accounts, accrued sick leave, capitalized interest, depreciation, risk liabilities, pension liability, and other contingencies. Changes in these estimates and assumptions may have a material impact on the financial statements.

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

Note 2 – Cash and Investments

Custodial Credit Risk – Deposits – As of December 31, 2015 and 2014, the City's pool contained cash on deposit with the City's custodial banks in the amounts of $20,023,332 and $18,026,085, respectively. The deposits in excess of $250,000 in 2015 were uninsured and uncollateralized. As such, these deposits were exposed to custodial credit risk, which is the risk that the deposits may not be returned to the City in the event of a bank failure. The City attempts to minimize exposure to custodial credit risk for deposits by requiring the depository bank to have sufficient capital to support the activity of the City. In addition, banks having a deposit relationship with the City are required to provide financial statements for the City's use in reviewing the bank's financial condition.

Note 2 – Cash and Investments (Continued)

All deposits not covered by FDIC insurance are under the regulation of the Washington State Public Deposit Protection Commission (the "Commission") established in RCW 39.58 for public depository financial institutions. The Commission requires a pledge agreement and a trustee for each public depository financial institution. The trustee ensures eligible collateral defined as securities and designated for the benefit of public depositors, as described in RCW 39.58.050 (5) and (6), are segregated from all other assets. Eligible collateral is utilized by the trustee when the Commission has determined a loss, net of deposit insurance, has been incurred by a public depository financial institution.

Investments – As of December 31, the Fund's dedicated investments, the City's pooled investments, and dedicated investments of other funds were as follows:

	2015		2014	
	City Pool	Weighted Average Maturity (Days)	City Pool	Weighted Average Maturity (Days)
U.S. Government Agencies	$ 702,525,759	1427	$ 721,680,286	1408
U.S. Government Obligations	455,757,612	487	252,188,265	800
State and Local Governments	277,612,818	1084	227,247,608	976
Commercial Paper	219,945,269	25	349,418,008	43
Repurchase Agreements	55,062,648	4	73,811,651	2
Bank Note	49,379,096	879	-	
Total	$ 1,760,283,202		$ 1,624,345,818	
Portfolio Weighted Average Maturity		895		896

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

	2015	2014
Cash and equity in pooled investments	$ 42,330,385	$ 43,553,317
Restricted cash and equity in pooled investments	95,244,121	56,623,220
Total	$ 137,574,506	$ 100,176,537
Balance as a percentage of City Pool cash and investments	7.8%	6.2%

Note 2 – Cash and Investments (Continued)

Interest Rate Risk – Interest rate risk is the risk that changes in market interest rates that will adversely affect the fair value of an investment. In general, the longer the maturity of an investment, the greater the sensitivity of the investment's fair value to changes in market interest rates. The City manages this risk by limiting the average maturity of investments to five years. However, the Fund's investments are selected for greater liquidity in order to support the Fund's cash flow needs and therefore typically have much shorter average maturities.

Credit Risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. In accordance with the City's investment policy, investments in commercial paper purchased on the secondary market are limited to those with maturities not longer than 180 days from purchase and with the highest rating by at least two nationally recognized statistical rating organizations ("NRSROs"). As of December 31, 2015 and 2014, the City's investments in commercial paper were rated P-1 or Aaa by Moody's Investors Service and AA+, A-1or A-1+ by Standard & Poor's Rating Service.

The City also purchases obligations of government-sponsored enterprises which are eligible as collateral for advances to member banks as determined by the Board of Governors of the Federal Reserve System. These include, but are not limited to, debt securities of Federal Home Loan Bank, Federal National Mortgage Association, Wells Fargo, and Federal Home Loan Mortgage Corporation. As of December 31, 2015, these investments were rated Aaa by Moody's Investors Service and AA+ by Standard & Poor's Rating Service. As of December 31, 2014, these investments were rated Aaa by Moody's Investors Service and AAA or AA+ by Standard & Poor's Rating Service.

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

The City's investments in which 5% or more is invested in any single issuer as of December 31 are as follows:

	2015		2014	
Issuer	Fair Value	Percent of Total Investments	Fair Value	Percent of Total Investments
United States Government	$ 455,757,612	26%	$ 252,188,265	16%
Federal National Mortgage Association	243,748,956	14%	249,771,922	15%
Federal Home Loan Bank	133,886,466	8%	81,656,795	5%
Freddie Mac Multifamily Securities	126,196,052	7%	108,129,281	7%
Federal Farm Credit Bank	104,276,118	6%	121,677,087	7%
Federal Home Loan Mortgage Corp	94,418,168	5%	160,445,200	10%
Wells Fargo	**	**	73,811,651	5%

** Investment did not represent 5% or more of investments as of December 31, 2015.

Note 3 – Capital Assets

Capital asset activity consisted of the following for the year ended December 31, 2015:

	Beginning Balance	Additions and Transfers In	Retirements and Transfers Out	Ending Balance
Buildings	$ 180,312,524	$ 11,755,646	$ -	$ 192,068,170
Structures	302,695,868	14,536,619	(4,741,107)	312,491,380
Machinery and equipment	1,206,083,618	31,689,765	(1,937,030)	1,235,836,353
Computer systems	102,516,507	2,159,231	(544,800)	104,130,938
Total capital assets - excluding land	1,791,608,517	60,141,261	(7,222,937)	1,844,526,841
Less accumulated depreciation	(681,102,805)	(46,592,363)	3,124,960	(724,570,208)
	1,110,505,712	13,548,898	(4,097,977)	1,119,956,633
Construction in progress	48,906,371	83,718,973	(57,618,808)	75,006,536
Land and land rights	44,261,296	192,142	-	44,453,438
Other property	1,568,508	25,466	-	1,593,974
Capital assets, net	$ 1,205,241,887	$ 97,485,479	$ (61,716,785)	$ 1,241,010,581

Capital asset activity consisted of the following for the year ended December 31, 2014:

	Beginning Balance	Additions and Transfers In	Retirements and Transfers Out	Ending Balance
Buildings	$ 179,809,619	$ 599,543	$ (96,638)	$ 180,312,524
Structures	298,785,630	3,991,105	(80,867)	302,695,868
Machinery and equipment	1,189,449,329	26,693,237	(10,058,948)	1,206,083,618
Computer systems	105,747,247	1,797,265	(5,028,005)	102,516,507
Total capital assets - excluding land	1,773,791,825	33,081,150	(15,264,458)	1,791,608,517
Less accumulated depreciation	(646,741,160)	(46,445,074)	12,083,429	(681,102,805)
	1,127,050,665	(13,363,924)	(3,181,029)	1,110,505,712
Construction in progress	25,343,136	52,218,518	(28,655,283)	48,906,371
Land and land rights	43,269,483	991,813	-	44,261,296
Other property	1,184,937	383,571	-	1,568,508
Capital assets, net	$ 1,196,848,221	$ 40,229,978	$ (31,836,312)	$ 1,205,241,887

During 2015 and 2014, the Fund capitalized interest costs relating to construction of $2,323,975 and $1,504,324, respectively.

Note 4 – Revenue Bonds

The Fund issues bonds to provide financing for capital improvements. Payment of debt service on the bonds is derived solely from the revenues generated by the Fund. The Fund has set aside $16,696,386 in a debt service reserve fund and has obtained reserve insurance policies to meet the remainder of its reserve requirements. The total bonds outstanding as of December 31, 2015 and 2014 were $851,565,000 and $853,465,000, respectively.

Note 4 – Revenue Bonds (Continued)

Revenue bonds outstanding as of December 31, 2015 and 2014 consisted of the following Municipal Water bonds:

Name of Issue	Issuance Date	Maturity Years	Interest Rates	Original Issue Amount	Bonds Outstanding 2015	Bonds Outstanding 2014
2003 parity, refunding bonds	5/12/03	2003-2033	4.0-6.0%	$ 271,320,000	$ -	$ 14,280,000
2005 parity, refunding bonds	12/28/05	2006-2029	4.0-5.0%	138,040,000	-	107,845,000
2006 parity, refunding bonds	10/23/06	2008-2037	4.0-5.0%	189,970,000	118,620,000	163,040,000
2008 parity, refunding bonds	12/15/08	2009-2038	4.0-5.25%	205,080,000	19,045,000	174,555,000
2010A parity, revenue bonds	1/21/10	2019-2040	4.67-5.89%	109,080,000	109,080,000	109,080,000
2010B parity, refunding revenue bonds	1/21/10	2010-2027	3.0-5.0%	81,760,000	52,590,000	58,100,000
2012 parity, refunding bonds	5/30/12	2012-2034	2.0-5.0%	238,770,000	215,740,000	226,565,000
2015 parity, refunding bonds	6/10/15	2015-2045	2.0-5.0%	340,840,000	336,490,000	-
				$ 1,659,610,000	$ 851,565,000	$ 853,465,000

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

Years Ending December 31,	Principal	Interest	Total
2016	$ 41,615,000	$ 40,348,256	$ 81,963,256
2017	39,345,000	38,593,431	77,938,431
2018	39,625,000	36,699,006	76,324,006
2019	41,620,000	34,752,081	76,372,081
2020	44,095,000	32,660,044	76,755,044
2021 - 2025	227,475,000	129,448,421	356,923,421
2026 - 2030	196,920,000	75,482,396	272,402,396
2031 - 2035	133,275,000	36,283,868	169,558,868
2036 - 2040	74,545,000	11,361,651	85,906,651
2041 - 2045	13,050,000	1,346,800	14,396,800
	$ 851,565,000	$ 436,975,954	$ 1,288,540,954

Note 4 – Revenue Bonds (Continued)

The following table shows the revenue bond activity during the year ended December 31, 2015:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable					
Revenue bonds	$ 853,465,000	$ 340,840,000	$ (342,740,000)	$ 851,565,000	$ 41,615,000
Add (deduct) deferred amounts:					
Issuance premiums	58,805,855	43,378,278	(12,222,779)	89,961,354	-
Total bonds payable	$ 912,270,855	$ 384,218,278	$ (354,962,779)	$ 941,526,354	$ 41,615,000

The following table shows the revenue bond activity during the year ended December 31, 2014:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable					
Revenue bonds	$ 887,010,000	$ -	$ (33,545,000)	$ 853,465,000	$ 35,015,000
Add (deduct) deferred amounts:					
Issuance premiums	62,092,268	-	(3,286,413)	58,805,855	-
Total bonds payable	$ 949,102,268	$ -	$ (36,831,413)	$ 912,270,855	$ 35,015,000

Defeasance of Debt – The Fund defeased certain obligations by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. As a result, the old bonds are considered defeased, and the corresponding liabilities and trust account assets are not included in the Statement of Net Position. In 2015, $305,410,000 bonds were defeased and $116,585,000 bonds were redeemed as shown below.

	Amount Outstanding at December 31, 2014	Additions	Redemptions	Amount Outstanding at December 31, 2015
Bonds issued				
2003 Parity	$ -	$ 14,280,000	$ (14,280,000)	$ -
2005 Parity	-	102,305,000	(102,305,000)	-
2006 Parity	-	39,055,000	-	39,055,000
2008 Parity	-	149,770,000	-	149,770,000
	$ -	$ 305,410,000	$ (116,585,000)	$ 188,825,000

Note 4 – Revenue Bonds (Continued)

In June 2015, the Fund issued $340,840,000 of Water System Improvement and Refunding Revenue Bonds with varying annual principal payments due beginning 2015 and ending in 2045, at interest rates ranging from 2.0% to 5.0%. A portion of the proceeds were used to fully refund 2003 bonds and partially refund 2005, 2006 and 2008 bonds. As a result of the refunding, the fund reduced total debt service requirements by $40.2 million resulting in an economic gain (difference between the present value of the debt service payments on the old and new bonds) of $30.8 million.

As of December 31, 2014, the balance of $68,125,000 defeased bonds was redeemed as shown below:

	Amount Outstanding at December 31, 2013	Additions	Redemptions	Amount Outstanding at December 31, 2014
Bonds issued				
2004 Parity	$ 68,125,000	$ -	$ (68,125,000)	$ -

Financial Covenants – The revenue bonds contain certain financial covenants, the most significant of which requires the Fund to maintain net revenue available for debt service at least equal to 125% of average annual debt service. For 2015, net revenue available for debt service, as defined by the bond covenants, was 187% of annual debt service. Management believes the Fund was in compliance with all debt covenants as of December 31, 2015. For more information see Other Information (page 44).

Note 5 – Leases

The Fund has non-cancelable operating lease commitments for real and personal property with minimum payments of $367,731 in 2015 and $367,701 in 2014. Rents are paid as they become due and payable. Minimum payments under the leases for the years ending December 31, are shown below:

	Minimum Payments
2016	$ 330,802
2017	119,082
2018	119,511
2019	119,953
2020	36,292
2021 - 2025	58,912
2026 - 2029	47,129
	$ 831,681

Note 6 – Postemployment Benefit Plans

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

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

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

Other Postemployment Benefits – Health care plans for active and retired employees are administered by the City as single-employer defined benefit public employee health care plans. Eligible retirees (younger than age 65) may contribute to the medical plan and any additional health care programs contemplated or amended by ordinance of the City Council and as provided in Seattle Municipal Code 4.50.020.

The Seattle City Council authorizes the obligations of the plan members and the City as employer by passing ordinances and amendments regarding contributions to the plans. Eligible retirees self-pay 100% of the premiums based on blended rates which were established by including the experience of retirees with the experience of active employees for underwriting purposes. The plan is financed on a pay-as-you-go basis, and the City was required to contribute \$1.1 million in 2015 and \$1.0 million in 2014.

Note 6 – Postemployment Benefit Plans (Continued)

The table below summarizes the City's annual cost, expected contributions to the plan, and changes in the net OPEB obligation for fiscal years ended December 31, 2015 and 2014. These calculations are based on the most recent actuarial valuation data available, dated January 1, 2014. The Fund has accrued $2,703,122 to the plan as of December 31, 2015, as a reasonable estimate of expected contributions.

	2015	2014
Annual required contribution	$ 4,605,000	$ 4,392,000
Interest on net OPEB obligation	1,630,000	1,542,000
Adjustment to annual required contribution	(2,540,000)	(2,403,000)
Annual OPEB cost (expense)	3,695,000	3,531,000
Contribution (employer-paid benefits)	(1,141,000)	(1,006,000)
Increase in net OPEB obligation	2,554,000	2,525,000
Net OPEB obligation, beginning of year	46,828,000	44,303,000
Net OPEB obligation, end of year	$ 49,382,000	$ 46,828,000
Fund's allocated share of city liability	$ 2,703,122	$ 2,564,849

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. Actuarial calculations are based on the types of benefits provided under the terms of the plan and on the pattern of shared costs between the employer and plan members, at the time of each valuation. 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.

Note 6 – Postemployment Benefit Plans (Continued)

Significant methods and assumptions are as follows:

Actuarial data and assumptions	
Valuation date	January 1, 2014
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	30 years, open
Discount rate	3.48%
Health care cost trend rates - medical	Traditional and Preventive Plans: 8%, decreasing by 0.5% for each year for two years; 16% in year 2017 and decreasing to 7.2% in 2018 Group Health Standard and Deductible Plans: 7.5%, decreasing by 0.5% for the next three years
Participation	40% of Active Employees who retire participate.
Mortality	General Service Actives based on the RP-2000 Employees Tables for Males and Females, with ages set back six years and General Service Retirees based on the RP-2000 Combined Healthy Males with ages set back two years and Females, with ages set back one year.
Marital status	45% of members electing coverage are assumed to be married or to have a registered domestic partner. Male spouses are assumed to be two years older than their female spouses.
Other considerations	Active employees with current spousal and/or dependent coverage and are under Group Health Standard or Group Health Deductible are assumed to elect same plan and coverage after retirement. Of those under City of Seattle Traditional or City of Seattle Preventative 50% are assumed to switch to the Group Health Standard Plan, the other 50% will continue coverage under the same plan.

Note 6 –Postemployment Benefit Plans (Continued)

Schedules of funding progress are as follows (dollars in millions):

Actuarial Valuation Date	Actuarial Value of Assets (a)	AAL Entry Age (b)	UAAL (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percent of Covered Payroll ((b-a)/c)
January 1, 2013	$ -	$ 78.9	$ 78.9	0.0%	$ 942.0	8.4%
January 1, 2014	$ -	$ 41.8	$ 41.8	0.0%	$ 1,003.5	4.2%
January 1, 2015	$ -	$ 44.4	$ 44.4	0.0%	$ 1,037.9	4.3%

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

Note 7 – Claims Payable

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

For 2015 and 2014, liabilities for workers' compensation claims, as well as other claims, are discounted over a 15-year period at the City's rate of return on investments, 1.135% and 0.931%, respectively. Claims expected to be paid within one year are $2,248,626 and $1,195,990 at December 31, 2015 and 2014, respectively. The table below presents the changes in the liability for workers' compensation claims and other claims (risk-financing liabilities) as of December 31:

	2015	2014
Beginning liability, discounted	$ 4,997,716	$ 4,875,601
Payments	(1,423,121)	(901,683)
Incurred claims and changes in estimate	1,273,684	1,023,798
Ending liability, discounted	$ 4,848,279	$ 4,997,716

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

Note 8 – Compensated Absences

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

	2015	2014
Beginning liability	$ 5,312,850	$ 4,854,559
Additions	4,506,843	4,963,270
Reductions	(4,521,642)	(4,504,979)
Ending liability	$ 5,298,051	$ 5,312,850

Note 9 – Pension Benefit Plan

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

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

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

Member and Employer Contributions – Employees are required to contribute 10.03% of their annual base salaries to the System. The employer's contribution rate for the years ended December 31, 2015 and 2014 was 15.73% and 14.31%, respectively. Employer rates are established by the City Council on a biannual basis. The Fund's contributions to the System for the years ended December 31, 2015 and 2014 were $7,280,369 and $6,664,614, respectively.

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

Note 9 – Pension Benefit Plan (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows Related to Pensions – At December 31, 2015, the Fund reported a liability of $82,684,775, its proportionate share of the Systems' net pension liability. The net pension liability was measured as of December 31, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of the date. The Fund's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating parties, actuarially determined. At December 31, 2015, the Fund's proportion was 7.46%.

For the year ended December 31, 2015, the Fund recognized pension expense of approximately $8,973,000. As of December 31, 2015, the Fund's deferred outflows and inflows of resources are as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings	$ 2,575,570	$ -
Contributions made subsequent to measurement date	7,280,369	-
Total	$ 9,855,939	$ -

The $7,280,369 reported as deferred outflows of resources relate to the Fund's contributions subsequent to the measurement date and will be recognized as a reduction of the net pension liability in the year ended December 31, 2016.

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

2015	$ 643,892
2016	$ 643,892
2017	$ 643,892
2018	$ 643,894

Note 9 – Pension Benefit Plan (Continued)

Actuarial Assumptions – The total pension liability as of December 31, 2015 was determined using the following actuarial assumptions:

Valuation date	January 1, 2014
Measurement date	December 31, 2014
Actuarial cost method	Individual Entry Age Normal
Amortization method	Level Percent, Closed
Remaining amortization period	30 years as of January 1, 2013 valuation
Asset valuation method	5-Year Smoothing Method
Inflation	3.25%
Investment rate of return	7.5% compounded annually, net of expenses
Discount rate	7.5%
Projected general wage inflation	4.0%
Postretirement benefit increases	1.5%
Mortality	Various rates based on RP-2000 mortality tables and using generational projection of improvement using Projection Scale AA.

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

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

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

Note 9 – Pension Benefit Plan (Continued)

Best estimates of geometric real rates of return for each major asset class included in the System's target asset allocation as of December 31, 2014 are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return
Equity: Public	4.93%
Equity: Private	6.50%
Fixed Income: Broad	1.35%
Fixed Income: Inflation Linked	1.25%
Real Assets: Real Estate	3.25%
Diversifying Strategies	3.75%

Sensitivity Analysis – The following presents the Fund's proportionate share of the net pension liability calculated using the discounted rate of 7.5%, as well as what the employer's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.50%) or 1 percentage point higher (8.50%) than the current rate.

1% Decrease 6.50%	Current Discount Rate 7.50%	1% Increase 8.50%
$ 114,104,088	$ 82,684,775	$ 56,262,864

Note 10 – Loans

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

Loans outstanding as of December 31, 2015 and 2014 are as follows:

Description	Maturity Years	Interest Rate	Loan Amount	Loans Outstanding 2015	Loans Outstanding 2014
Myrtle Reservoir	2008-2025	1.5%	$ 4,040,000	$ 2,244,445	$ 2,468,889
Beacon Reservoir	2008-2026	1.5%	4,040,000	2,338,947	2,551,579
West Seattle Reservoir	2009-2027	1.5%	3,030,000	1,913,684	2,073,158
Maple Leaf	2011-2029	1.5%	3,030,000	2,258,898	2,420,248
Maple Leaf ARRA	2013-2031	1.0%	7,341,758	6,240,494	6,607,582
Morse Lake Pump Plant	2014-2037	1.5%	7,345,611	7,345,611	-
			$ 28,827,369	$ 22,342,079	$ 16,121,456

Note 10 – Loans (Continued)

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

Years Ending December 31,	Principal	Interest	Total
2016	$ 1,124,987	$ 193,745	$ 1,318,732
2017	1,124,987	178,705	1,303,692
2018	1,492,268	537,987	2,030,255
2019	1,492,268	253,301	1,745,569
2020	1,492,268	232,753	1,725,021
2021 - 2025	7,461,340	855,535	8,316,875
2026 - 2030	4,848,821	401,800	5,250,621
2031 - 2035	2,570,579	148,743	2,719,322
2036 - 2037	734,561	16,527	751,088
	$ 22,342,079	$ 2,819,096	$ 25,161,175

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

	2015	2014
Net loans, beginning of year	$ 16,121,456	$ 17,246,443
Loan proceeds	7,345,611	-
Principal payments	(1,124,988)	(1,124,987)
Net loans, end of year	$ 22,342,079	$ 16,121,456
Loans due within one year	$ 1,124,987	$ 1,124,987
Loans, noncurrent	$ 21,217,092	$ 14,996,469

In 2014 the Fund received approval for a loan of $12.1 million from the State of Washington for the Morse Lake Pump Plant Project. Accordingly the Fund invoices the State for expenditures incurred related to the project and receives reimbursement. As of December 31, 2015, the Fund has made three drawdowns totaling $7.3 million on the loan.

Note 11 – Notes and Contracts Receivable

The Fund has an agreement with the Seattle Housing Authority for the recovery of the remaining unreimbursed cost of the Fund's contributions of public infrastructure to the New Holly redevelopment project. As of December 31, 2015 the Seattle Housing Authority receivable was $413,501.

Note 11 – Notes and Contracts Receivable (Continued)

In addition, the Fund had a receivable with King County Water District #49 for amounts due from a prior water contract. In 2015, this receivable was paid in full.

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

	2015	2014
Seattle Housing Authority receivable	$ 413,501	$ 431,555
King County Water Disctrict #49	-	89,152
Total notes and contracts receivable	413,501	520,707
Due within one year	(18,931)	(107,206)
Total non-current notes and contracts receivable	$ 394,570	$ 413,501

Note 12 – Commitments

The Fund is required by the Washington State Department of Health ("DOH") to complete a program to cover its open, above-ground distribution system reservoirs by the year 2020. The total cost of burying four reservoirs is expected to be approximately $164.5 million through the year 2018; costs beyond 2018 are not estimable as of the date of this report. As of December 31, 2015 and 2014, total cumulative costs incurred were $156.5 million and $146.8 million, respectively.

The City has wholesale contracts with Cascade Water Alliance ("CWA") and twenty individual water districts and municipalities. Seventeen wholesale customers have full and partial requirements contracts which obligate the City to meet the wholesale customers' demand that is not already met by their independent sources of supply. Two wholesale customers (including CWA) have block contracts which obligate the City to provide water up to a combined maximum of 41.85 MGD per year. Two other wholesale customers have emergency intertie agreements and do not purchase water from Seattle on a regular basis. CWA contract expires in 2063 while other wholesale contracts run through 2061.

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

Note 13 – Habitat Conservation Program Liability

SPU has prepared a comprehensive environmental management plan for its Cedar River Watershed. The purpose of the Habitat Conservation Plan ("HCP") is to protect all species of concern that may be affected by the operations of SPU and SCL in the Cedar River Watershed, while allowing the City to continue to provide high quality drinking water to the region. The federal government has accepted the HCP. The total cost of implementing the HCP is expected to be $108.9 million (in 2015 dollars) over a period of 50 years (from the year 2000 through the year 2050).

Expenditures are being funded from a combination of the Fund's operating revenues and issuance of revenue bonds. The total amount expended for the HCP through 2015 is $82.0 million. The remaining $26.9 million to complete the HCP is comprised of an $8.0 million liability and an estimate of $18.9 million for construction and operating commitments. The construction activities will add to the Fund's capital assets and the operating activities are mainly research, monitoring, and maintenance of the HCP Program that will be expensed as incurred.

Note 14 – Cumulative Effect of Change in Accounting Principle

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions,* is effective for financial statement periods beginning after June 15, 2014 with the effects of accounting changes to be applied retroactively by restating the financial statements. The Statement requires the Fund to record its proportionate share of the defined benefit pension obligation for active, inactive, and retired employees receiving retirement benefits under SCERS.

Restatement of the comparative financial data for the prior period presented is not practical due to the unavailability of information from the pension plan, therefore the provisions of GASB Statements No. 68 and 71 were not applied to prior period. The cumulative effects of applying the provisions of GASB Statements No. 68 and 71 have been reported as an adjustment to beginning net position for the year beginning January 1, 2015 in accordance with the Statements and totaled $71,136,397.

REQUIRED SUPPLEMENTARY INFORMATION

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

	2015
Employer's proportion of the net pension liability (asset)	16.96%
Employer's proportionate share of the net pension liability (asset)	$ 187,919,945
Employer's covered-employee payroll	$ 102,783,473
Employer's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	182.83%
Plan fiduciary net position as a percentage of the total pension liability	67.70%

Schedule of Seattle Public Utilities' Contributions

	2015
Contractually required employer contribution	$ 15,170,276
Contributions in relation to the contractually required employer contribution	15,170,276
Employer contribution deficiency (excess)	$ -
Employer's covered-employee payroll	$ 102,783,473
Employer contributions as a percental of covered-employee payroll	14.76%

OTHER INFORMATION (UNAUDITED)

Water Fund Debt Service Calculation 2015

Operating Revenue	
Residential/Commercial Services	$ 187,059,286
Wholesale Services	52,215,254
Other	19,702,802
Rate Stabilization Account	(7,000,000)
Total Operating Revenue	251,977,342
Operating Expense	
Other Operations and Maintenance	101,215,920
City Taxes	32,132,597
Other Taxes	10,214,505
Total Operating Expense	143,563,022
Net Operating Income	108,414,320
Adjustments	
Add: Capital Contributions Connection Charge	3,740,320
Add: City Taxes	32,132,597
Add: Investment Interest	1,009,102
Less: DSRF Earnings	(187,315)
Add: BAB's Subsidy	1,983,904
Add: Net Other Nonoperating Revenues (Expenses)	1,208,937
Add: Net Proceeds from Sale on Assets	5,738,187
Total Adjustments	45,625,732
Net Revenue Available for Debt Service	$ 154,040,052
Net Revenue Available for Debt Service (w/o City Taxes)	$ 121,907,455
Annual Debt Service	
Annual Debt Service	$ 82,672,902
Less: DSRF Earnings	(187,315)
Adjusted Annual Debt Service	$ 82,485,587
Coverage	1.87
Coverage without taxes	1.48

Water System Operating Statistics

	2011	2012	2013	2014	2015
Population Served					
Retail	669,654	672,674	678,000	682,000	720,200
Wholesale[1]	634,193	642,257	648,000	654,000	683,400
Total Population Served	1,303,847	1,314,931	1,326,000	1,336,000	1,403,600
Water Sales Revenues ($000)[2][3]					
Retail	$137,382	$152,606	$168,126	$179,775	$187,114
Wholesale	$44,050	$49,975	$56,026	$53,647	$52,797
Total Water Sales Revenues	$181,432	$202,581	$224,152	$233,422	$239,911
Billed Water Consumption (MG)[3]					
Retail	19,305	19,657	19,769	19,575	20,309
Wholesale	20,922	21,236	21,405	21,986	23,106
Total Billed Water Use	40,227	40,893	41,174	41,561	43,415
Operating Costs ($ per MG)[4]	$3,841	$3,996	$4,287	$4,438	$4,414
Gallons Used per Day per Capita	85	85	85	85	85
Retail Meters in Use	188,754	189,204	190,289	191,403	192,633
Number of New Retail Meters	422	450	1,085	1,114	1,230
Total Water Diversions (MGD)	117.9	120.5	120.9	121.5	125.6
Non-Revenue	7.7	8.5	8.1	7.6	6.7
% Non-Revenue	6.5	7.0	6.7	6.3	5.3

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

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

(3) Revenue increases have been a result of increases in rates, as retail consumption has steadily decreased due largely to conservation efforts. Variations in billed water use are primarily associated with year-to-year variations in temperature and precipitation in the summer irrigation period. There has been no change in the geographic area served nor any appreciable change in the number or composition of retail customers.

(4) Per unit operating costs in 2009 and 2010 include a temporary increase in the City’s utility tax rate and increased amortization expense, both due to Lane v. City of Seattle.

Major Retail Water Customers – 2015 Annual Revenues and Volumes

The City of Seattle, The University of Washington, The Port of Seattle, Seattle Housing Authority, King County, Equity Residential Properties, Nucor Steel, Starwood Hotels & Resorts Group, Seattle Public Schools, and Essex Property Trust. In aggregate, charges to these customers represented roughly 9% of total billed direct service revenue for the year.

SEATTLE PUBLIC UTILITIES - WATER FUND
(An Enterprise Fund of the City of Seattle)
OTHER INFORMATION (UNAUDITED)

Water Rates – Effective January 1, 2016

Effective January 1, 2016

(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)	(m)	(n)
	Direct Service												
RATE SCHEDULES	Inside City				Outside City				City of Shoreline / City of Lake Forest Park				
	Residential	MMRD*	Gen Svc	Fire Service	Residential	MMRD*	Gen Svc	Fire Service	Residential	MMRD*	Gen Svc	Fire Service	Highlands
Commodity Charge ($/100 Cubic Feet)													
Offpeak Usage (Sept 16-Ma	$5.06	$5.06	$5.06		$5.77	$5.77	$5.77		$6.14	$6.14	$6.14		$5.75
Peak Usage (May 16-Sept 15)													
Up to 5 ccf**	$5.20	$5.20	$6.43		$5.93	$5.93	$7.33		$6.31	$6.31	$7.80		$5.91
Next 13 ccf**	$6.43	$6.43	$6.43		$7.33	$7.33	$7.33		$7.80	$7.80	$7.80		$7.30
Over 18 ccf**	$11.80	$11.80	$6.43		$13.45	$13.45	$7.33		$14.31	$14.31	$7.80		$13.39
Usage over base allowance													
Utility Credit ($/month)	$19.84		$12.38		$19.84		$12.38		$19.84		$12.38		
Demand Charge				$20.00				$22.80				$24.30	
($/1000 gallons of deficient storage)													
Base Service Charge ($/month/meter)													
3/4 inch and less	$14.15		$14.15		$16.15		$16.15		$17.15		$17.15		
1 inch	$14.60		$14.60		$16.65		$16.65		$17.70		$17.70		
1-1/2 inch	$22.50	$22.50	$22.50		$25.65	$25.65	$25.65		$27.30	$27.30	$27.30		$25.55
2 inch	$24.90	$24.90	$24.90	$16.00	$28.40	$28.40	$28.40	$18.00	$30.20	$30.20	$30.20	$19.00	$28.25
3 inch	$92.25	$92.25	$92.25	$21.00	$105.15	$105.15	$105.15	$24.00	$111.90	$111.90	$111.90	$25.00	$104.75
4 inch	$132.15	$132.15	$132.15	$38.00	$150.65	$150.65	$150.65	$43.00	$160.25	$160.25	$160.25	$46.00	$150.00
6 inch		$162.65	$162.65	$65.00		$185.40	$185.40	$74.00		$197.25	$197.25	$79.00	$184.60
8 inch		$199.00	$199.00	$104.00		$227.00	$227.00	$119.00		$241.00	$241.00	$126.00	$225.55
10 inch		$297.00	$297.00	$150.00		$339.00	$339.00	$171.00		$360.00	$360.00	$182.00	$336.90
12 inch		$402.00	$402.00	$218.00		$458.00	$458.00	$249.00		$488.00	$488.00	$264.00	$456.70
16 inch		$477.00	$477.00			$544.00	$544.00			$579.00	$579.00		$541.90
20 inch		$614.00	$614.00			$700.00	$700.00			$745.00	$745.00		$697.25
24 inch		$771.00	$771.00			$879.00	$879.00			$935.00	$935.00		$875.05

* Master Metered Residential Development

** per residence

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APPENDIX D

DEMOGRAPHIC AND ECONOMIC INFORMATION

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DEMOGRAPHIC AND ECONOMIC INFORMATION

Seattle is the largest city in the Pacific Northwest, serves as the County seat and is the center of the County's economic activity. King County is the largest county in the State in population, number of cities and employment, and the fourteenth most 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

Year	Washington	King County	Seattle
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
2011 (2)	6,767,900	1,942,600	612,100
2012 (2)	6,817,770	1,957,000	616,500
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

(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

	2011	2012	2013	2014	2015
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 City. The value of public construction is not included in this table.

CITY OF SEATTLE
RESIDENTIAL BUILDING PERMIT VALUES

	New Single Family Units		New Multifamily Units		
Year	**Number**	**Value($)**	**Number**	**Value($)**	**Total Value($)**
2010	241	$ 53,269,934	2,456	$ 192,261,935	$ 245,531,869
2011	316	71,808,767	2,857	376,591,834	448,400,601
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
2015(1)	706	188,026,833	9,445	1,516,385,226	1,704,412,059
2016(1)	692	187,972,269	7,968	1,093,040,879	1,281,013,148

(1) Through October.

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
2015(1)	25,676,178,519	10,597,264,881
2016(1)	28,475,276,269	11,605,222,696

(1) Through second 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	80,100
Joint Base Lewis-McChord	60,000
Microsoft Corp.	41,700
Navy Region Northwest	37,700
University of Washington	34,700
Amazon.com Inc.	24,000
Wal-Mart Stores, Inc.	18,100[(1)]
Providence Health & Services	17,600
Fred Meyer Stores	15,900
Costco Wholesale Corp.	14,900
King County Government	13,600[(2)]
City of Seattle	13,200[(3)]
Starbucks Corp.	12,400[(1)]
Franciscan Health System	11,800
Swedish Health Services	11,600
MultiCare Health System	10,900

(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, 2016

KING COUNTY
RESIDENT CIVILIAN LABOR FORCE AND EMPLOYMENT
AND NONAGRICULTURAL WAGE AND SALARY EMPLOYMENT(1)

	Annual Average				
	2011	**2012**	**2013**	**2014**	**2015**
Civilian Labor Force	1,115,790	1,129,670	1,139,610	1,158,230	1,177,297
Total Employment	1,025,070	1,055,000	1,079,950	1,104,930	1,124,990
Total Unemployment	90,720	74,670	59,660	53,300	52,307
Percent of Labor Force	8.1%	6.6%	5.2%	4.6%	4.4%

NAICS INDUSTRY	**2011**	**2012**	**2013**	**2014**	**2015**
Total Nonfarm	1,168,100	1,196,042	1,237,217	1,278,033	1,313,475
Total Private	1,003,175	1,030,608	1,069,975	1,108,425	1,139,325
Goods Producing	148,942	154,283	162,508	168,283	174,042
Mining and Logging	525	425	458	425	567
Construction	48,258	50,625	55,883	60,792	66,308
Manufacturing	100,192	103,225	106,167	107,025	107,167
Service Providing	1,019,158	1,041,758	1,074,708	1,109,750	1,139,433
Trade, Transportation, and Utilities	210,850	216,167	225,167	235,758	244,667
Information	80,183	81,017	82,617	85,583	89,400
Financial Activities	68,175	68,850	70,892	72,000	69,025
Professional and Business Services	184,567	192,525	201,042	207,933	216,083
Educational and Health Services	157,008	159,275	162,633	167,983	169,950
Leisure and Hospitality	111,075	114,850	120,575	124,883	129,675
Other Services	42,375	43,642	44,542	46,000	46,483
Government	164,925	165,433	167,242	169,608	174,150
Workers in Labor/Management Disputes	0	0	0	0	0

	Nov. 2016
Civilian Labor Force	1,221,407
Total Employment	1,174,323
Total Unemployment	47,084
Percent of Labor Force	3.9%

(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 the Depository Trust Company ("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").

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered 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' 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 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. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial

Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall 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 issue to be redeemed.

Neither DTC nor Cede & Co. 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 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 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 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 be obligated to exchange or transfer any Bond during the 15 days preceding any principal or interest payment or redemption date.

The City and the Bond Registrar may treat DTC (or its nominee) as the sole and exclusive Registered Owner of the Bonds registered in such name for the purposes of payment of the principal of, premium, if any, or interest with respect to those Bonds, selecting Bonds or portions thereof to be redeemed, giving any notice permitted or required to be given to Registered Owners of Bonds under the Bond Legislation, registering the transfer of Bonds, obtaining any consent or other action to be taken by Registered Owners of Bonds, and for all other purposes whatsoever; and the City and the Bond Registrar shall not be affected by any notice to the contrary. The City and the Bond Registrar shall not have any responsibility or obligation to any direct or indirect DTC participant, any person claiming a beneficial ownership interest in the Bonds under or through DTC or any such participant, or any other person which is not shown on the Bond Register as being a Registered Owner of Bonds, with respect to: (i) the Bonds; (ii) any records maintained by DTC or any such participant; (iii) the payment by DTC or such participant of any amount in respect of the principal of, premium, if any, or interest with respect to the Bonds; (iv) any notice which is permitted or required to be given to Registered Owners of Bonds under the Bond Legislation; (v) the selection by DTC or any such participant of any person to receive payment in the event of a partial redemption of the Bonds; or (vi) any consent given or other action taken by DTC as Registered Owner of the Bonds.