

OFFICIAL STATEMENT DATED JUNE 6, 2012

New Issue  
Book-Entry Only

Moody's Rating: Aa1  
Standard & Poor's Rating: AA+  
(See "Other Bond Information—Ratings on the Bonds.")

*In the opinion of Bond Counsel, under existing federal law and assuming compliance with applicable requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the issue date of the Bonds, 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 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. Receipt of interest on the Bonds may have other federal tax consequences for certain taxpayers. See "Legal and Tax Information" herein.*

THE CITY OF SEATTLE, WASHINGTON

\$222,090,000

DRAINAGE AND WASTEWATER IMPROVEMENT AND REFUNDING REVENUE BONDS, 2012

DATED: DATE OF INITIAL DELIVERY

DUE: SEPTEMBER 1, AS SHOWN ON PAGE i

The City of Seattle Drainage and Wastewater Improvement and Refunding Revenue Bonds, 2012 (the "Bonds"), will be issued as fully registered bonds under a book-entry only system, registered in the name of Cede & Co. as bond owner and nominee for the Depository Trust Company ("DTC").

DTC will act as initial securities depository for the Bonds. Individual purchases of the Bonds will be made in book-entry form, in the denomination of \$5,000 or any integral multiple thereof within a single maturity. Purchasers will not receive certificates representing their interest in the Bonds. Interest on the Bonds is payable semiannually on each March 1 and September 1, beginning September 1, 2012. The principal of and interest on the Bonds are payable by the City's Bond Registrar, currently the fiscal agent of the State of Washington (currently The Bank of New York Mellon in New York, New York), 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—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 Drainage and Wastewater System of The City of Seattle (the "City"), to refund, depending on market conditions, certain outstanding obligations of the Drainage and Wastewater System, to make a deposit into the Reserve Subaccount, and to pay the administrative costs of the refunding and the costs of issuing the Bonds.

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. The Net Revenue of the Drainage and Wastewater System and any utility local improvement district assessments pledged to Parity Bonds ("ULID Assessments") are pledged to the payment of all Parity Bonds, including the Bonds. This pledge constitutes a lien and charge upon such Net Revenue and ULID Assessments prior and superior to any other liens and charges whatsoever. 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 Drainage and Wastewater System, are pledged to the payment of the Bonds.**

The Bonds are offered for delivery by the initial purchaser, when, as, and if issued, subject to the approving legal opinion of Foster Pepper PLLC, 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 ready for delivery at DTC's facilities in New York, New York, or to the Bond Registrar on behalf of DTC by Fast Automated Securities Transfer, on or about June 27, 2012.

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

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 other information or representations must not be relied upon. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy the Bonds, 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 information set forth herein has been furnished by the City, DTC, and certain other sources that the City believes to be reliable. The information and expressions of opinion contained herein are subject to change without notice. Any statements made in this Official Statement involving matters of opinion or estimates, whether or not so expressly stated, are set forth as such and not as representations of fact or representations that the estimates will be realized. Summaries of documents do not purport to be complete statements of their provisions, and all such summaries are qualified by references to the entire contents of the summarized documents.

Neither the City's independent auditors nor the State Auditor nor any other independent accountants have compiled, examined, or performed any procedures with respect to this Official Statement or any financial information contained herein, nor have they expressed any opinion or any other form of assurance on such information, and assume no responsibility for, and disclaim any association with, this Official Statement and such information.

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 hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City since the date hereof.

The presentation of certain information, including tables of receipts from revenues, is intended to show recent historical 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 may be shown by such financial and other information, will continue to be repeated in the future.

**This Official Statement contains forecasts, projections, and estimates that are based upon expectations and assumptions that existed at the time such forecasts, projections, and estimates were prepared. In light of the important factors that may materially affect forecasted conditions, the inclusion in this Official Statement of such forecasts, projections, and estimates should not be regarded as a representation by the City that such forecasts, projections, and estimates will occur. Such forecasts, projections, and estimates are not intended as representations of fact or as guarantees of results. If and when included in this Official Statement, the words "plan," "expect," "forecast," "estimate," "budget," "project," "intends," "anticipates," and similar words are intended to identify forward-looking statements, and any such statements inherently are subject to a variety of risks and uncertainties that could cause actual results to differ materially from those projected. Such risks and uncertainties include, among others, general economic conditions, changes in political conditions, weather conditions, social and economic conditions, regulatory initiatives and compliance with governmental regulations, litigation, and various other events, conditions, and circumstances, many of which are beyond the control of the City. These forward-looking statements speak only as of the date they were prepared.**

This Official Statement is not to be construed as a contract with the purchasers of the Bonds.

The Bonds have not been registered under the Securities Act of 1933, as amended, in reliance upon a specific exemption contained in such act, nor have they been registered under the securities laws of any state.

## MATURITY SCHEDULE

### THE CITY OF SEATTLE, WASHINGTON

\$222,090,000

### DRAINAGE AND WASTEWATER IMPROVEMENT AND REFUNDING REVENUE BONDS, 2012

#### SERIAL BONDS

<b>Due September 1</b>	<b>Amounts</b>	<b>Interest Rates</b>	<b>Yields</b>	<b>CUSIP Numbers<sup>(1)</sup></b>
2012	\$ 4,115,000	2.00%	0.20%	812631JM2
2013	4,800,000	3.00	0.35	812631JN0
2014	4,945,000	5.00	0.49	812631JP5
2015	6,590,000	5.00	0.63	812631JQ3
2016	6,920,000	5.00	0.80	812631JR1
2017	7,270,000	5.00	1.07	812631JS9
2018	7,635,000	5.00	1.30	812631JT7
2019	8,025,000	5.00	1.51	812631JU4
2020	8,435,000	5.00	1.76	812631JV2
2021	8,845,000	5.00	1.98	812631JW0
2022	9,295,000	5.00	2.13 <sup>(2)</sup>	812631JX8
2023	8,405,000	5.00	2.28 <sup>(2)</sup>	812631JY6
2024	8,825,000	5.00	2.43 <sup>(2)</sup>	812631JZ3
2025	9,265,000	5.00	2.55 <sup>(2)</sup>	812631KA6
2026	9,735,000	5.00	2.64 <sup>(2)</sup>	812631KB4
2027	10,225,000	5.00	2.75 <sup>(2)</sup>	812631KC2
2028	10,745,000	5.00	2.85 <sup>(2)</sup>	812631KD0
2029	11,285,000	5.00	2.92 <sup>(2)</sup>	812631KE8
2030	11,850,000	5.00	3.04 <sup>(2)</sup>	812631KF5
2031	12,450,000	5.00	3.11 <sup>(2)</sup>	812631KG3
2032	9,745,000	5.00	3.17 <sup>(2)</sup>	812631KH1
2033	3,555,000	4.00	3.62 <sup>(2)</sup>	812631KJ7
2034	3,695,000	4.00	3.70 <sup>(2)</sup>	812631KK4

#### TERM BONDS

<b>Due September 1</b>	<b>Amounts</b>	<b>Interest Rates</b>	<b>Yields</b>	<b>CUSIP Numbers<sup>(1)</sup></b>
2037	\$ 12,005,000	4.00%	3.88% <sup>(2)</sup>	812631KL2
2042	23,430,000	4.00	3.95 <sup>(2)</sup>	812631KM0

(1) 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 numbers for a specific maturity are subject to change after the issuance of the Bonds. Neither the City nor the successful bidder take responsibility for the accuracy of the CUSIP numbers.

(2) Calculated to the March 1, 2022, par call date.

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

**MAYOR AND CITY COUNCIL**

Michael McGinn	Mayor
Sally Clark	President, City Council
Sally Bagshaw	Council Member
Tim Burgess	Council Member
Richard Conlin	Council Member
Jean Godden	Council Member
Bruce Harrell	Council Member
Nick Licata	Council Member
Mike O'Brien	Council Member
Tom Rasmussen	Council Member

**CITY ADMINISTRATION**

Glen M. Lee	Director of Finance
Peter Holmes	City Attorney

**SEATTLE PUBLIC UTILITIES**

Ray Hoffman	Director
Martin Baker	Deputy Director for Corporate Strategies and Communication
Kimberly Collier	Deputy Director for Human Resources and Service Equity
Rick Scott	Deputy Director for Field Operations and Maintenance
Melina Thung	Deputy Director for Finance and Administration
Susan Sanchez	Deputy Director for Customer Service
Nancy Ahern	Deputy Director for Utility Systems Management
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Foster Pepper PLLC  
Seattle, Washington

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Washington State Fiscal Agent  
The Bank of New York Mellon  
New York, New York

## **OFFICIAL STATEMENT**

### **THE CITY OF SEATTLE, WASHINGTON**

**\$222,090,000**

### **DRAINAGE AND WASTEWATER IMPROVEMENT AND REFUNDING REVENUE BONDS, 2012**

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”), Seattle Public Utilities (“SPU”), and the City’s drainage and wastewater system, referred to in the legislation authorizing the issuance of the Bonds as the “Drainage and Wastewater System” (the “Drainage and Wastewater System”), in connection with the offering of \$222,090,000 aggregate principal amount of its Drainage and Wastewater Improvement and Refunding Revenue Bonds, 2012 (the “Bonds”), dated the date of their initial delivery.

The Bonds are to be issued by the City in accordance with Ordinance 121938, as amended, Ordinance 123753, passed by the City Council on November 21, 2011 (the “Bond Ordinance”), and Resolution 31387, adopted by the City Council on June 6, 2012 (the “Bond Resolution,” and together with the Bond Ordinance, the “Bond Legislation”). The Bonds also are issued pursuant to chapters 35.92 and 39.53 of the Revised Code of Washington (“RCW”) and the Seattle City Charter.

Appendix A to this Official Statement is a copy of Ordinance 123753. Appendix B is the form of legal opinion of Foster Pepper PLLC of Seattle, Washington (“Bond Counsel”). Appendix C is the audited 2011 financial statements of the Drainage and Wastewater 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 the Bond Legislation.

## **DESCRIPTION OF THE BONDS**

### **Registration and Denomination**

The Bonds are issuable only as fully registered bonds under a book-entry transfer system, registered in the name of Cede & Co. as bondowner and nominee for DTC. DTC will act as initial securities depository for the Bonds. Purchasers will not receive certificates representing their interest in the Bonds purchased. The Bonds will be issued in denominations of \$5,000 or any integral multiple thereof.

The Bonds will be dated the date of their initial delivery. The Bonds will mature on September 1 in the years and amounts set forth on page i of this Official Statement. Interest on the Bonds is payable semiannually on each March 1 and September 1, beginning September 1, 2012, 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.

The principal of and interest on the Bonds are payable by the City’s Bond Registrar, currently the fiscal agent of the State of Washington (currently The Bank of New York Mellon in New York, New York) 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 herein under “Book-Entry Transfer System” and in Appendix E.

### **Redemption of the Bonds**

*Optional Redemption* The Bonds maturing on and before September 1, 2021, are not subject to redemption prior to maturity. The City reserves the right and option to redeem Bonds maturing on and after September 1, 2022, prior to their stated maturity dates at any time on and after March 1, 2022, as a whole or in part at a price of par plus accrued interest to the date fixed for redemption.

*Mandatory Redemption of Term Bonds.* If not previously redeemed as described above or purchased or defeased under the provisions as described below, the Term Bonds due on September 1 in the years 2037 and 2042 will be called for redemption at a price of par, plus accrued interest to the date fixed for redemption, on September 1 in the years and amounts as follows:

<u>2037 TERM BONDS</u>		<u>2042 TERM BONDS</u>	
<u>Years</u>	<u>Amounts</u>	<u>Years</u>	<u>Amounts</u>
2035	\$ 3,845,000	2038	\$ 4,325,000
2036	4,000,000	2039	4,500,000
2037*	4,160,000	2040	4,680,000
		2041	4,865,000
		2042*	5,060,000

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\* Maturity.

If the City redeems all or a portion of the Term Bonds under the optional redemption provisions described above or purchases or defeases Term Bonds, the Term Bonds of such maturity so redeemed, purchased, or defeased (irrespective of their actual redemption or purchase prices) will be credited at the par amount thereof against one or more scheduled mandatory redemption amounts for those Term Bonds in the manner to be determined by the City.

*Selection of Bonds for Redemption.* If fewer than all of the Bonds subject to redemption are to be optionally redeemed prior to maturity, the City will select the maturity or maturities to be redeemed. If fewer than all of a single maturity of Bonds are to be redeemed prior to maturity, then:

- (i) if such Bonds are in book-entry form at the time of such redemption, DTC is required to select the specific Bonds in accordance with the Letter of Representations, and
- (ii) if such Bonds are not in book-entry form at the time of such redemption, the Bond Registrar is required to select the specific Bonds for redemption by lot or in such manner as the Bond Registrar in its discretion may deem to be fair and appropriate.

The portion of any Bond of a denomination more than \$5,000 to be redeemed will be in the principal amount of \$5,000 or any integral multiple thereof, to be selected, as the case may be, by DTC in accordance with the Letter of Representations or by the Bond Registrar in such manner as the Bond Registrar in its discretion may deem to be fair and appropriate.

*Notice of Redemption.* Notice of any intended redemption of Bonds will 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 at the time the Bond Registrar prepares the notice. The notice requirements will be deemed to have been fulfilled when notice is mailed, whether or not it actually is received by the owner of any Bond. As long as the Bonds are held in book-entry form, notices will be given in accordance with procedures established by DTC. See “Description of the Bonds—Book-Entry Transfer System” and Appendix E.

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

*Effect of Redemption.* Interest on Bonds called for redemption will cease to accrue on the date fixed for redemption unless the notice of redemption has been duly rescinded or the Bonds called are not redeemed when presented pursuant to the call.



## **Purchase**

The City reserves the right to purchase any of the Bonds at any time at any price acceptable to the City plus accrued interest to the date of purchase.

## **Book-Entry Transfer System**

*Book-Entry Bonds.* DTC will act as initial securities depository for the Bonds. The ownership of one fully registered Bond for each maturity of the Bonds, as set forth on page i of this Official Statement, each in the aggregate principal amount of such maturity, will be registered in the name of Cede & Co., as nominee for DTC. See Appendix E for additional information. *As indicated therein, certain information in Appendix E has been obtained from DTC's website. The City makes no representation as to the accuracy or completeness of the information in Appendix E provided by DTC. Purchasers of the Bonds should confirm this information with DTC or its participants.*

*Termination of Book-Entry Transfer System.* If DTC resigns as the securities depository and the City is unable to retain a qualified successor to DTC or if the City determines that a continuation of the book-entry transfer system is not in the best interest of the City, the City will deliver at no cost to the beneficial owners of the Bonds or their nominees Bonds in registered certificate form, in the denomination of \$5,000 or any integral multiple thereof within a maturity of the Bonds. Thereafter, the principal of the Bonds will be payable upon the presentation and surrender thereof at the principal office of the Bond Registrar. Interest on the Bonds will be paid by checks or drafts mailed by the Bond Registrar on the interest payment date to the registered owners at the address appearing upon the Bond Register on the 15th day of the month preceding the interest payment date or, at the request of a registered owner of \$1,000,000 or more in aggregate principal amount of Bonds, by wire transfer to an account in the United States designated in writing by such registered owner prior to the Record Date. The Bonds then will be transferable as provided in the Bond Legislation.

## **Refunding or Defeasance of Bonds**

The City may issue refunding bonds or use money available from any other lawful source to redeem and retire, release, refund, or defease the Bonds or any portion thereof (the "Defeased Bonds"). If sufficient money and/or Government Obligations, defined below (taking into account known earned income from the investment thereof) are set aside in a special fund pledged irrevocably to the redemption, retirement or defeasance of the Defeased Bonds (the "Trust Account"), then all right and interest of the owners of the Defeased Bonds in the pledges and covenants of the Bond Legislation and in the Net Revenues and the funds and accounts pledged to the payment of the Defeased Bonds, other than the right to receive the funds so set aside and pledged, will cease and become void. Such owners thereafter will have the right to receive payment of the principal of and interest or redemption price on the Defeased Bonds from the Trust Account.

The term "Government Obligations" means direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, the United States Government.

After the establishing and full funding of such a Trust Account, the City 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 as it may determine.

## **USE OF PROCEEDS**

### **Purpose**

The Bonds are being issued to pay for part of the costs of various projects of the City's Drainage and Wastewater System, to refund, depending on market conditions, certain outstanding obligations of the Drainage and Wastewater System, to make a deposit into the Reserve Subaccount, and to pay the administrative costs of the refunding and the costs of issuing the Bonds.

## Sources and Uses of Funds

The proceeds of the Bonds will be applied as follows:

### SOURCES OF FUNDS

Par Amount of Bonds	\$ 222,090,000
Original Issue Premium	<u>33,796,458</u>
Total Sources of Funds	\$ 255,886,458

### USES OF FUNDS

Project Fund Deposit	\$ 93,173,809
Refunding Escrow Deposit	159,206,060
Reserve Subaccount Deposit	1,927,670
Costs of Issuance*	<u>1,578,919</u>
Total Uses of Funds	\$ 255,886,458

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\* Includes legal fees, financial advisory and rating agency fees, printing costs, underwriter's discount, and other costs of issuing the Bonds and refunding the Refunded Bonds.

## Refunding Plan

The City intends to refund all or a portion of the City's outstanding callable Drainage and Wastewater Revenue and Refunding Bonds, 2001, Drainage and Wastewater Revenue and Refunding Bonds, 2002, and Drainage and Wastewater Revenue Bonds, 2004, set forth below (together, the "Refunded Bonds"). The refunding is being undertaken to achieve debt service savings.

**REFUNDED BONDS**

<b>Bond</b>	<b>Maturity Date</b>	<b>Interest Rate</b>	<b>Par Amount</b>	<b>Call Date</b>	<b>Call Price</b>	<b>CUSIP Number</b>
<i>Drainage and Wastewater Revenue Bonds, 2001</i>						
Serials	11/01/2012	4.500%	\$ 1,465,000	07/27/2012	100%	812631AM1
	11/01/2013	4.625	1,535,000	07/27/2012	100	812631AN9
	11/01/2014	4.750	1,605,000	07/27/2012	100	812631AP4
	11/01/2015	4.800	1,685,000	07/27/2012	100	812631AQ2
	11/01/2016	5.000	1,765,000	07/27/2012	100	812631AR0
	11/01/2017	5.000	1,855,000	07/27/2012	100	812631AS8
	11/01/2018	5.000	1,950,000	07/27/2012	100	812631AT6
	11/01/2019	5.100	2,050,000	07/27/2012	100	812631AU3
	11/01/2020	5.125	2,160,000	07/27/2012	100	812631AV1
	11/01/2021	5.125	2,270,000	07/27/2012	100	812631AW9
Term	11/01/2025	5.250	10,350,000	07/27/2012	100	812631BA6
Term	11/01/2031	5.250	<u>20,190,000</u>	07/27/2012	100	812631BG3
Subtotal			\$ 48,880,000			

<b>Bond</b>	<b>Maturity Date</b>	<b>Interest Rate</b>	<b>Par Amount</b>	<b>Call Date</b>	<b>Call Price</b>	<b>CUSIP Number</b>
<i>Drainage and Wastewater Revenue and Refunding Bonds, 2002</i>						
Serials	07/01/2013	4.500%	\$ 2,340,000	07/27/2012	100%	812631BT5
	07/01/2014	4.750	2,450,000	07/27/2012	100	812631BU2
	07/01/2015	4.750	2,560,000	07/27/2012	100	812631BV0
	07/01/2016	5.200	2,680,000	07/27/2012	100	812631BW8
	07/01/2017	5.250	2,820,000	07/27/2012	100	812631BX6
	07/01/2018	5.250	2,975,000	07/27/2012	100	812631BY4
	07/01/2019	5.250	3,130,000	07/27/2012	100	812631BZ1
	07/01/2020	5.250	3,295,000	07/27/2012	100	812631CA5
	07/01/2021	5.250	3,465,000	07/27/2012	100	812631CB3
Term	07/01/2028	5.000	20,455,000	07/27/2012	100	812631CJ6
Term	07/01/2032	5.000	<u>14,270,000</u>	07/27/2012	100	812631CN7
Subtotal			\$ 60,440,000			

## REFUNDED BONDS (CONTINUED)

Bond	Maturity Date	Interest Rate	Par Amount	Call Date	Call Price	CUSIP Number
<i>Drainage and Wastewater Revenue Bonds, 2004</i>						
Serials	09/01/2015	5.000%	\$ 1,520,000	09/01/2014	100%	812631DY2
	09/01/2016	5.000	1,595,000	09/01/2014	100	812631DZ9
	09/01/2017	5.000	1,675,000	09/01/2014	100	812631EA3
	09/01/2018	5.000	1,760,000	09/01/2014	100	812631EB1
	09/01/2019	5.000	1,850,000	09/01/2014	100	812631EC9
	09/01/2020	5.000	1,940,000	09/01/2014	100	812631ED7
	09/01/2021	5.000	2,035,000	09/01/2014	100	812631EE5
	09/01/2022	5.000	2,140,000	09/01/2014	100	812631EF2
	09/01/2023	5.000	2,245,000	09/01/2014	100	812631EG0
	09/01/2024	5.000	2,360,000	09/01/2014	100	812631EH8
	09/01/2025	4.500	2,475,000	09/01/2014	100	812631EJ4
	09/01/2029	4.700	2,975,000	09/01/2014	100	812631EL9
Term	09/01/2028	4.750	8,140,000	09/01/2014	100	812631EK1
Term	09/01/2032	5.125	<u>9,830,000</u>	09/01/2014	100	812631EM7
Subtotal			<u>\$ 42,540,000</u>			
Total			\$ 151,860,000			

The City will enter into a Refunding Trust Agreement with The Bank of New York Mellon, as Refunding Trustee, upon the delivery of the Bonds, to provide for the current 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 invested in Government Obligations that will mature and bear interest at rates sufficient to pay the principal of and accrued interest coming due on the redemption dates of the Refunded Bonds.

The Government Obligations and earnings thereon will be held solely for the benefit of the registered owners of the Refunded Bonds.

The mathematical accuracy of (i) the computations of the adequacy of the maturing principal amounts of and interest on the Government Obligations to be held by the Refunding Trustee to pay principal of and interest on the Refunded Bonds as described above, and (ii) the computations supporting the conclusion of Bond Counsel that the Bonds are not “arbitrage bonds” under Section 148 of the Code, will be verified by Causey Demgen & Moore Inc., independent certified public accountants.

## SECURITY FOR THE BONDS

### Pledge of Net Revenue

The Bonds are special limited obligations of the City. The Net Revenue of the Drainage and Wastewater System and any utility local improvement district assessments pledged to Parity Bonds (“ULID Assessments”) are pledged to the payment of all Parity Bonds, including the Bonds. See “Outstanding Bonds” below. This pledge constitutes a lien and charge upon Net Revenue and ULID Assessments prior and superior to any other liens and charges whatsoever. See Appendix A—Bond Ordinance—Section 14(a). The City has reserved the right to combine the Drainage and Wastewater 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 OF WASHINGTON (THE “STATE”), OR ANY POLITICAL SUBDIVISION OF THE STATE, OR A CHARGE UPON ANY GENERAL FUND OR UPON

ANY MONEY OR OTHER PROPERTY OF THE CITY, THE STATE, OR ANY POLITICAL SUBDIVISION OF THE STATE NOT SPECIFICALLY PLEDGED THERETO BY THE BOND 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 DRAINAGE AND WASTEWATER SYSTEM, ARE PLEDGED TO THE PAYMENT OF THE BONDS.

The Parity Bond Account has been created in the Drainage and Wastewater Fund for the sole purpose of paying 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, certain amounts from the Net Revenue of the Drainage and Wastewater System sufficient to pay such principal and interest when due and to fund the Reserve Subaccount (see “Reserve Subaccount” below). See Appendix A—Bond Ordinance—Section 14.

#### **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. Under the terms of the Bond Legislation, the City must fund any increase in the Reserve Requirement (the least of (i) Maximum Annual Debt Service at the time of calculation, (ii) 1.25 times Average Annual Debt Service at the time of calculation or (iii) 10% of the proceeds of the Parity Bonds) due to the issuance of the Bonds either (a) on the date of issuance, from proceeds of the Bonds or an Alternate Security (as defined in the Bond Legislation), or any combination thereof; or (b) in annual installments so that it is fully funded within five years after the issuance of the Bonds.

The City expects to fund the additional amount necessary to satisfy the Reserve Requirement allocable to the Bonds, \$1,927,670, with a deposit of Bond proceeds. The existing Alternate Securities securing the Reserve Subaccount are shown in the following table. Under the Bond Legislation, the following surety policies qualify as Alternate Securities 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.

## CASH AND SURETY BONDS

Bond Issue	Surety Amount	Provider	Expiration	Current Ratings	
				Moody's	S&P
1998 <sup>(1)</sup>	\$ 1,577,250	AMBAC	11/01/2027	withdrawn	
1999 <sup>(1)</sup>	3,572,313	MBIA	11/01/2029	B3	B
2001	3,756,104	FGIC	11/01/2031	withdrawn	
2002	3,866,550	FGIC	07/01/2032	withdrawn	
2004	3,538,992	MBIA <sup>(2)</sup>	09/01/2034	B3	B
2006	2,188,810	MBIA <sup>(2)</sup>	02/01/2037	B3	B
2007 <sup>(3)</sup>	5,053,914	MBIA <sup>(2)</sup>	02/01/2037	B3	B
<b>Total Surety Amount</b>	<b>\$ 23,553,933</b>				
Cash Deposit from 2008 Bond Proceeds	\$ 5,340,017				
Cash Deposit from 2009 Bond Proceeds	7,416,996				
Cash Deposit from 2012 Bond Proceeds	<u>1,927,670</u>				
<b>Total Cash and Surety Bonds</b>	<b><u>\$ 38,238,616</u></b>				
<b>Reserve Fund Requirement</b>	<b>\$ 38,238,616</b>				

- 
- (1) Surety will be outstanding until the earlier of the termination date or the day on which no Parity Bonds are outstanding.
- (2) Reinsured by National Public Finance Guarantee Corp., a wholly-owned subsidiary of MBIA, Inc., currently rated Baa2 by Moody's and BBB by S&P.
- (3) Purchased in 2007 independent of a bond issue as a substitution of an Alternate Security for cash held in the Reserve Subaccount.

### Outstanding Bonds

*Outstanding Parity Bonds.* The outstanding 2001 Bonds, 2002 Bonds, 2004 Bonds, 2006 Bonds, 2008 Bonds, and 2009 Bonds issued by the City and secured by Net Revenue 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

<b>Bond Description</b>	<b>Original Par Amount</b>	<b>Outstanding Principal on 05/01/2012</b>
2001 Bonds*	\$ 60,680,000	\$ 48,880,000
2002 Bonds*	78,550,000	62,675,000
2004 Bonds*	62,010,000	54,140,000
2006 Bonds	121,765,000	104,205,000
2008 Bonds	84,645,000	80,450,000
2009A Bonds	102,535,000	102,535,000
2009B Bonds	36,680,000	29,830,000
<b>Total</b>	<b>\$ 546,865,000</b>	<b>\$ 482,715,000</b>

\* All or a portion of these bonds are Refunded Bonds and are being refunded with a portion of the proceeds of the Bonds. See "Use of Proceeds—Refunding Plan."

### Other Outstanding Obligations

Since 2004, the City has entered into six agreements with the Washington State Department of Community, Trade and Economic Development under its Public Works Assistance Account Loan Program for the construction of certain capital improvements, and with the Department of Ecology. These loans are secured by a lien on Net Revenue of the Drainage and Wastewater System junior to the lien of the Parity Bonds.

## OTHER OBLIGATIONS

<b>Entity</b>	<b>Year of Agreement</b>	<b>Amount Outstanding</b>	<b>Interest Rate</b>
Department of Ecology	2010	\$ 6,697,098	1.50%
Department of Ecology	2010	2,421,364	1.50%
Public Works Assistance Account	2005	2,759,719	0.50%
Public Works Assistance Account	2004	2,546,471	0.50%
Public Works Trust Fund	2011	3,574,418	0.50%
Department of Ecology	2009	572,558	2.90%

### Future Obligations

*Future Parity Bonds.* Future Parity Bonds may be issued 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 a certificate from the Director of SPU or from an independent, licensed professional engineer or a certified public accountant (the "Parity Certificate") showing that, in his or her professional opinion, the Adjusted Net Revenue will be equal to 1.25 times the Average Annual Debt Service (the "Coverage Requirement"). In the Parity Certificate, the estimate of Net Revenue must use the historical Gross Revenue for any 12 consecutive months out of the 24 months immediately preceding the month the Future Parity Bonds are to be delivered. Further adjustments may be made to Gross Revenue, as described in the Bond Legislation. As an alternative to the Parity Certificate, the City may provide a certificate of the Director of Finance or the Director of SPU 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. See Appendix A—Bond Ordinance—Section 17. If the Future Parity Bonds are for the sole purpose of refunding outstanding Parity Bonds, then the Parity Certificate is not required if the Annual Debt Service in each year for the refunding bonds is not increased over the amount required for the refunded bonds and the maturities of the refunding bonds are not extended beyond those of the refunded bonds.

Upon the redemption, retirement, or defeasance of certain outstanding Parity Bonds, (i) the definition of "Coverage Requirement" will be modified as set forth in Appendix A—Bond Ordinance—Section 1, and

(ii) the Parity Certificate requirements will be modified as set forth in Appendix A—Bond Ordinance—Section 17.

*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.

*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.

*Contract Resource Obligations.* The City may enter into Contract Resource Obligations to acquire drainage and wastewater 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 24.

### **Rate Covenant**

The City has covenanted to establish, maintain, and collect rates and charges for drainage and wastewater service that will produce Adjusted Net Revenue available for debt service in each calendar year at least equal to the Coverage Requirement of 1.25 times the Average Annual Debt Service. *Upon the redemption or defeasance of all then-outstanding 2001 Bonds, 2002 Bonds, and 2004 Bonds, Coverage Requirement will be defined as Adjusted Net Revenue at least equal to 1.25 times Adjusted Annual Debt Service.* See Appendix A—Bond Ordinance—Section 15.

*Rate Stabilization Account.* The Rate Stabilization Account has been created as a separate account in the Drainage and Wastewater Fund. The City may at any time, to the extent consistent with its covenant under the Bond Legislation to maintain the Drainage and Wastewater System in good repair, working order and condition, deposit in the Rate Stabilization Account Gross Revenue and any other money available to be used therefor. The City may withdraw any or all of the money from the Rate Stabilization Account for inclusion in the Adjusted Gross Revenue for any fiscal year of the Drainage and Wastewater System. 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. The City has no current plan to fund the Rate Stabilization Account.

### **Other Covenants**

In the Bond Legislation, the City has entered into other covenants, including those with respect to maintenance of the Drainage and Wastewater System, sale of the Drainage and Wastewater System, and preservation of tax exemption for interest on the Bonds. See Appendix A—Bond Ordinance—Section 15.

### **No Acceleration of the Bonds**

The Bonds are not subject to acceleration upon the occurrence of a default. The City, therefore, would be liable only for principal and interest payments as they become due. In the event of multiple defaults in payment of principal or interest on the Parity Bonds, the registered owners would be required to bring a separate action for each such payment not made. This could give rise to a difference in interests between registered owners of earlier and later maturing Parity Bonds.

### **Separate Utility Systems**

The City may create, acquire, construct, finance, own, and operate one or more additional systems for drainage and wastewater or other commodity or service. The revenue of the separate 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 Drainage and Wastewater 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 23.



**Combined Utility Systems**

The City may combine the Drainage and Wastewater System with other City utility systems, including their funds and accounts. See “Seattle Public Utilities—Administrative Structure.”

**Debt Service Requirements**

The following table shows the debt service scheduled to be paid from the Net Revenue of the Drainage and Wastewater System, taking into account the refunding of the Refunded Bonds.

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**DEBT SERVICE REQUIREMENTS<sup>(1)</sup>**

Year	2001	2002	2004	2006	2008	2009A <sup>(2)</sup>	2009B	The Bonds		Total
								Principal	Interest	
2012	\$ 1,253,737	\$ 3,856,749	\$ 2,922,294	\$ 9,075,994	\$ 5,399,250	\$ 5,387,559	\$ 4,099,950	\$ 4,115,000	\$ 1,859,236	\$ 37,969,768
2013	-	-	1,869,875	9,071,369	5,397,450	5,387,559	4,150,050	4,800,000	10,375,900	41,052,203
2014	-	-	1,870,375	9,071,619	5,398,150	5,387,559	4,202,850	4,945,000	10,231,900	41,107,453
2015	-	-	351,975	9,071,119	5,396,250	5,387,559	4,253,250	6,590,000	9,984,650	41,034,803
2016	-	-	351,975	9,069,369	5,397,525	5,387,559	4,337,250	6,920,000	9,655,150	41,118,828
2017	-	-	351,975	9,070,744	5,396,025	8,412,559	1,383,125	7,270,000	9,309,150	41,193,578
2018	-	-	351,975	9,074,494	5,399,775	8,363,996	1,385,975	7,635,000	8,945,650	41,156,865
2019	-	-	351,975	9,074,994	5,398,525	8,318,153	1,388,575	8,025,000	8,563,900	41,121,121
2020	-	-	351,975	9,076,619	5,400,431	8,269,378	1,394,575	8,435,000	8,162,650	41,090,628
2021	-	-	351,975	7,581,994	5,399,556	8,218,038	1,403,775	8,845,000	7,740,900	39,541,238
2022	-	-	351,975	7,582,369	5,400,400	8,170,403	1,404,000	9,295,000	7,298,650	39,502,796
2023	-	-	351,975	7,590,494	5,398,400	8,119,153	1,414,800	8,405,000	6,833,900	38,113,721
2024	-	-	351,975	7,600,494	5,396,950	8,067,921	1,423,400	8,825,000	6,413,650	38,079,390
2025	-	-	351,975	7,601,869	5,399,250	8,010,921	1,429,800	9,265,000	5,972,400	38,031,215
2026	-	-	351,975	6,395,009	5,398,250	7,957,421	1,439,000	9,735,000	5,509,150	36,785,806
2027	-	-	351,975	6,401,525	5,400,000	7,891,884	1,450,800	10,225,000	5,022,400	36,743,584
2028	-	-	351,975	6,406,400	5,399,125	7,818,284	-	10,745,000	4,511,150	35,231,934
2029	-	-	351,975	6,408,275	5,400,250	7,741,621	-	11,285,000	3,973,900	35,161,021
2030	-	-	351,975	2,906,713	5,398,000	7,666,628	-	11,850,000	3,409,650	31,582,965
2031	-	-	351,975	2,906,200	5,397,000	7,587,765	-	12,450,000	2,817,150	31,510,090
2032	-	-	351,975	2,906,300	5,396,750	7,501,365	-	9,745,000	2,194,650	28,096,040
2033	-	-	3,971,975	2,906,788	5,396,750	7,409,975	-	3,555,000	1,707,400	24,947,888
2034	-	-	3,970,025	2,902,550	5,396,500	7,318,318	-	3,695,000	1,565,200	24,847,593
2035	-	-	-	2,903,363	5,400,375	7,215,838	-	3,845,000	1,417,400	20,781,975
2036	-	-	-	2,903,888	5,397,875	7,117,535	-	4,000,000	1,263,600	20,682,898
2037	-	-	-	2,903,900	5,398,500	7,007,578	-	4,160,000	1,103,600	20,573,578
2038	-	-	-	-	5,396,625	6,900,965	-	4,325,000	937,200	17,559,790
2039	-	-	-	-	-	6,786,865	-	4,500,000	764,200	12,051,065
2040	-	-	-	-	-	-	-	4,680,000	584,200	5,264,200
2041	-	-	-	-	-	-	-	4,865,000	397,000	5,262,000
2042	-	-	-	-	-	-	-	5,060,000	202,400	5,262,400
Total	\$ 1,253,737	\$ 3,856,749	\$ 20,940,094	\$ 168,464,447	\$ 145,753,938	\$ 204,810,354	\$ 36,561,175	\$ 222,090,000	\$ 148,727,936	\$ 952,458,429

(1) Totals may not add due to rounding. Excludes the Refunded Bonds.

(2) Does not reflect the 35% interest rate subsidy associated with the 2009A Bonds.

## SEATTLE PUBLIC UTILITIES

### Administrative Structure

Seattle Public Utilities (“SPU”), a single department of the City, administers four distinct business lines: drainage, wastewater, and solid waste for Seattle residents and businesses, and drinking water for 1.3 million regional customers. Each business line has a manager responsible for ensuring that its assets perform adequately to meet defined customer service levels.

Within SPU, there are three separate funds: the Water Fund, the Drainage and Wastewater Fund, and the Solid Waste Fund. The City has reserved the right to combine the Drainage and Wastewater System, including the Drainage and Wastewater Fund, with other City utility systems, funds, and accounts.

### Management

SPU consists of the Director's Office and six Executive Branches: Human Resources and Service Equity, Field Operations and Maintenance, Finance and Administration, Customer Service, Project Delivery, and Utility Systems Management. The Director 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.

*Ray Hoffman, Director.* Mr. Hoffman was appointed Acting Director of SPU in 2009 and was named Director in 2010. In this role, he 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, he was Director of Corporate Policy and Performance, with responsibilities for external government relations, legislative affairs, and risk management. In addition, he formerly served as an advisor to the Mayor on utilities and environmental issues, was the lead for regional affairs and negotiations for SPU, worked in recycling planning and program development for solid waste, and served as Executive Director for Washington Citizens for Recycling. With more than 20 years of increasingly responsible roles in public policy and management, Mr. Hoffman is known for negotiating multi-party agreements on complex policy issues. Mr. Hoffman has a doctorate from the University of Washington School of Business, as well as a bachelor's degree and master's degree in accounting from the University of Illinois.

*Martin Baker, Deputy Director for Corporate Strategies and Communications.* Mr. Baker was appointed to the interim position in 2009 and named the permanent deputy director in 2010. He currently oversees all functions related to corporate policy and performance, asset management and economic services, and corporate communications, as well as climate change and sustainability and community relations development. Previously, he served as a Strategic Advisor in the Director's Office for 13 years. Prior to joining SPU, Mr. Baker served as Deputy Director, Habitat Program, with the Washington Department of Fish and Wildlife, Public Affairs Director of the Central Puget Sound Regional Transit Authority, and Executive Director of the Washington Environmental Council. He graduated from the University of Washington with both a master's degree and a bachelor's degree in history.

*Kimberly Collier, Deputy Director for Human Resources and Service Equity.* Ms. Collier was appointed to this position in 2009. The Human Resources and Service Equity branch is comprised of the Human Resources Division, HR Operations and Management, and the Environmental Justice and Service Equity Division. Prior to joining SPU, Ms. Collier was a human resources executive for Cox Communications in Arizona, where she also had responsibilities for diversity leadership including serving as the co-founder of the company's Diversity Council and held a number of roles in the community supporting diversity. A graduate of the College of New Jersey, Ms. Collier earned a bachelor's degree in management.

*Rick Scott, Deputy Director for Field Operations and Maintenance.* Mr. Scott joined SPU in 2010 as director of SPU's Distribution and Transmission Division and was appointed to Deputy Director of Field Operations and Maintenance in November 2011. As Deputy Director, he is responsible for developing operational strategies and directing and managing the production, delivery, and maintenance for water, wastewater, storm water, and solid waste services. Prior to joining SPU, he served as the water treatment superintendent for the City of

Glendale, Arizona, where he worked for 24 years. He started out as a plant mechanic and held roles with increasing responsibilities throughout the utility, serving as the water treatment superintendent for eight years. 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.

*Melina Thung, Deputy Director for Finance and Administration.* Ms. Thung was appointed to this position in 2005 and oversees the branch's activities, including finance, information technology, fleet and facilities management, and risk management. Prior to that, she was Finance Director for SPU and also formerly served as budget analyst, budget manager, and environmental planner. She 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 appointed to Acting Deputy Director in 2009 and in 2010 was named Deputy Director for the branch, which serves as the main liaison between SPU ratepayers and the department's operations. Prior to this, she was the Director for the Customer Programs and Contract Management Division, which manages the city's graffiti abatement and education, waste prevention, resource conservation, and community stewardship programs. Ms. Sánchez has over 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 Planning, Policy, and Major Projects Division for the Seattle Department of Transportation. She holds a bachelor's degree in urban planning from the University of Washington.

*Nancy Ahern, Deputy Director for Utility Systems Management.* Ms. Ahern, who was appointed to this position in 2005, leads staff who provide policy direction, regulatory compliance, and capital programming for SPU's drinking water, drainage, wastewater, and solid waste lines of business. She joined SPU in 2001 as Deputy Director for Resource Management and previously spent more than 15 years in state and local government services, focusing on utilities and natural resource management. During that time, she served as manager of the Water and Land Resources Division for King County, and prior to that, she worked in the City of Bellevue Utilities Department for six years and for the Puget Sound Water Quality Authority for three years. She also worked in Washington D.C. for the World Wildlife Fund/Conservation Foundation and in environmental consulting. Ms. Ahern holds a bachelor's degree in biology and environmental studies from Principia College and a Ph.D. degree in natural resource management from the University of Michigan. She also has a master's degree from Seattle University in organizational systems and renewal.

*Linda De Boldt, Deputy Director for Project Delivery.* Ms. De Boldt was appointed to this position in 2007. In this role, she serves as the chief engineer for the utility and leads engineering services for the capital improvement programs for all of the lines of business. The branch also provides other key technical services such as review of private development proposals and management of SPU's dam safety and landslide mitigation programs. She is a licensed professional engineer with 27 years of experience in public works engineering and management for the City. She has worked for the City as a design engineer, engineering manager, and division director in the fields of transportation, drainage, wastewater, water supply and treatment, and environmental restoration. She graduated from the University of Washington with a bachelor's degree in civil engineering.

### **Employment Retirement System and Employee Relations**

Currently SPU has approximately 1,400 regular employees, almost all of whom are members of the Seattle City Employee Retirement System ("SCERS"). SCERS requires SPU, like all City departments, to make contributions equal to an actuarially determined percentage of covered payrolls. See "The City of Seattle—Pension System." Approximately 70 percent of SPU employees are represented under one of ten labor agreements with unions. SPU is currently negotiating with two unions on labor agreements that expired December 31, 2011. Currently there is no expected date by which an agreement will be reached, and the unions continue to operate under the expired contracts. Eight additional labor agreements are effective through December 31, 2013. SPU believes that labor relations are satisfactory. See "The City of Seattle—Labor Relations."

## DRAINAGE AND WASTEWATER SYSTEM

### General

The City began building public sewers in 1882 in order to protect public health and quality of life. Over half of the current system was built in the first three decades of the 20th century, long before sewage treatment was contemplated. Consistent with the then current practice, combined sewers were built to carry both stormwater and wastewater. This practice not only saved the expense of building a second pipe, it also provided dilution to flush the sewers and the discharge sites. Wastewater was discharged untreated at nearby sites along Puget Sound, the Duwamish Waterway, Lake Washington, or Lake Union and the Ship Canal. As the community realized that untreated sewage discharges caused water quality problems, the City began to separate the combined stormwater and wastewater systems and to build sewage treatment plants. By the 1950s, the City had over 1,000 miles of combined sewers and 500 miles of separate sanitary sewer lines, and was operating three primary sewage treatment plants and numerous rudimentary treatment devices at discharge sites. The City formed the Sewer Utility within the Engineering Department in 1955, and began charging City residents and businesses for wastewater service the following year.

The wastewater system currently serves a population of over 612,000, substantially all of which are within the City limits. Residential accounts generate, on average, about 37% of total wastewater volumes and 36% of total wastewater revenues. The table below presents an overview of key wastewater operating statistics for the past five years. Between 2007 and 2011, wastewater volumes declined by an average of 1.5% per year, due primarily to programmatic water conservation efforts.

**TABLE 1  
WASTEWATER SYSTEM OPERATING STATISTICS**

	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
Population Served	586,200	592,800	602,000	612,000	612,100
Wastewater Revenues (000)					
Residential	\$ 59,604	\$ 65,365	\$ 69,020	\$ 68,834	\$ 73,964
Commercial	101,313	99,472	114,821	115,273	129,626
Total Wastewater Revenues	\$ 160,917	\$ 164,837	\$ 183,841	\$ 184,107	\$ 203,590
Billed Wastewater Volume (MG)					
Residential	6,027	5,931	5,941	5,870	5,535
Commercial	10,196	9,988	9,834	9,752	9,577
Total Billed Wastewater Volume	16,223	15,919	15,775	15,622	15,112
Gallons Billed Per Day Per Capita	75.8	73.5	71.8	69.9	67.6

In 2006, SPU completed the 20-year Wastewater System Plan (the “WSP”). Although SPU had produced some elements of such a plan in the past, including a combined sewer overflow (“CSO”) control plan and a sewer rehabilitation plan, the WSP is the first plan that ties together wastewater needs, policies and service levels for conveyance systems in a comprehensive manner. The WSP focuses on system capacity, combined sewers, and CSOs.

The WSP identifies gaps between existing and desired service levels and develops options to provide the desired level of service with an acceptable level of risk and least life cycle cost. WSP planning-level cost estimates indicate an increase in both operations and maintenance and Capital Improvement Program (“CIP”) expenditures, driven primarily by the requirements of the National Pollutant Discharge Elimination System (“NPDES”) CSO permit. See “Regulations—Combined Sewer Overflow NPDES Permit, Reduction Plan, and Amendments.”

## **Regional Treatment and Disposal**

In 1958, a regional sewage treatment agency, the Municipality of Metropolitan Seattle (“Metro”), was formed to provide a regional solution to water quality problems. The City, rather than expanding its own treatment facilities, entered into a contract with Metro for sewage treatment. Metro is responsible for and has built major treatment plants along with an extensive regional interceptor system to route sewage to the plants and stop untreated discharges into Lake Washington.

Metro and King County (the “County”) were merged in 1994. Since then, the County has been responsible for sewage treatment and disposal and has entered into long-term contracts with local sewage agencies, including the City, which remain responsible for their own local collection and transmission lines. The County currently provides services to 37 entities, including cities (including the City), sewer districts, and others. The City’s current agreement with the County expires July 1, 2036. Negotiations for a renewal or extension are currently underway. The County has passed an ordinance purporting to require that local sewage agencies in the County, including the City, continue to deliver waste to the County following expiration of their treatment contracts on terms substantially similar to those under the current agreement.

Pursuant to the County’s Regional Wastewater Services Plan (“RWSP”), the County is nearing completion of a new 36-million-gallons-per-day (“mgd”) treatment and reclaimed water plant (“Brightwater”) and associated conveyance system at an estimated cost of \$1.8 billion. Other RWSP projects include conveyance systems expanding the capacity of the South Treatment Plant, constructing 21 CSO projects, and controlling inflow and infiltration.

The County finances the capital and operating costs of its sewage treatment and disposal system, including projects from the RWSP, with a wholesale charge to the City and other component agencies that is established by the County Council pursuant to the current agreement. Currently, the City’s share of these costs is approximately 40%, and SPU passes the wholesale charge on to the City’s Drainage and Wastewater System ratepayers.

## **Wastewater Rates**

Residential customers are charged based on actual water consumption from November through April and the lesser of actual consumption or average winter water consumption from May through October. Commercial customers are charged based on actual water consumption throughout the year unless they install submeters to measure actual use of the wastewater system.

City ordinance allows SPU to pass through increases in the County’s wastewater treatment charges based on adopted wholesale rates and projected billed consumption. The County, which treats virtually all of the City’s wastewater, increased its wholesale treatment rate 13.2% in 2011, after holding the rate constant in 2010. The increase in the County’s charges is passed through to SPU customers. The County’s treatment charge for 2012 is being held constant at the 2011 level.

In 2010, the City Council adopted a 2011 wastewater rate of \$9.35 per hundred cubic feet (“ccf”). This rate increased to \$10.28 per ccf due to the County’s 13.2% treatment rate increase. The tables below show adopted City wastewater rates since 2006 and typical 2011 residential bills for wastewater services in other cities on the West Coast (assuming monthly consumption of 430 cubic feet or 4.3 ccf). The City Council approved a 3.9% rate increase for 2012.

**TABLE 2**  
**ADOPTED WASTEWATER RATES**

<b>Effective Date</b>	<b>Volume Rate (\$/ccf)</b>	<b>Percentage Change</b>
January 2012	\$ 10.68	3.90%
January 2011	10.28	14.50
January 2010	8.98	1.01
January 2009	8.89	14.70
January 2008	7.75	4.00
January 2007	7.45	10.20

**TABLE 3**  
**RESIDENTIAL WASTEWATER CHARGES**

<b>City</b>	<b>Monthly Bill</b>
<b>Seattle WA*</b>	<b>\$ 45.92</b>
Kirkland WA*	54.29
Bellevue WA*	48.23
Portland OR	32.42
Tacoma WA	33.57
San Francisco CA	35.56

\* King County treatment customers.

*Source: Survey by SPU of rates in effect on January 1, 2012, in each respective city, for monthly consumption of 430 cubic feet*

SPU accounts are billed bimonthly for residential and small commercial customers and monthly for larger accounts. Residential customers currently receive a combined utility bill that itemizes amounts due for water, wastewater and solid waste services. 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 transferred to the Drainage and Wastewater Fund and any remaining funds are transferred to the Water Fund. If an account is 33 days past due, customers receive a water shut-off notice. By State law, SPU has the authority to shut off water when an account is 40 days past due.

Because the Water Fund is affected first in the event of payment shortages, the Drainage and Wastewater Fund benefits from any enforcement action that would shut off the water supply to the delinquent payer. City ordinance further provides that in accordance with RCW 35.67.200, overdue accounts become a lien on property if not paid within 90 days and delinquent charges bear interest at the rate of 8% per annum. As a result of this strong collection mechanism, the Drainage and Wastewater System allowance for doubtful accounts has averaged approximately 0.1% of direct service revenues since 2001.

The City's wastewater system serves approximately 166,000 accounts in a developed urban area. Commercial accounts have, on average, comprised approximately 11% of the total. SPU generally experiences very little change from year to year in the number of wastewater customers it serves.

There are no major water- or wastewater-intensive users in the service area. The wastewater system's ten largest customers in 2011 were the University of Washington, Seattle Housing Authority, City of Seattle, Harborview Medical Center, Boeing Commercial Airplane Group, Swedish Medical Center, Darigold, Port of Seattle, King County, and the Virginia Mason Medical Center. In total, the revenue from these ten customers was approximately 7.9% of aggregate wastewater service revenues.

### **Drainage Services**

Stormwater run-off in the City is conveyed through one of three modes: storm drains, a combined stormwater and wastewater system, and a ditch, culvert and creek system. Beginning in the late 1960s, the City converted

some of the existing combined stormwater and drainage system to a two-pipe system, one for stormwater runoff and the other for sanitary sewage. A ditch, culvert and creek system exists in areas of the City that originally were part of unincorporated King County and later were annexed by the City. Each of the three conveyance modes now represents about one-third of the system.

To address flooding of private property adjacent to major creeks carrying City stormwater, new trunk lines and detention ponds have been built and regulatory controls have been added for new residential and commercial developments. Also, several efforts are underway to reduce pollutants in stormwater that can contribute to water quality problems in receiving waters. SPU is responsible for coordinating the City's stormwater management programs. See "Regulations—NPDES Municipal Stormwater Permit."

The 2004 Comprehensive Drainage Plan ("CDP"), endorsed by the Mayor and City Council, focuses on drainage needs, policies and service levels for each of four program areas: Stormwater and Flood Control, Landslide Mitigation, Aquatic Resource Protection—Water Quality, and Aquatic Resource Protection—Habitat. The CDP calls for expansion of water quality monitoring and pollutant source control, implementation of natural system drainage design where appropriate, and variation of the level of flood control according to service area priorities. Planning-level cost estimates indicate a significant increase in both operations and maintenance and CIP expenditures to meet the needs identified in the CDP. The requirements of the municipal stormwater NPDES permit, which became effective in February 2007, are expected to be the major driver of drainage system expense. See "Regulations—NPDES Municipal Stormwater Permit."

### **Drainage Rates**

The City charges drainage fees based on a property's estimated impact on the drainage system. In 2008, SPU implemented a new drainage rate design to increase equity among drainage customers and between wastewater and drainage customers. Previously, all residential customers paid the same annual flat fee, regardless of parcel size. Under the updated structure, owners of single-family and duplex properties of less than 10,000 square feet pay an annual flat fee based on the size of their property. Owners of all other properties, including single-family and duplex properties on parcels of 10,000 square feet or greater, are charged based on the percent of impervious surface and buildable lot size. In addition, drainage rates are set to fund a portion of the City's combined drainage and storm sewer system infrastructure. SPU began offering rate credits in 2009 to property owners installing water quality and flow control facilities that mitigate the impact of their runoff on the City's drainage system. To date, these credits have not had a material impact on net system revenues.



The 2011 and 2012 drainage rates, which reflect the new design, are shown in the following table:

**TABLE 4**  
**DRAINAGE RATE CATEGORIES**

<b>Rate Category</b>	<b>Percent Impervious<sup>(1)</sup></b>	<b>2011 Annual Charge</b>	<b>2012 Annual Charge</b>
<b>Small Residential</b> (less than 10,000 square feet)		per parcel	per parcel
< 3,000 sq. ft.		\$134.06	\$149.33
3,000-4,999 sq. ft.		\$173.10	\$192.79
5,000-6,999 sq. ft.		\$234.94	\$261.66
7,000-9,999 sq. ft.		\$298.32	\$332.23
<b>General Service/Large Residential<sup>(2)</sup></b>		per 1,000 sq.ft.	per 1,000 sq.ft.
Undeveloped	0-15%		
Regular		\$19.72	\$21.96
Low Impact <sup>(3)</sup>		\$12.35	\$13.76
Light	16-35%		
Regular		\$29.62	\$32.98
Low Impact <sup>(3)</sup>		\$23.47	\$24.14
Medium	36-65%		
Regular		\$42.89	\$47.76
Low Impact <sup>(3)</sup>		\$34.43	\$38.35
High	66-85%	\$56.57	\$63.01
Very High	86-100%	\$66.90	\$74.49

- (1) Impervious surface is any hard or impermeable surface such as blacktop, rooftops, parking lots, patios, hardpan, and hard-packed athletic fields, which absorb much less rainwater than pervious surfaces covered with grass, trees or other vegetation.
- (2) Includes single-family and duplex properties of 10,000 square feet or more.
- (3) A parcel may qualify for a low impact rate if it has a significant amount of highly pervious surface, *e.g.*, forested land, other unmanaged vegetated areas such as pasturelands and meadows, or certain athletic fields that have been designed to substantially meet the same SPU-defined performance characteristics for infiltrating stormwater.

**TABLE 5**  
**ANNUAL DRAINAGE FEE PERCENTAGE INCREASE**  
**(%)**

	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
Residential*	16.1	15.3	1.9	14.0	11.4
Commercial	46.6	14.3	1.9	15.3	11.4

\* Residential parcels of 10,000 square feet or more are billed under the same rate structure as commercial parcels, based on percent impervious and actual parcel size.

The following table compares the typical residential charge for drainage services of comparable cities in the Northwest.

**TABLE 6**  
**2011 RESIDENTIAL DRAINAGE CHARGES**

<u>City</u>	<u>Typical Annual Bill</u>
Portland OR	\$ 268.44
<b>Seattle WA</b>	<b>261.66</b>
Bellevue WA	216.21
Tacoma WA	213.84

*Source: Survey by SPU of rates in effect on January 1, 2012, in each respective city*

Drainage fees are billed to all property owners in Seattle, except for certain exempt properties (submerged lands, houseboats, piers, City streets, State highways and other streets that provide the same drainage service as City streets), and is billed on the King County property tax statement. In accordance with RCW 35.67.200, City ordinances provide that the City has a lien for all delinquent and unpaid drainage service charges, and that delinquent drainage service charges bear interest at the rate of 8% per year. Average collection levels since 2000 are over 99%.

The City's drainage system serves approximately 213,000 accounts in a developed urban area; the system has experienced little change from year to year in the number of customers. Residential customers make up approximately 66% of the total customers. In 2011, the ten largest customers of the drainage system were the City, the Port of Seattle, King County, Seattle Public Schools, University of Washington, BNSF Railway, Seattle Housing Authority, Union Pacific Railroad, Seattle Community Colleges, and the U.S. government. In 2011, revenue billed to these ten customers totaled \$13.5 million, or approximately 19.8% of drainage service revenues. Due to differing interpretations among federal agencies regarding federal liability for local stormwater and drainage charges, the City has historically collected less than the amount billed to the U.S. government. In 2010, an executive order clarified federal liability and directed agencies to pay such charges. SPU has since seen increased collections from the U.S. government and expects the collection rate to increase going forward, once the executive order is implemented by all agencies.

### **Regulations**

*Clean Water Act.* The Federal Water Pollution Control Act (the "Clean Water Act"), as amended, establishes a broad goal of restoring and maintaining the chemical, physical, and biological integrity of the nation's waters. Among other directives, the Clean Water Act:

- (i) Requires permitting of point source discharges of pollutants into waters of the United States under the NPDES;
- (ii) Mandates that states set water quality standards, and requires periodic listing of impaired waters (section 303(d) list);
- (iii) Mandates "total maximum daily load" analyses for impaired waters (TMDL program); and
- (iv) Requires programs to encourage control of nonpoint source pollution.

The statute creates some state responsibilities directly and allows the U.S. Environmental Protection Agency ("EPA") to delegate other responsibilities state-by-state.

*NPDES Municipal Stormwater Permit.* Section 402 of the Clean Water Act requires certain municipalities to obtain an NPDES permit for municipal stormwater discharges to receiving waters. In Washington, the State Department of Ecology ("DOE") is responsible for issuing and renewing these permits. Municipal stormwater discharges are regulated as point sources that should be controlled to reduce discharge of pollutants to the "maximum extent practicable," through a primarily programmatic permit. Under Phase I of the program, large and medium municipal separate storm sewer systems ("MS4s") must obtain NPDES permits for all discharges (not including CSOs or discharges from public treatment facilities). As a condition of MS4 permit coverage, permittees are required to develop a stormwater management program. DOE issued a new Phase I municipal stormwater permit to the City, which became effective February 16, 2007. The 2007 permit will

remain in effect until the effective date of the next permit. The 2007-permit includes requirements that are intended to improve the quality of the receiving waters in the City and includes prescriptive programmatic requirements, stringent monitoring requirements, measurement guidelines for specific programs, and best management practices based on DOE's 2005 Stormwater Management Manual for Western Washington. In October 2011, DOE issued two revised permits in draft form; the first will become effective when the current permit expires and will be in effect until 2013. The second permit will be in effect from 2013-2018 and continues many of the current prescriptive programmatic permit requirements while changing others. The largest changes affect the implementation of low impact development, as required by a 2008 decision by the State Pollution Control Hearings Board and the requirement to participate in a DOE-led regional monitoring program.

*Combined Sewer Overflow NPDES Permit, Reduction Plan, and Amendments.* DOE issues NPDES permits for CSO discharges under the authority of the Clean Water Act. The City was issued a revised NPDES permit for its CSO discharges in 2010. This permit expires in 2015. An agreed order between DOE and the City was also issued in October 2010, requiring that CSOs from all remaining uncontrolled CSO basins be reduced to an average of one overflow per site per year by December 31, 2025.

About two-thirds of the City is served by combined or partially separated sewers. The existing permit governs wet weather discharges at 90 discharge points. The City developed a CSO Reduction Plan amendment in 2001, updated it in 2005, and issued an amendment in 2010, addressing CSO reduction projects in 11 uncontrolled CSO basins that will be constructed between 2012 and 2018. The City is currently developing a long-term control plan ("LTCP") to address solutions for all remaining uncontrolled CSOs in the City, in accordance with federal regulations. As part of their planning processes, the City and the County are jointly studying their uncontrolled CSO basins to evaluate the feasibility of future collaborative projects. The LTCP will be submitted to EPA in 2015 and will also be used for the City's 2015-2020 NPDES permit submittal to DOE. The City is also preparing a programmatic environmental impact statement under the State Environmental Policy Act that will accompany the LTCP and address environmental impacts of the remaining CSO projects that will be constructed between 2015 and 2025.

Over the last four decades, the City has invested more than \$525 million in CSO controls. Between 2012 and 2017, the City expects to spend an additional \$224 million (in 2012 dollars) in CSO improvements in the Windermere, Genesee, Henderson, Ballard, Interbay, North Union Bay, West Seattle, Montlake, Fremont/Wallingford, and Delridge basins. Improvements will include large CSO storage facilities, retrofit, and green stormwater infrastructure projects.

In 2008, the EPA Region 10 Office of Compliance and Enforcement audited both the County's and the City's CSO programs to ensure consistency with federal laws and requirements. EPA has audited numerous other combined sewer agencies in the United States. Based on the results of the audit, EPA and the City signed a compliance order in August 2009, requiring the City to take specific operations and maintenance actions and complete minor retrofits to reduce dry weather overflows and maximize system capacity. The City and EPA/Department of Justice are currently in the process of negotiating a consent decree concerning the City's CSO reduction program and management of its wastewater system.

*State Sediment Standards.* In 1991, the State adopted marine water sediment management standards, under which DOE may act to require the City to clean up sediments contaminated by CSOs and/or discharges from separate storm sewers. The full extent of sediment contamination related to City discharges, if any, and the nature and cost of compliance with DOE standards are not known at the present time. See "Litigation and Claims" and "Capital Improvement Program—Sediments" for current actions of the City to address its potential liabilities.

### **Endangered Species Act and Regional Needs Assessment**

The National Marine Fisheries Service ("NMFS") has listed as "threatened with extinction" the Puget Sound Chinook salmon, and U.S. Fish and Wildlife Service ("USFWS") has determined bull trout, steller sea lion, marbled murrelet, and Puget Sound steelhead to be similarly threatened. The USFWS has also listed the killer whale and humpback whale as endangered. These agencies have designated critical habitat for these species

that includes parts of the City's drainage service area: Lake Washington and its tributaries, the Duwamish River, Elliott Bay, and parts of Puget Sound.

Given the many legal, scientific and public review uncertainties currently associated with these listings and their application specifically to the Drainage and Wastewater System, it is difficult to predict their full implications for utility services.

However, the addition of review requirements to certain of SPU's capital projects under the Endangered Species Act (the "ESA"), specifically Section 7 consultations between the federal services that are required under ESA, has added additional time to the permit review process, sometimes as much as a year or longer, which may result in construction delay of two to three years, depending on fish-friendly work window restrictions. The extent to which additional costs will be incurred for mitigation specifically related to the ESA is unknown. The City has entered into memoranda of understanding with the U.S. Army Corps of Engineers, USFWS and NOAA Fisheries for assistance in expediting the permit review process.

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

### **Financial Policies**

Drainage and wastewater rates are set in accordance with financial policies adopted by the City Council. The current Parity Bond debt service coverage requirement is 1.25 times annual debt service. Revenues to cover depreciation and City taxes are considered available for debt service coverage. Under the City Charter, City taxes on the Drainage and Wastewater System may be paid only after provision has been made for debt service payable from Net Revenues and for necessary betterments and replacements for the current year. The City Council has adopted a coverage target is 1.80 times annual debt service. Other adopted internal policy targets in effect since 2004 include generally positive net income, a minimum year-end cash balance equal to the average monthly wastewater treatment cost, and a minimum of 25% cash funding of the CIP based on a four-year rolling average. Between 2007 and 2011, the fund met or exceeded all targets except net income in 2007. Non-cash accounting accruals and expense adjustments were the primary drivers in not meeting the net income targets in 2007. See "Financial Performance" for details.

### **Financial Performance**

The table titled "Operating Results" shows actual revenues and expenses of the Drainage and Wastewater System for the years 2007 through 2011, as well as projected results for 2012 and 2013. Footnotes for the table are on the following page.

Overall demand is assumed to decline by approximately 1.0% per year in 2012 and 2013. Conservation programs are expected to continue offsetting the impact of population and employment growth within the City.

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 UNDER "DRAINAGE AND WASTEWATER SYSTEM OPERATING RESULTS" AND "CAPITAL IMPROVEMENT PROGRAM" TO PROVIDE READERS OF THIS OFFICIAL STATEMENT INFORMATION RELATED TO PROJECTED REVENUES AND EXPENSES OF THE DRAINAGE AND WASTEWATER 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 DRAINAGE AND WASTEWATER 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 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 DRAINAGE AND WASTEWATER FUND AS OF AND FOR THE FISCAL YEAR ENDED DECEMBER 31, 2011, INCLUDED HEREIN AS APPENDIX C, HAVE BEEN AUDITED BY MOSS ADAMS LLP, INDEPENDENT ACCOUNTANTS, AS STATED IN ITS REPORT APPEARING HEREIN. SEATTLE PUBLIC UTILITIES HAS NOT REQUESTED THAT MOSS ADAMS LLP PROVIDE CONSENT FOR INCLUSION OF ITS 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.

**TABLE 8**  
**DRAINAGE AND WASTEWATER SYSTEM OPERATING RESULTS**  
**(\$000)**

	Actual					Projected	
	2007	2008	2009	2010	2011	2012	2013
<b>Operating Revenue</b>							
Wastewater Service	\$ 160,917	\$ 164,837	\$ 185,549	\$ 186,655	\$ 206,644	\$ 211,988	\$ 212,962
Drainage Service	39,111	50,495	58,136	58,292	67,580	75,041	83,910
Other	2,380	8,777	6,509	4,786	4,733	3,930	2,683
<b>Total Operating Revenues</b>	<b>\$ 202,408</b>	<b>\$ 224,109</b>	<b>\$ 250,195</b>	<b>\$ 249,734</b>	<b>\$ 278,957</b>	<b>\$ 290,959</b>	<b>\$ 299,555</b>
<b>Operating Expenses</b>							
Operating and Maintenance Expenses							
Wastewater Treatment	\$ 98,425	\$ 98,294	\$ 111,372	\$ 111,282	\$ 125,252	\$ 123,685	\$ 123,213
Other Operating Expenses <sup>(1)</sup>	73,908	77,036	71,338	68,376	71,957	85,687	86,885
Taxes Other Than City Taxes	2,403	2,753	2,821	3,099	3,582	4,105	4,114
Other Expenses							
City Taxes <sup>(2)</sup>	23,688	25,567	28,861	29,177	32,449	34,086	35,224
Depreciation	14,931	18,182	20,721	20,131	19,832	20,592	21,352
<b>Total Operating Expenses</b>	<b>\$ 213,356</b>	<b>\$ 221,832</b>	<b>\$ 235,113</b>	<b>\$ 232,066</b>	<b>\$ 253,071</b>	<b>\$ 268,156</b>	<b>\$ 270,788</b>
<b>Net Operating Income</b>	<b>\$ (10,948)</b>	<b>\$ 2,278</b>	<b>\$ 15,082</b>	<b>\$ 17,668</b>	<b>\$ 25,886</b>	<b>\$ 22,803</b>	<b>\$ 28,767</b>
<b>Other Income (Expenses)</b>							
Investment and Interest Income	\$ 2,549	\$ 2,759	\$ 653	\$ 2,595	\$ 2,820	\$ 3,088	\$ 3,243
Interest Expenses and Amortization of Debt Issue Costs and Net Discount	(14,948)	(16,742)	(18,171)	(22,505)	(21,026)	(17,032)	(24,934)
Other Income, Net	942	(392)	278	3,015	505	-	-
<b>Total Other Income (Loss)</b>	<b>\$ (11,456)</b>	<b>\$ (14,376)</b>	<b>\$ (17,240)</b>	<b>\$ (16,895)</b>	<b>\$ (17,701)</b>	<b>\$ (13,944)</b>	<b>\$ (21,691)</b>
Capital and Operating fees, Contributions and Grants	\$ 4,585	\$ 24,632	\$ 8,430	\$ 5,079	\$ 9,785	\$ 3,691	\$ 2,791
<b>Net Income (Loss)</b>	<b>\$ (17,819)</b>	<b>\$ 12,534</b>	<b>\$ 6,272</b>	<b>\$ 5,852</b>	<b>\$ 17,970</b>	<b>\$ 12,550</b>	<b>\$ 9,867</b>
Claims Expense	\$ 6,620	\$ 7,986	\$ 1,751	\$ 4,267	\$ 1,516	\$ 3,700	\$ 3,700
<b>Revenue Available for Debt Service<sup>(3)</sup></b>	<b>\$ 36,840</b>	<b>\$ 56,771</b>	<b>\$ 67,067</b>	<b>\$ 75,249</b>	<b>\$ 82,503</b>	<b>\$ 84,269</b>	<b>\$ 92,286</b>
Average Annual Debt Service	\$ 18,673	\$ 23,273	\$ 30,017	\$ 29,775	\$ 29,508	\$ 31,632	\$ 37,491
Debt Service Coverage per Rate Covenant <sup>(4)</sup>	1.97	2.44	2.23	2.53	2.80	2.66	2.46
Annual Debt Service	\$ 23,952	\$ 26,486	\$ 29,350	\$ 37,041	\$ 37,258	\$ 38,083	\$ 42,427
Annual Debt Service Coverage	1.54	2.14	2.29	2.03	2.21	2.21	2.18
<b>Earnings Retained in the Utility</b>							
Balance, Beginning of year	\$ 10,013	\$ (7,805)	\$ 4,729	\$ 6,319	\$ 12,171	\$ 30,141	\$ 42,691
Balance, End of year	(7,805)	4,729	11,001	12,171	30,141	42,691	52,558

#### NOTES TO TABLE:

- (1) Other Operating Expenses in 2007 includes \$19.1 million associated with capital projects that were expensed in 2007. Beginning in 2009, these types of projects are included as part of the expense projections instead of capital projections.
- (2) The City currently levies a tax on total gross income from drainage and wastewater charges of 11.5% and 12%, respectively. Under the City Charter, City taxes on the Drainage and Wastewater System may be paid only after provision has been made for debt service payable from Net Revenues.
- (3) Revenue available for Debt Service = net operating income + City taxes + depreciation + investment income + claims expense.
- (4) See "Security for the Bonds—Rate Covenant."

*Source: Drainage and Wastewater System*

Between 2007 and 2011, the Drainage and Wastewater System maintained high levels of debt service coverage (well above policy targets), with strong cash performance equal to or above the policy target. Despite some decline in wastewater volumes since 2005, aggregate operating revenues have shown steady growth, averaging 8.3% per year for the period.

While net operating income has been generally positive, the Drainage and Wastewater System experienced significant net income losses in 2004 and 2007. The 2007 net income loss results from a change in SPU capitalization policy which was adopted in 2006 and rendered more stringent in 2007. Under the new policy, SPU adopted a more conservative approach in its application of Financial Accounting Standards Board Statement No. 71 "Accounting for the Effects of Certain Types of Regulation." This resulted in expensing a number of projects in the capital budget rather than deferring their cost over a period of years. The net impact of the 2006-2007 policy changes was a sharp increase in non-cash operating expense, causing considerable losses in both net operating and net income in 2007. The change in policy did not undermine the Drainage and Wastewater Fund's strong cash position as these were non-cash expenses. See Table 8 titled "Operating Results" for more detail.

SPU expects to meet or exceed debt service coverage, cash balance, cash financing of the CIP, and net income targets in 2012 and 2013. Financial performance figures for 2012 assume the drainage and wastewater rates for those years that have been adopted by ordinance. See "Wastewater Rates" and "Drainage Rates."

Payments to the County for wastewater treatment constitute an operating and maintenance expense that must be paid prior to payment of the principal of or interest on any bonds secured by the revenues of the Drainage and Wastewater System. Approximately half of the Drainage and Wastewater System's total operating revenue in 2011 was spent on wastewater treatment. City ordinance allows SPU to pass through increases in the County's wastewater treatment expense.

#### **Capital Improvement Program**

Each year, SPU prepares a six-year Drainage and Wastewater CIP. The CIP identifies facilities in need of upgrading or rehabilitation, lays out a plan for constructing new facilities to address flooding and water quality problems, and includes a financial plan for funding the planned improvements. SPU expects to finance the CIP with a combination of bond proceeds, grants and reimbursements and current revenues.

In 2011, the Mayor proposed the 2012-2017 CIP, which includes the Plan of Additions to be partially funded with proceeds of the Bonds. The City Council approved the CIP in November 2011. The adopted 2012-2017 CIP is approximately \$19 million larger than the adopted 2011-2016 CIP, which totaled \$556 million. The significant factors driving this change are increases in projects associated with flood control programs, combined sewer overflows, and sewer pipe rehabilitation.

The tables included in this section show actual CIP spending in 2011 based on SPU's analysis of year-end capital spending, and projected CIP spending in 2012 through 2017 in accordance with the most recent forecasts and adopted CIP.

**TABLE 7**  
**DRAINAGE AND WASTEWATER SYSTEM**  
**CAPITAL IMPROVEMENT PROGRAM**  
**(Amounts in Thousands)**

Program Area	Adopted						Total
	2012	2013	2014	2015	2016	2017	
Combined Sewer Overflows	\$ 30,439	\$ 57,565	\$ 40,998	\$ 47,498	\$ 37,248	\$ 21,397	\$ 235,145
Rehabilitation	10,514	12,048	12,201	13,382	15,045	15,341	78,532
Flooding, Sewer Back-up, and Landslides	19,866	23,243	20,780	16,639	18,678	24,622	123,829
Protection of Beneficial Uses <sup>(1)</sup>	4,460	6,721	5,522	2,676	4,748	2,617	26,744
Sediments	5,550	1,984	1,097	517	1,205	1,205	11,557
Shared Cost Projects	9,142	11,600	12,242	10,553	15,979	14,999	74,515
Technology	4,708	7,067	7,640	5,292	4,737	4,788	34,232
Total	\$ 84,680	\$ 120,229	\$ 100,480	\$ 96,557	\$ 97,640	\$ 84,969	\$ 584,554
Funding Sources*	Planned						Total
	2012	2013	2014	2015	2016	2017	
Debt Financing							
2009 New Money Bonds	\$ 32,053	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 32,053
2012 New Money Bonds	23,694	63,306	-	-	-	-	87,000
Future Bonds		14,725	68,508	62,263	64,333	54,767	264,596
Total Debt Financing	\$ 55,747	\$ 78,031	\$ 68,508	\$ 62,263	\$ 64,333	\$ 54,767	\$ 383,649
Revenue Financing							
Grants and Reimbursements	\$ 2,600	\$ 1,700	\$ 1,700	\$ 1,700	\$ 1,700	\$ 1,700	\$ 11,100
Internally Generated Funds	17,865	16,452	15,200	22,938	21,843	20,005	114,303
Total Revenue Financing	\$ 20,465	\$ 18,152	\$ 16,900	\$ 24,638	\$ 23,543	\$ 21,705	\$ 125,403
Adjustment for Accomplishment	8,468	24,046	15,072	9,656	9,764	8,497	75,502
Total	\$ 84,680	\$ 120,229	\$ 100,480	\$ 96,557	\$ 97,640	\$ 84,969	\$ 584,554
Cash to CIP	27%	19%	20%	28%	27%	28%	25%

\* Bond proceeds provided are net of issuance expense.

Note: Totals may not add due to rounding.



The 2012-2017 CIP addresses seven program areas:

*Combined Sewer Overflows.* This program area consists of projects that are mandated by State and federal regulations to control CSOs into the City's receiving waters. Projects include large infrastructure projects (*e.g.*, storage structures, pipes, tunnels, wet weather treatment plants, stormwater separation, and pump stations), smaller retrofits, construction of green infrastructure for CSO control, and development of regulatory-required plans (*e.g.*, Long-Term Control Plan).

*Rehabilitation.* This program area consists of projects to rehabilitate or replace existing drainage and wastewater assets in-kind to maintain the current functional level of the system. Projects include drainage and wastewater control structures and appurtenances, pipes, culverts, pump station structures, major mechanical and electrical components, and force mains.

*Flooding, Sewer Back-up, and Landslides.* This program area consists of projects for preventing and alleviating flooding and sewer backups in the City, with a primary focus on the protection of public health, safety, and property. The program area is focused on planning, design, and construction of channels, pipes, roadside ditches, culverts, detention ponds, and natural drainage systems that control and/or convey storm runoff to receiving waters. This program also involves protecting SPU drainage and wastewater infrastructure from landslides and providing drainage improvements where surface water generated from the City right-of-way is contributing to landslides.

*Protection of Beneficial Uses.* This program area consists of improvements to the City's drainage system to reduce the harmful effects of stormwater runoff on creeks and receiving waters by improving water quality and protecting or enhancing habitat. The program includes projects to improve water quality, protect creeks, meet regulatory requirements, and use best available science to meet community expectations for habitat.

*Sediments.* This program provides funding for preliminary studies and analysis of cleanup of contaminated sediment sites in which the City is a participant, for actual cleanup of contaminated sites, for preliminary engineering for future cleanup efforts, and for liability allocation negotiations. Funding is used to develop studies and analyses required by regulatory agencies for determining the boundaries and cleanup requirements for specific action sites. The study phase of sediment remediation projects often requires multiple years before specific cleanup actions are defined. As regulatory agency cleanup requirements become clear, additional individual cleanup projects are included in subsequent CIP proposals.

*Shared Cost Projects.* This program includes projects involving more than a wastewater or drainage purpose and which are typically funded from multiple sources. Current projects include the Alaskan Way Viaduct and Seawall replacement, Mercer Corridor, Emergency Storms, and the Integrated Control Monitoring Program.

*Technology.* This program makes use of recent technological advances to increase SPU's efficiency and productivity.

### **Risk Management and Quality Assurance**

A Risk and Quality Assurance Program ("RQA") was first established by SPU in 2004 and more formally as a separate division within the organization in January 2011. The RQA's goals and objectives are to provide a more structured framework to evaluate, manage and improve risk and performance levels for all business lines through three main task areas: performance management, risk management and internal auditing. A Risk and Quality Assurance Board, consisting of the SPU Director, the Executive Team, a Law Department representative and six RQA staff members provide corporate-level oversight and accountability for the program. RQA staff also coordinate with supervisors, project managers and subject matter experts throughout SPU to use the framework to guide decision-making related to policy and program development, capital projects and day to day operations.

The RQA's work plan priorities for 2012 include assessing and improving internal controls, restricting the subrogation claim process, and overseeing implementation of prior audit recommendations. Additionally, RQA staff are currently coordinating a focused internal audit and using external auditors to review the recently

discovered embezzlement of approximately \$1 million in Water System funds by a former employee. This audit is expected to result in implementation of additional control measures for handling financial transactions within the utility. The City does not expect that the embezzlement incident or any resulting legal action will have a material adverse impact on the City's ability to pay principal of and interest on the Bonds when due.

### **Litigation and Claims**

The Comprehensive Environmental Response, Compensation and Liability Act of 1980 ("CERCLA") created the federal Superfund, the EPA's program that addresses abandoned hazardous waste sites. The two basic kinds of liability described under the Superfund law are liability related to historic contamination and liability related to damages to natural resource values.

In 2001, EPA listed the Lower Duwamish Waterway as a Superfund site under CERCLA to address the cleanup of historic contamination. EPA and DOE followed the listing with a joint federal and State administrative order on consent ("AOC"), which named certain potentially liable parties ("PLPs"), including the City (through SPU and Seattle City Light), the County, the Port of Seattle, and The Boeing Company. The AOC also provided for studies of risk and formulation of cleanup alternatives that are expected to eventually determine the nature and extent of the contamination at the site and the preferred option for cleanup. Under the AOC for the Superfund site and early action units within the site, the PLPs are responsible for conducting and paying for the studies, known as the Duwamish Remedial Investigation, Feasibility Study and Engineering and Cost Analyses, the latter analyses being related to early action cleanup units within the overall Superfund site.

These studies are expected to result in a record of decision in 2013 delineating the full extent of cleanup actions and liability of all PLPs. Consequently, the level of SPU's liability for this cleanup is uncertain and depends upon the number and location of the areas at which EPA requires cleanup and the extent to which SPU's drainage and wastewater operations contributed to the contamination. Other PLPs are expected to share in all costs. The PLPs' respective shares of costs will initially be set after EPA issues its record of decision. An allocation process and potential litigation will follow in order to set a final allocation of costs.

Immediately downstream of the Lower Duwamish Waterway is the East Waterway. Contaminated sediments within the East Waterway are an operable unit of the Harbor Island Superfund site, and the Port of Seattle entered into an administrative settlement agreement and order on consent ("ASAOC") with EPA in 2006. The ASAOC covers an East Waterway sediment remedial investigation/feasibility study ("RI/FS"), which is underway and expected to be completed at the end of 2013, with EPA issuing a record of decision for the operable unit in about 2014. The East Waterway is a Superfund cleanup project with many similar issues to the Lower Duwamish Waterway cleanup. The City, Port, and King County have entered into a memorandum of agreement that covers, among other things, interim sharing of costs and document review for the RI/FS. The City's liability for remediation of the East Waterway, if any, is not determinable at present. Other PLPs are expected to share in any costs.

In October 2011, DOE issued two revised NPDES Phase I Municipal Stormwater permits in draft form. The first will become effective when the current permit expires in July 2012, and will be in effect until 2013. The second permit will be in effect from 2013 to 2018 and continues many of the current prescriptive programmatic permit requirements while changing others. The largest changes are around the implementation of Low Impact Development ("LID"), as required by the 2008 PCHB decision, and the requirement to participate in an Ecology-led regional monitoring program. The implementation of LID is a somewhat controversial and there is a chance, as with all DOE permits, that the permit will be appealed. If appealed, the City will have to determine if participation in the appeal as an appellant or intervener is warranted.

In 2002, DOE named the City as a PLP for the contamination of sediments adjacent to Gas Works Park and the Harbor Patrol areas in the North Lake Union area of the City. City liability is alleged because the City is the current owner of upland properties where historical operations of a manufactured gas plant and associated activities took place that allegedly generated contaminants now found in the sediments. In 2005, the City and Puget Sound Energy signed a state agreed order and are now involved in RI/FS to determine the nature and

extent of contamination within the site and alternative cleanup approaches. The City's liability for remediation, if any, is not determinable at present. Other PLPs are expected to share in any costs.

In addition, the Drainage and Wastewater System could be liable for a portion of the costs of investigation and cleanup at other sediment sites not yet identified. The magnitude of any such potential liability cannot be determined at this time.

As an adjunct to State and federal Superfund liability, SPU also may have some liability for natural resources damages ("NRD"). The City settled its NRD liability for the Duwamish in 1991. However the Natural Resource Trustees (federal, state and tribal agencies with natural resource responsibilities) are now bringing actions against other PLPs in the Duwamish and have indicated that the City has some small residual liability at this site. The City is finalizing the settlement of the Duwamish NRD liability with the Natural Resource Trustees. NRD liability at other sediment sites has not yet been discussed. The magnitude of liability cannot be determined at this time.

Other claims associated with the normal operation of the Drainage and Wastewater System periodically are filed against the City. The Drainage and Wastewater System's practice is to include in its annual budget an amount for such claims that is equal to the reasonably probable payment of claims for that year. For the purposes of financial reporting, annual claims costs are accrued based on actuarial studies of claims history.

The City had intervener status in a DOE Municipal Stormwater NPDES Phase I general permit appeal process that began in 2007 and was completed in 2009. The City's involvement was to ensure proper representation of the City's interests and minimization of liability. In 2009, DOE modified the general permit, and an individual appealed DOE's action. The individual appeal of the permit made in 2009 was dismissed in 2010 because the individual failed to participate as required by the procedural rules of the Pollution Control Hearing Board.

## THE CITY OF SEATTLE

The following provides general information about the City.

### **Municipal Government**

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

The City is a general purpose government that provides a broad range of services typical of local municipalities, such as streets, parks, libraries, human services, law enforcement, fire fighting and emergency medical services, planning, zoning, animal control, municipal court, and utilities. King 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, nine City Council members, and eight Municipal Court judges are all elected to 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.* The City Council is the policy-making legislative body of the City. The nine City Council members are elected at-large to four-year staggered terms and serve on a full-time basis. The City Council sets tax levies, sets utility rates, makes appropriations and adopts and approves the annual operating budget for the City.

*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 eight 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 laws and Constitution 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 2011 may be obtained from the Department of Finance and Administrative Services and is available at <http://www.seattle.gov/cafrs/default.htm>, which website address is not incorporated herein by reference. The Drainage and Wastewater System's 2011 financial statements are also audited by an independent auditor and are attached as Appendix C.

In 2005, pursuant to an initiative approved by the State's voters, the State Auditor's Office was given 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 management of city trees, district councils, 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). 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 2012 budget was adopted on November 21, 2011.

The City's adopted General Subfund budget was \$893.6 million in 2011 and \$918.0 million in 2012. Total general government tax revenue increased by about 1.2% from 2009 to 2010 (see Table 1). According to the City's November 2011 forecast, total General Fund revenues are expected to be about 2.5% and 2.9% higher in 2011 and 2012, respectively.

## **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; and any investments authorized by law for the State Treasurer or any local government of the State other than a metropolitan municipal corporation (other than bank certificates of deposit of banks or bank branches not located in the State). Under chapter 43.84 RCW, the State Treasurer (and, under chapter 39.59 RCW, cities and towns) may invest in the following: obligations of the United States or its agencies and of any corporation wholly owned by the government of the United States; State, county, municipal or school district general obligation bonds or general obligation warrants of taxing districts of the State, if within the statutory limitation of indebtedness; motor vehicle fund warrants; Federal Home Loan Bank notes and bonds, Federal Land Bank bonds, Fannie Mae notes, debentures and guaranteed certificates of participation and obligation of any other government-sponsored corporation whose obligations are eligible for collateral for advances to Federal Reserve System member banks; bankers' acceptances purchased in the secondary market; negotiable certificates of deposit of any national or state commercial or mutual savings bank or savings and loan association doing business in the United States; and commercial paper.

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 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 under "Authorized Investments."

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

As of December 31, 2011, the combined investment portfolios of the City, including SPU funds, totaled \$1,274 million at book value. The City's Investment Pool is constituted solely of City funds. The City does not invest any funds in other pools, with the exception of tax collection receipts initially held by King County. For the 12-month period ending December 31, 2011, the yield on the City's investment portfolio was 0.91%. As of December 31, 2011, the average maturity of the portfolio was 822 days. Approximately 12%, or \$154.4 million, was invested in securities with maturities of three months or less. The City held no securities with maturities longer than 15 years. Investments were allocated as follows:

Government-Sponsored Enterprises	77.4%
Taxable Municipal Bonds	8.2
Commercial Paper	6.1
Repurchase Agreements	5.2
U.S. Treasuries	3.0
Mortgage-Backed Securities	0.1

*Interfund Loans.* The City municipal code authorizes the Director of Finance, after consultation with the Director of Administrative Services, the Budget Director, and the City Council Finance Committee Chair, to approve interfund loans for a duration of up to 90 days and to establish a rate of interest on such loans. Extension or renewal of interfund loans requires City Council approval by ordinance. The Director of Finance also is authorized by City ordinance to make loans to individual funds participating in a common investment portfolio by carrying funds in a negative cash position for a period of up to 90 days, or for a longer period upon approval by ordinance, to the extent that such loans can be supported prudently by the common investment portfolio and the borrowing fund is reasonably expected to be able to repay the loan. Loans of this type bear interest at the common investment portfolio's rate of return.

### **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 dam. 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. 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**

City employees are covered by one of the following defined benefit pension plans: SCERS, Firefighter's 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; the State administers LEOFF through the Department of Retirement Systems.

Nearly all permanent non-uniformed City employees, employees of the Seattle Public Library and certain grandfathered employees of King County (and a predecessor agency of the County) participate in SCERS, a single-employer public employee retirement system. SCERS estimated its total assets to be \$1.813 billion as of January 1, 2011.

Actuarial data for SCERS are determined through actuarial valuation. Historically, these reports were prepared biennially, but in 2011 the City began preparing them annually. Unlike most public pension systems, SCERS used the market value of assets to calculate its funding ratio in the past. Consequently, the full impact of annual asset losses occurring in recent years was reflected in each actuarial valuation. From January 1, 2008, to January 1, 2010, the valuation ratio was reported as having fallen from 92.4% to 62.0%.

To improve its ability to manage short-term market volatility, the City adopted a five-year asset smoothing methodology in 2011. The most recent actuarial valuation of SCERS was conducted by Milliman, Inc. as of January 1, 2011, and reflects the following assumptions: investment return, 7.75%; price inflation, 3.50%; expected annual average membership growth, 1.00%; and wage inflation, 3.50%. Based on this valuation, the actuarial value of net assets available for benefits was \$2.014 billion and the actuarial accrued liability was \$2.709 billion. The unfunded actuarial accrued liability declined from \$1.008 billion on January 1, 2010, to \$695.4 million on January 1, 2011. The funding ratio increased from 62.0% on January 1, 2010, to 74.3%, due to a variety of factors listed below, including the adoption of the five-year asset smoothing methodology.

<b>SOURCES OF CHANGE</b>	<b>FUNDING RATIO</b>
<i>January 1, 2010, Actuarial Valuation</i>	<i>62.0%</i>
Expected Valuation to Valuation Change	(0.6%)
Asset Gain/(Loss) on Market Value	3.0%
Salary Less/(Greater) than Expected	2.2%
Assumptions Changes (Demographic)	0.6%
Asset Smoothing Adoption	7.5%
Other	<u>(0.4%)</u>
Total Change	12.3%
<i>January 1, 2011, Actuarial Valuation</i>	<i>74.3%</i>

According to the January 1, 2010, actuarial valuation, the actuarial required contribution (“ARC”) was calculated to be 25.03% of pay based on the then-current mark to market valuation methodology. Although the total contribution rate increased from 16.06% to 18.06% from 2010 to 2011, it was still insufficient to fully amortize the system’s unfunded actuarial accrued liability. With the adoption of the smoothing methodology, the January 1, 2011, actuarial valuation showed that the ARC would be 21.30% for 2012. Subsequent revisions to this valuation, including lowering the credit interest rate from 5.75% to 4.47%, further reduced the ARC to 21.04%. The credit interest rate is the rate at which member contributions earn interest if such contributions are withdrawn from the system.

On November 21, 2011, the City Council passed Resolution 31334 affirming the City’s intent to fully fund the actuarial required contribution each year with its budget. The City’s adopted 2012 Budget fully funds the ARC. Under the City’s existing collective bargaining contracts, most of which expire at the end of 2013, increases in the employee contribution rate are limited to a total of 2.00%. The City is exploring options for managing the system more cost-effectively in the long term.

Contribution rates for SCERS increased from 2010 to 2012 as shown below:

<b>YEAR</b>	<b>EMPLOYER</b>	<b>EMPLOYEE</b>	<b>TOTAL</b>
2009	8.03%	8.03%	16.06%
2010	8.03%	8.03%	16.06%
2011	9.03%	9.03%	18.06%
2012	11.01%	10.03%	21.04%

Employee and employer contributions are expected to be \$60.2 million in 2012, of which approximately 34% is from general government departments. City utilities pay the employer share for their employees.

The Firefighter’s Pension Fund and the Police Relief and Pension Fund are single-employer pension plans that were established by the City in compliance with State law. 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. However, the City was still liable for all benefits of employees in service at that time plus certain future benefits. The City is not required to adopt a plan to fund the actuarial accrued liability of these City plans.

In 1994, the City established an actuarial fund for the Firefighter’s Pension Fund and adopted a policy of fully funding the actuarial accrued liability by the year 2018 (which was subsequently extended to 2023). For 2011, the City has elected to make the annual required contribution but not to make any additional contribution toward funding the actuarial accrued liability of the Firefighter’s Pension Fund. As of January 1, 2011, the actuarial value of net assets available for benefits in the Firefighter’s Pension Fund was \$11.4 million, and the actuarial accrued liability was \$126.8 million. As a result, the unfunded actuarial accrued liability was \$115.4 million and the funding ratio was 9.0%. The City’s employer contribution to the fund in 2010 was \$7.3 million; there were no current member contributions.

The City funds the Police Relief and Pension Fund as benefits become due. As of January 1, 2011, the unfunded actuarial accrued liability in the Police Relief and Pension Fund was \$136.4 million. The City's employer contribution to the fund in 2011 was \$8.7 million; there were no current member contributions.

LEOFF is a cost-sharing multiple-employer retirement system comprised of two separate defined-benefit plans. LEOFF participants who joined the system by September 30, 1977, are Plan 1 members. Those who joined afterward are Plan 2 members. Membership in LEOFF includes all full-time, fully compensated local law enforcement officers and firefighters in the State.

Actuarial data for LEOFF are determined annually by the Office of the State Actuary. The most recent actuarial valuation of LEOFF was conducted as of June 30, 2010. Based on this valuation, the actuarial accrued surplus of Plan 1 was \$1.180 billion and the funded ratio was 127%; the actuarial accrued surplus of Plan 2 was \$1.179 billion and the funded ratio was 124%.

Employee and employer contribution rates (calculated as a percentage of covered payroll) are developed by the Office of the State Actuary to fully fund LEOFF. The contribution rates for Plan 1 are currently zero for employees and 0.16% for employers, all of which is allocated to administrative expenses. The contribution rates for Plan 2 are currently 6.36% for employees, 5.24% for employers (which includes 0.16% for administrative expenses), and 3.38% for the State. The City's employer contributions in 2011 were \$14,000 for Plan 1 and \$12.1 million for Plan 2.

For additional information regarding the City's retirement plans, see Note 11 to the City's Comprehensive Annual Financial Report for 2010, which may be obtained from the Department of Finance and Administrative Services and is available at <http://www.seattle.gov/cafrs/default.htm>, which website address is not incorporated herein by reference, and Note 6 of Appendix C—2011 Audited Financial Statements of the Drainage and Wastewater Fund.

### **Post-Employment Retirement 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 Firefighter's 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 the Governmental Accounting Standards Board Statement No. 45 ("GASB 45"). While GASB 45 requires reporting and disclosure of the unfunded OPEB liability, it does not require that it be funded. The City funds its OPEB on a pay-as-you-go basis.

As of January 1, 2010, the unfunded actuarial accrued liability for the implicit rate subsidy was \$93.5 million; the City's contribution in 2010 was \$3.2 million. As of January 1, 2011, the unfunded actuarial accrued liability for OPEB in the City's Firefighter's Pension Fund was \$241.4 million; the City's contribution in 2010 was \$10.4 million. As of January 1, 2011, the unfunded actuarial accrued liability for OPEB in the Police Relief and Pension Fund was \$261.0 million; the City's contribution in 2010 was \$12.0 million.

For additional information regarding the City's OPEB, see Note 11 to the City's Comprehensive Annual Financial Report for 2010, which may be obtained from the Department of Finance and Administrative Services and is available at <http://www.seattle.gov/cafrs/default.htm>, which website address is not incorporated herein by reference, and Note 6 of Appendix C—2011 Audited Financial Statements of the Drainage and Wastewater Fund.

### **Labor Relations**

The City has 28 separate departments and offices with approximately 11,500 regular and temporary employees. Twenty-six different unions and 47 bargaining units represent approximately 76% of the City's



regular employees. The City has agreements with the coalition of City unions (representing most of the non-uniformed employees) that expire at the end of 2013. Agreements with the Seattle Dispatchers' Guild; International Association of Machinists and Aerospace Workers, District Lodge 160, Local 289 and 79; Firefighters Local 27; Fire Chiefs Local 2898; and the Seattle Police Management Association expired at the end of 2011. Two agreements with the International Brotherhood of Electrical Workers Local 77 expire on January 22, 2013. The City's labor agreement with the Seattle Police Officers' Guild expired at the end of 2010. The City is actively negotiating renewals of these contracts. Negotiations also continue for two new bargaining units that have not been covered by contracts in the past; the Seattle Prosecuting Attorneys and WSCCCE, Local 21 (City Light).

## **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 Washington State Constitution may not be amended by initiative.

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

In recent years, several State-wide initiative petitions to repeal or reduce the growth of taxes and fees, including City taxes, have garnered sufficient signatures to reach the ballot. Some of those tax and fee initiative measures have been approved by the voters and, of those, some remain in effect while others have been invalidated by the courts. Tax and fee initiative measures continue to be filed, but it cannot be predicted whether any more such initiatives might gain sufficient signatures to qualify for submission to the State Legislature and/or the voters or, if submitted, whether they ultimately would become law.

### **Local Measures**

Under the City Charter, Seattle voters may initiate City Charter amendments and local legislation, including modifications to existing legislation, and through referendum may prevent legislation passed by the City Council from becoming law.

## **LEGAL AND TAX INFORMATION**

### **No Litigation 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.

### **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 repay the Bonds on a timely basis will not be impaired by the aggregate amount of uninsured liabilities of the City and the timing of any anticipated payments of judgments that might result from suits and claims. For a description of litigation relating to the Drainage and Wastewater System, see "Drainage and Wastewater System—Litigation 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 Foster Pepper PLLC, 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**

Any remedies available to the registered owners of the Bonds upon the occurrence of an event of default under the Bond Legislation are in many respects dependent upon judicial actions, which are in turn often subject to discretion and delay and could be both expensive and time-consuming to obtain. If the City fails to comply with its covenants under the Bond Legislation or to pay principal of or interest on the Bonds, there can be no assurance that available remedies will be adequate to fully protect the interests of the registered owners of the Bonds.

In addition to the limitations on remedies contained in the Bond Legislation, the rights and obligations under the Bonds and the Bond Legislation may be limited by and are subject to bankruptcy, insolvency, reorganization, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, and to the exercise of judicial discretion in appropriate cases. The opinion to be delivered by Foster Pepper PLLC, as Bond Counsel, concurrently with the issuance of the Bonds, will be subject to limitations regarding bankruptcy, insolvency and other laws relating to or affecting creditors' rights. The various other legal opinions to be delivered concurrently with the issuance of the Bonds will be similarly qualified. A copy of the proposed form of opinion of Bond Counsel is set forth in Appendix B.

## **Tax Exemption**

*Exclusion from Gross Income.* In the opinion of Bond Counsel, under existing federal law and assuming compliance with applicable requirements of the Code that must be satisfied subsequent to the issue date of the Bonds, 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.

*Continuing Requirements.* The City is required to comply with certain requirements of the Code 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 proceeds of the Bonds and the facilities financed or refinanced with proceeds of the Bonds, limitations on investing gross proceeds of the Bonds in higher yielding investments in certain circumstances, and the requirement to comply with 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. Bond Counsel has not undertaken and does not undertake to monitor the City's compliance with such requirements.

*Corporate Alternative Minimum Tax.* While interest on the Bonds also is not an item of tax preference for purposes of the alternative minimum tax applicable to corporations, under Section 55 of the Code, tax-exempt interest, including interest on the Bonds, received by corporations is taken into account in the computation of adjusted current earnings for purposes of the alternative minimum tax applicable to corporations (as defined for federal income tax purposes). Under the Code, alternative minimum taxable income of a corporation will be increased by 75% of the excess of the corporation's adjusted current earnings (including any tax-exempt interest) over the corporation's alternative minimum taxable income determined without regard to such increase. A corporation's alternative minimum taxable income, so computed, that is in excess of an

exemption of \$40,000, which exemption will be reduced (but not below zero) by 25% of the amount by which the corporation's alternative minimum taxable income exceeds \$150,000, is then subject to a 20% minimum tax.

A small business corporation is exempt from the corporate alternative minimum tax for any taxable year beginning after December 31, 1997, if its average annual gross receipts during the three-taxable-year period beginning after December 31, 1993, did not exceed \$5,000,000, and its average annual gross receipts during each successive three-taxable-year period thereafter ending before the relevant taxable year did not exceed \$7,500,000.

*Tax on Certain Passive Investment Income of S Corporations.* Under Section 1375 of the Code, certain excess net passive investment income, including interest on the Bonds, received by an S corporation (a corporation treated as a partnership for most federal tax purposes) that has Subchapter C earnings and profits at the close of the taxable year may be subject to federal income taxation at the highest rate applicable to corporations if more than 25% of the gross receipts of such S corporation is passive investment income.

*Foreign Branch Profits Tax.* Interest on the Bonds may be subject to the foreign branch profits tax imposed by Section 884 of the Code when the Bonds are owned by, and effectively connected with a trade or business of, a United States branch of a foreign corporation.

*Possible Consequences of Tax Compliance Audit.* The Internal Revenue Service (the "IRS") has established a general audit program to determine whether issuers of tax-exempt obligations, such as the Bonds, are in compliance with requirements of the Code that must be satisfied in order for interest on those obligations to be, and continue to be, excluded from gross income for federal income tax purposes. Bond Counsel cannot predict whether the IRS would commence an audit of the Bonds. Depending on all the facts and circumstances and the type of audit involved, it is possible that commencement of an audit of the Bonds could adversely affect the market value and liquidity of the Bonds until the audit is concluded, regardless of its ultimate outcome.

*Original Issue Premium.* The Bonds have been sold at prices reflecting original issue premium ("Premium Bonds"). An amount equal to the excess of the purchase price of a Premium Bond over its stated redemption price at maturity constitutes premium on such Premium Bond. A purchaser of a Premium Bond must amortize any premium over such Premium Bond's term using constant yield principles, based on the purchaser's yield to maturity. The amount of amortizable premium allocable to an interest accrual period for a Premium Bond will offset a like amount of qualified stated interest on such Premium Bond allocable to that accrual period, and may affect the calculation of alternative minimum tax liability described above. As premium is amortized, the purchaser's basis in such Premium Bond is reduced by a corresponding amount, resulting in an increase in the gain (or decrease in the loss) to be recognized for federal income tax purposes upon a sale or disposition of such Premium Bond prior to its maturity. Even though the purchaser's basis is reduced, no federal income tax deduction is allowed. Purchasers of Premium Bonds, whether at the time of initial issuance or subsequent thereto, should consult with their own tax advisors with respect to the determination and treatment of premium for federal income tax purposes and with respect to state and local tax consequences of owning such Premium Bonds.

### **Certain Other Federal Tax Consequences**

*Bonds Not "Qualified Tax-Exempt Obligations" for Financial Institutions.* Section 265 of the Code provides that 100% of any interest expense incurred by banks and other financial institutions for interest allocable to tax-exempt obligations acquired after August 7, 1986, will be disallowed as a tax deduction. However, if the tax-exempt obligations are obligations other than private activity bonds, are issued by a governmental unit that, together with all entities subordinate to it, does not reasonably anticipate issuing more than \$10,000,000 of tax-exempt obligations (other than private activity bonds and other obligations not required to be included in such calculation) in the current calendar year, and are designated by the governmental unit as "qualified tax-exempt obligations," only 20% of any interest expense deduction allocable to those obligations will be disallowed.

The City is a governmental unit that, together with all subordinate entities, reasonably anticipates issuing more than \$10,000,000 of tax-exempt obligations (other than private activity bonds and other obligations not required to be included in such calculation) during the current calendar year and has not designated the Bonds as “qualified tax-exempt obligations” for purposes of the 80% financial institution interest expense deduction. Therefore, no interest expense of a financial institution allocable to the Bonds is deductible for federal income tax purposes.

*Reduction of Loss Reserve Deductions for Property and Casualty Insurance Companies.* Under Section 832 of the Code, interest on the Bonds received by property and casualty insurance companies will reduce tax deductions for loss reserves otherwise available to such companies by an amount equal to 15% of tax-exempt interest received during the taxable year.

*Effect on Certain Social Security and Retirement Benefits.* Section 86 of the Code requires recipients of certain Social Security and certain Railroad Retirement benefits to take receipts or accruals of interest on the Bonds into account in determining gross income.

*Other Possible Federal Tax Consequences.* Receipt of interest on the Bonds may have other federal tax consequences as to which prospective purchasers of the Bonds should consult their own tax advisors.

*Potential Future Federal Tax Law Changes.* From time to time, legislative proposals are introduced in Congress which, if enacted, could require changes in the description of federal tax matters relating to the Bonds set forth above or adversely affect the market value of the Bonds. It cannot be predicted whether future legislation may be proposed or enacted that would affect the federal tax treatment of interest received on the Bonds. Prospective purchasers of the Bonds should consult with their own tax advisors regarding any proposed or pending legislation that would change the federal tax treatment of interest on the Bonds.

### **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 Resolution (the “Undertaking”) for the benefit of holders of the Bonds, as follows.

*Annual Financial Information.* The City will provide or cause to be provided, either directly or through a designated agent, to the Municipal Securities Rulemaking Board (the “MSRB”), in an electronic format as prescribed by the MSRB:

- (i) annual financial information and operating data of the type included in this Official Statement as generally described below under “Type of Annual Financial Information Undertaken to be Provided”; and
- (ii) timely notice (not in excess of ten business days after the occurrence of the event) of the occurrence of any of the following events with respect to the Bonds:
  - (a) principal and interest payment delinquencies;
  - (b) non-payment related defaults, if material;
  - (c) unscheduled draws on debt service reserves reflecting financial difficulties;
  - (d) unscheduled draws on credit enhancements reflecting financial difficulties;
  - (e) substitution of credit or liquidity providers, or their failure to perform;
  - (f) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notice of Proposed Issue (IRS Form 5701—TEB), or other material notices or determinations with respect to the tax status of the Bonds;
  - (g) modifications to rights of holders of the Bonds, if material;

- (h) Bond calls (other than scheduled mandatory redemptions of Term Bonds), if material, and tender offers;
- (i) defeasances;
- (j) release, substitution, or sale of property securing repayment of the Bonds, if material;
- (k) rating changes;
- (l) bankruptcy, insolvency, receivership, or similar event of the City, as such “Bankruptcy Events” are defined in Rule 15c2-12;
- (m) the consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of the assets of the City, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and
- (n) appointment of a successor or additional trustee or the change of name of a trustee, if material.

The City also will provide or cause to be provided to the MSRB timely notice of a failure by the City to provide required annual financial information on or before the date specified below.

*Type of Annual Financial Information Undertaken to be Provided.* The annual financial information that the City undertakes to provide will consist of:

- (i) annual financial statements of the Drainage and Wastewater System, prepared in accordance with generally accepted accounting principles applicable to governmental units (except as otherwise noted therein), as such principles may be changed from time to time and as permitted by State law, which statements will not be audited, except that if and when audited financial statements are otherwise prepared and available to the City they will be provided;
- (ii) a statement of authorized, issued and outstanding bond debt secured by revenues of the Drainage and Wastewater 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 drainage rates and wastewater 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 ending December 31, 2012. The annual information may be provided in a single or in multiple documents, and may be incorporated by specific reference to documents available to the public on the Internet website of the MSRB or filed with the SEC.

*Amendment of Undertaking.* The Undertaking is subject to amendment after the primary offering of the Bonds without the consent of any holder of any Bond, or any broker, dealer, municipal securities dealer, participating underwriter, rating agency, or the MSRB, under the circumstances and in the manner permitted by Rule 15c2-12.

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 redemption or payment in full of all of the then outstanding Bonds. In addition, the City’s

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

*Remedy for Failure to Comply with Undertaking.* The City has agreed to proceed with due diligence to cause any failure to comply with the Undertaking to be corrected as soon as practicable after the City learns of that failure. No failure by the City (or any other obligated person) to comply with the Undertaking will constitute a default with respect to the Bonds. The sole remedy of any holder of a Bond will be to take such actions as that holder deems necessary, including seeking an order of specific performance from an appropriate court, to compel the City or other obligated person to comply with the Undertaking.

*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. The City believes it has not failed to comply, in any material respect, with all such undertakings.

## **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. 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 or withdrawn entirely by the rating agencies if, in their judgment, circumstances so warrant. Any such downward revision or withdrawal of the ratings will be likely to have an adverse effect on the market price of the Bonds.

### **Purchaser of the Bonds**

The Bonds are being purchased by Citigroup Global Markets Inc. at a price of \$254,571,329.76 and will be reoffered at a price of \$255,886,457.90. The purchaser of the Bonds 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 corresponding to the yields set forth on page i of this Official Statement, and such initial offering prices may be changed from time to time by such purchaser. After the initial public offering, the public offering prices may be varied from time to time.

In connection with the offering of the Bonds, the purchaser of the Bonds may overallocate or effect transactions which stabilize or maintain the market price of the Bonds at levels above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued or recommenced at any time.

### **Fees Contingent**

Some of the fees of the Financial Advisor and Bond Counsel are contingent upon the sale of the Bonds.

### **Official Statement**

So far as any statements are made in this Official Statement involving matters of opinion or of estimates, whether or not so expressly stated, they are set forth as such and not as representations of fact, and no representation is made that any of the estimates will be realized. Information concerning the City, SPU, and the Drainage and Wastewater System contained in this Official Statement has been furnished by the City. Neither this Official Statement nor any statement which may have been made orally or in writing is to be construed as a contract with the owners of any of the Bonds.

Neither the delivery of this Official Statement nor any sale of the Bonds will, under any circumstances, create any implication that there has been no change in the affairs of the City since the date hereof. The City specifically disclaims any obligations 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 under “Legal and Tax Information—Continuing Disclosure Undertaking.”

The execution and delivery of this Official Statement have been duly authorized by the City.

The City of Seattle

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

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## **APPENDIX A**

### **BOND ORDINANCE**

Ordinance 123753, passed by the City Council on November 21, 2011, which is set forth in this appendix, authorized the issuance of the new money portion of the Bonds. Ordinance 121938, as amended, passed by the City Council on September 26, 2005, authorized the refunding of all outstanding and future Parity Bonds. The material provisions of both ordinances are substantially identical.

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ORDINANCE 123753

AN ORDINANCE relating to financing of the drainage and wastewater system of The City of Seattle; adopting a system or plan of additions and betterments to and extensions of the drainage and wastewater system; authorizing the issuance and sale of drainage and wastewater revenue bonds, in one or more series, for the purposes of paying all or part of the cost of carrying out that system or plan, providing for the reserve requirement for bonds, and issuing and selling the bonds; providing for the terms, conditions, covenants and manner of sale of the bonds; describing the lien of the bonds; creating certain accounts of the City relating to the bonds; and ratifying and confirming certain prior acts.

Passed [\_\_\_\_], 2011

ORDINANCE \_\_\_\_\_

AN ORDINANCE relating to financing of the drainage and wastewater system of The City of Seattle; adopting a system or plan of additions and betterments to and extensions of the drainage and wastewater system; authorizing the issuance and sale of drainage and wastewater revenue bonds, in one or more series, for the purposes of paying all or part of the cost of carrying out that system or plan, providing for the reserve requirement for bonds, and issuing and selling the bonds; providing for the terms, conditions, covenants and manner of sale of the bonds; describing the lien of the bonds; creating certain accounts of the City relating to the bonds; and ratifying and confirming certain prior acts.

WHEREAS, The City of Seattle (the "City") owns, maintains and operates a system of sanitary sewerage and storm and surface water drainage as part of Seattle Public Utilities (the "Drainage and Wastewater System"), which Drainage and Wastewater 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 Drainage and Wastewater System as set forth in this ordinance (the "Plan of Additions"); and

WHEREAS, pursuant to the bond legislation described in Exhibit A, the City issued its drainage and wastewater revenue bonds described in Exhibit A, and provided for the issuance of additional bonds having a lien and charge on the Net Revenue of the Drainage and Wastewater System on a parity of lien with those bonds ("Parity Bonds") upon compliance with certain conditions; and

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

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

**Section 1. Definitions.** As used in this ordinance (including the recitals and exhibits) the words hereinafter defined shall have the meanings set forth in this Section.

**"Accreted Value"** means (a) with respect to any Capital Appreciation Bonds, as of the time of calculation, the sum of the amount set forth in the ordinance authorizing the Capital Appreciation Bonds as the amount representing the initial principal amount of such Capital Appreciation Bonds plus the interest accumulated, compounded and unpaid thereon as of the most recent compounding date, or (b) with respect to Original Issue Discount Bonds, as of the

1 date of calculation, the amount representing the initial public offering price of such Original  
2 Issue Discount Bonds plus the amount of the discounted principal which has accreted since the  
3 date of issue; in each case the Accreted Value shall be determined in accordance with the  
4 provisions of the ordinance authorizing the issuance of such bonds.

5 **“Adjusted Annual Debt Service”** for any fiscal year means Annual Debt Service minus  
6 (1) an amount equal to ULID Assessments due in that year and not delinquent, (2) an amount  
7 equal to earnings from investments in the Reserve Subaccount and (3) Annual Debt Service  
8 provided for by Parity Bond proceeds.

9 **“Adjusted Gross Revenue”** means, for any period, Gross Revenue plus withdrawals  
10 from the Rate Stabilization Account made during that period, and less deposits into the Rate  
11 Stabilization Account made during that period. *Upon the redemption or defeasance of all then-*  
12 *outstanding 1999 Bonds, 2001 Bonds, 2002 Bonds and 2004 Bonds, “Adjusted Gross Revenue”*  
13 *shall be defined as follows: “Adjusted Gross Revenue” means, for any period, Gross Revenue*  
14 *plus withdrawals from the Rate Stabilization Account made during that period, and minus*  
15 *(1) ULID Assessments, (2) earnings from investments in the Reserve Subaccount and (3) deposits*  
16 *into the Rate Stabilization Account made during that period.*

17 **“Adjusted Net Revenue”** means Adjusted Gross Revenue less Operating and  
18 Maintenance Expense.

19 **“Alternate Security”** means any insurance policy, collateral, security, letter of credit,  
20 standby bond purchase agreement, guaranty, surety bond, line of credit or similar credit  
21 enhancement device providing for or securing the payment of the principal of and interest on  
22 Parity Bonds, regarding the use of which the City receives (a) the approval of any Bond Insurer,  
23 and (b) written confirmation from Moody’s and S&P to the effect that the use of such Alternate  
24 Security will not cause a reduction in any then-existing ratings for any of the Parity Bonds.  
25  
26  
27  
28

1                   **“Annual Debt Service”** for any calendar year means the sum of the amounts required in  
2 such calendar year to pay:

3                   (a)     the interest due in such calendar year on all Parity Bonds outstanding,  
4 excluding interest to be paid from the proceeds of the sale of Parity Bonds or other bonds; and

5                   (b)     the principal of all outstanding Serial Bonds due in such calendar year;  
6 and

7                   (c)     the Sinking Fund Requirement, if any, for such calendar year.

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

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

16                   1.     Generally. Except as otherwise provided by subparagraph 2 below with respect to  
17 Variable Interest Rate Bonds, and by subparagraph 3 below with respect to Parity Bonds with  
18 respect to which a Payment Agreement is in force, interest on any issue of Parity Bonds shall be  
19 calculated based on the actual amount of accrued, accreted or otherwise accumulated interest that  
20 is payable in respect of that issue taken as a whole, at the rate or rates set forth in the applicable  
21 Parity Bond Ordinance.

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

26                   3.     Interest on Parity Bonds With Respect to Which a Payment Agreement is in  
27 Force. Debt service on Parity Bonds with respect to which a Payment Agreement is in force  
28

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

22  
23 4. Parity Payment Agreements. No additional debt service shall be taken into  
24 account with respect to a Parity Payment Agreement for any period during which Payment  
25 Agreement Payments on that Parity Payment Agreement are taken into account in determining  
26 Annual Debt Service on related Parity Bonds under subparagraph 3 of this definition. However,  
27 for any period during which Payment Agreement Payments are not taken into account in  
28 calculating Annual Debt Service on any outstanding Parity Bonds because the Parity Payment

1 Agreement is not then related to any outstanding Parity Bonds, payments on that Parity Payment  
2 Agreement shall be taken into account by assuming:

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

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

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

21 **"Bond Counsel"** means a firm of lawyers nationally recognized and accepted as bond  
22 counsel and so employed by the City for any purpose under this ordinance applicable to the use  
23 of that term.

24 **"Bond Insurance Policy"** means a municipal bond new issue insurance policy issued by  
25 the Bond Insurer and approved by the City Council by the Bond Resolution or by ordinance, and  
26 guaranteeing the timely payment of principal of and interest on any issue of Parity Bonds in  
27 accordance with the terms of that policy.  
28



1           **"Bond Insurer"** means an insurance company or other financial institution that provides  
2 a Bond Insurance Policy.

3           **"Bond Register"** means the books or records maintained by the Bond Registrar for the  
4 purpose of registration of the Bonds.

5           **"Bond Registrar"** or **"Registrar"** means the fiscal agent of the State of Washington, or  
6 any successor bond registrar selected by the City, whose duties include the registration and  
7 authentication of the Bonds, maintenance of the Bond Register, effecting transfer of ownership  
8 of the Bonds, and paying the principal of and premium, if any, and interest on the Bonds.

9           **"Bond Resolution"** means the resolution or resolutions of the City Council adopted  
10 pursuant to this ordinance to specify certain additional provisions of each series of the Bonds and  
11 their sale.

12           **"Bonds"** means the bonds issued in one or more series from time to time pursuant to,  
13 under the authority of and for the purposes provided in this ordinance.

14           **"Capital Appreciation Bonds"** means any revenue obligations of the Drainage and  
15 Wastewater System all or a portion of the interest on which is compounded and accumulated at  
16 the rates and on the dates set forth in the ordinance authorizing those obligations and is payable  
17 only upon redemption or on the maturity date of such obligations. Obligations which are issued  
18 as Capital Appreciation Bonds, but later convert to obligations on which interest is paid  
19 periodically, shall be Capital Appreciation Bonds until the conversion date and thereafter shall  
20 no longer be Capital Appreciation Bonds, but shall be treated as having a principal amount equal  
21 to their Accreted Value on the conversion date.

22           **"CIP"** means the portion or portions relating to the Drainage and Wastewater System of  
23 the "2012-2017 Capital Improvement Program" of the City as adopted by the City in  
24 Ordinance \_\_\_\_\_, together with any previously adopted Capital Improvement Program of  
25 the City, as the CIP may be amended, updated, supplemented or replaced from time to time by  
26 ordinance.

27           **"City"** means The City of Seattle, Washington.  
28



1           **"City Council"** means the City Council of the City.

2           **"Closing Date"** means the date on which a series of Bonds is delivered to the initial  
3 purchaser or purchasers thereof upon payment in full therefor.

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

6           **"Construction Account"** means the "Drainage and Wastewater Construction Account,  
7 2012," created in the Drainage and Wastewater Fund by this ordinance.

8           **"Contract Resource Obligation"** means an obligation of the City, designated as a  
9 Contract Resource Obligation and entered into pursuant to Section 24.

10           **"Coverage Requirement"** means, with respect to the Parity Bonds, Net Revenue and  
11 money from any other lawful source at least equal to 1.25 times the Average Annual Debt  
12 Service. *Upon the redemption or defeasance of all then-outstanding 1999 Bonds, 2001 Bonds,*  
13 *2002 Bonds and 2004 Bonds, "Coverage Requirement" shall be defined as follows: "Coverage*  
14 *Requirement" means Adjusted Net Revenue at least equal to 1.25 times Adjusted Annual Debt*  
15 *Service.*

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

19           **"Drainage and Wastewater Fund"** means the fund created by Ordinance 84390 and  
20 later renamed by Ordinance 114155.

21           **"Drainage and Wastewater System"** means the drainage and wastewater system of the  
22 City, including the sanitary sewerage and storm drainage systems (except properties, interests,  
23 and rights under the jurisdiction of the City's Parks and Recreation Department, Seattle Center  
24 Department, Seattle Public Utilities Water System, City Light Department and Fleets and  
25 Facilities Department), as the same may be added to, improved and extended for as long as any  
26 Parity Bonds are outstanding. "Drainage and Wastewater System" shall include any utility  
27 systems of the City hereinafter combined with the Drainage and Wastewater System, but not any  
28



1 separate utility system that may be created, acquired or constructed by the City as provided in  
2 Section 23.

3 **"DTC"** means The Depository Trust Company, New York, New York, as initial  
4 Securities Depository for the Bonds.

5 **"Future Parity Bonds"** means any and all revenue bonds and obligations of the  
6 Drainage and Wastewater System (other than the Bonds) issued hereafter the payment of the  
7 principal of and interest on which constitutes a lien and charge upon the Gross Revenue on a  
8 parity with the lien and charge upon such Gross Revenue for the Outstanding Parity Bonds and  
9 the Bonds. Future Parity Bonds may include Parity Payment Agreements and any other  
10 obligations issued in compliance with Section 17.

11 **"Government Obligations"** means direct obligations of, or obligations the principal of  
12 and interest on which are unconditionally guaranteed by, the United States Government.  
13

14 **"Gross Revenue"** means (a) all income, revenues, receipts and profits derived by the  
15 City through the ownership and operation of the Drainage and Wastewater System; (b) the  
16 proceeds received by the City directly or indirectly from the sale, lease or other disposition of  
17 any of the properties, rights or facilities of the Drainage and Wastewater System; (c) Payment  
18 Agreement Receipts, to the extent that such receipts are not offset by Payment Agreement  
19 Payments; and (d) the investment income earned on money held in any fund or account of the  
20 City, including any bond redemption funds and the accounts therein, in connection with the  
21 ownership and operation of the Drainage and Wastewater System. Gross Revenue does not  
22 include: (a) insurance proceeds compensating the City for the loss of a capital asset; (b) income  
23 derived from investments irrevocably pledged to the payment of any defeased bonds payable  
24 from Gross Revenue; (c) investment income set aside for or earned on money in any fund or  
25 account created or maintained solely for the purpose of complying with the arbitrage rebate  
26 provisions of the Code; (d) any gifts, grants, donations or other funds received by the City from  
27 any State or federal agency or other person if such gifts, grants, donations or other funds are the  
28 subject of any limitation or reservation imposed by the donor or grantor or imposed by law or



1 administrative regulation to which the donor or grantor is subject, limiting the application of  
2 such funds in a manner inconsistent with the application of Gross Revenue hereunder; (e) the  
3 proceeds of any borrowing for capital improvements (or the refinancing thereof); (f) the proceeds  
4 of any liability or other insurance (excluding business interruption insurance or other insurance  
5 of like nature insuring against the loss of revenues); (g) general ad valorem taxes, excise taxes  
6 and special assessments, including interest and penalties thereon; and (h) earnings of any  
7 separate utility system that may be created, acquired, or constructed by the City pursuant to  
8 Section 23.

9  
10 **"Independent Consulting Engineer"** means the independent person(s) or firm(s)  
11 selected by the City having a favorable reputation for skill and experience with drainage and  
12 wastewater systems of comparable size and character to the Drainage and Wastewater System in  
13 such areas as and relevant to the purposes for which they were retained.

14 **"Letter of Representations"** means the Blanket Issuer Letter of Representations dated  
15 October 4, 2006, between the City and DTC, as it may be amended from time to time.

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

19 **"Moody's"** means Moody's Investors Service, Inc.

20 **"Net Revenue of the Drainage and Wastewater System"** or **"Net Revenue"** means the  
21 Gross Revenue less Operating and Maintenance Expense paid from Gross Revenue.

22 **"Operating and Maintenance Expense"** means all reasonable expenses incurred by the  
23 City in causing the Drainage and Wastewater System to be operated and maintained in good  
24 repair, working order and condition, including without limitation payments (other than payments  
25 out of proceeds of Parity Bonds or other obligations not issued to pay current expenses of the  
26 Drainage and Wastewater System) into reasonable reserves for items of operating or  
27 maintenance expense the payment of which is not immediately required, payments of premiums  
28 for insurance, if any, on the Drainage and Wastewater System, any State-imposed taxes, and also



1 including all payments made to another municipal corporation or other agency for treatment or  
2 disposal of sewage, and amounts due under any Contract Resource Obligation under the  
3 conditions described in Section 24, but excluding depreciation and amortization, and any City  
4 taxes imposed or levied on the Drainage and Wastewater System or Gross Revenue or payments  
5 in lieu of taxes payable from the Gross Revenue of the Drainage and Wastewater System, and  
6 payments of claims or judgments. Accounting for those expenses shall be in accordance with  
7 generally accepted accounting principles.  
8

9 **“Original Issue Discount Bonds”** means revenue obligations of the Drainage and  
10 Wastewater System which are sold at an initial public offering price of less than 95% of their  
11 face value and which are specifically designated as Original Issue Discount Bonds by the  
12 ordinance or Bond Resolution under which such obligations are issued.

13 **“Outstanding Parity Bonds”** means the then outstanding 1999 Bonds, 2001 Bonds,  
14 2002 Bonds, 2004 Bonds, 2006 Bonds, 2008 Bonds and 2009 Bonds, as described in Exhibit A.

15 **“Parity Bond Account”** means the “Drainage and Wastewater Revenue Bond Account,  
16 1990” created by Ordinance 115098 in the Drainage and Wastewater Fund for the purpose of  
17 paying and securing the principal of and interest on Parity Bonds.

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

22 **“Parity Bonds”** means the Outstanding Parity Bonds, the Bonds and any outstanding  
23 Future Parity Bonds.

24 **“Parity Payment Agreement”** means a Payment Agreement under which the City’s  
25 obligations are expressly stated to constitute a charge and lien on the Net Revenue of the  
26 Drainage and Wastewater System equal in rank with the charge and lien upon such Net Revenue  
27 required to be paid into the Parity Bond Account to pay and secure the payment of the principal  
28 of and interest on Parity Bonds.



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

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

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

14           **"Permitted Investments"** means any legal investment permitted for money of the City.

15           **"Plan of Additions"** means the CIP, as it may be modified hereafter as described herein.

16           **"Principal Amount"** means, at the time of calculation, (a) with respect to any Capital  
17 Appreciation Bond, the Accreted Value thereof (the difference between the stated amount to be  
18 paid at maturity and the Accreted Value being deemed unearned interest), and (b) with respect to  
19 any Original Issue Discount Bond, the Accreted Value thereof, unless the ordinance or Bond  
20 Resolution under which such obligation was issued shall specify a different amount, in which  
21 case, the terms of the ordinance or Bond Resolution shall control.

22           **"Principal and Interest Subaccount"** means the subaccount of that name created in the  
23 Parity Bond Account by Ordinance 115098 for the payment of the principal of and interest on  
24 Parity Bonds.

25           **"Qualified Counterparty"** means a party (other than the City or a person related to the  
26 City) who is the other party to a Payment Agreement and who is qualified to act as the other  
27 party to a Payment Agreement under any applicable laws of the State.  
28



1           **"Qualified Insurance"** means any municipal bond insurance policy or surety bond  
2 issued by any insurance company licensed to conduct an insurance business in any state of the  
3 United States (or by a service corporation acting on behalf of one or more such insurance  
4 companies) which insurance company or companies, as of the time of issuance of such policy or  
5 surety bond, are rated in one of the two highest rating categories by Moody's and S&P or their  
6 comparably recognized business successors.

7           **"Rate Stabilization Account"** means the account of that name previously established by  
8 Section 26 of Ordinance 118974.

9           **"Rating Agencies"** means Moody's and S&P, and their successors and any other  
10 nationally-recognized securities rating agency or agencies rating Parity Bonds at the request of  
11 the City.

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

15           **"Registered Owner"** means the person shown on the Bond Register as the owner of one  
16 or more Bonds.

17           **"Reserve Requirement"** means an amount equal to the least of the Maximum Annual  
18 Debt Service at the time of calculation, 1.25 times Average Annual Debt Service at the time of  
19 calculation or 10% of the proceeds of Parity Bonds at the time of the dates of their respective  
20 issuances and payments therefor by the initial purchasers. The Reserve Requirement may be  
21 satisfied to the extent of the amount payable under an Alternate Security which contains a  
22 contract to provide money to pay debt service on Parity Bonds. The Reserve Requirement shall  
23 be provided by cash, Permitted Investments or Alternate Security or any combination thereof,  
24 and shall be subject to the provisions of Section 14(d). For any issue of Parity Bonds, the  
25 Reserve Requirement may be provided within five years after the issuance of such Parity Bonds  
26 in accordance with Section 17.  
27  
28



1           **“Reserve Subaccount”** means the subaccount of that name created in the Parity Bond  
2 Account by Ordinance 115098 for the purpose of securing the payment of the principal of and  
3 interest on Parity Bonds.

4           **“Securities Depository”** means DTC or such other securities depositories as the City  
5 may designate in a certificate of the City delivered to the Bond Registrar.

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

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

10           **“Sinking Fund Requirement”** means, for any calendar year, the principal amount and  
11 premium, if any, of Term Bonds required to be purchased, redeemed, paid at maturity or paid  
12 into any Sinking Fund Account for such calendar year as established by the Parity Bond  
13 Ordinance authorizing the issuance of such Term Bonds.

14           **“S&P”** means Standard and Poor’s, a Division of the McGraw-Hill Companies, Inc.

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

16           **“Tax Credit Subsidy Bond”** means any bond that is designated by the City as a tax  
17 credit bond pursuant to the Code, and which is further designated as a “qualified bond” under  
18 Section 6431 or similar provision of the Code, and with respect to which the City is eligible to  
19 receive a tax credit subsidy payment.

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

22           **“Tax-Exempt Bonds”** means Bonds of any series, the interest on which is intended on  
23 the date of issuance to be excluded from gross income for federal income tax purposes.

24           **“Term Bonds”** means any bonds of any single issue or series designated as Term Bonds  
25 in the ordinance or resolution authorizing the issuance of such bonds.

26           **“ULID Assessments”** means all assessments levied and collected in a utility local  
27 improvement district of the City created for the acquisition or construction of additions to and  
28



1 betterments and extensions of the Drainage and Wastewater System if (and only if) those  
2 assessments are pledged to be paid into the Parity Bond Account. ULID Assessments shall not  
3 include any prepaid assessments paid into a construction fund or account. ULID Assessments  
4 shall include installments thereof and any interest or penalties thereon.

5  
6 **“Undertaking”** means the City’s undertaking in the Bond Resolution to provide certain  
7 continuing disclosure as provided by Section 18.

8 **“Variable Interest Rate”** means any variable interest rate or rates to be borne by any  
9 Parity Bonds. The method of computing such a variable interest rate shall be as specified in the  
10 Parity Bond Ordinance authorizing or specifying the terms of such Parity Bonds, which Parity  
11 Bond Ordinance also shall specify either (1) the particular period or periods of time or manner of  
12 determining such period or periods of time for which each value of such variable interest rate  
13 shall remain in effect or (2) the time or times upon which any change in such variable interest  
14 rate shall become effective.

15 **“Variable Interest Rate Bonds”** means, for any period of time, any Parity Bonds that  
16 bear a Variable Interest Rate during that period, except that Parity Bonds shall not be treated as  
17 Variable Interest Rate Bonds if the net economic effect of interest rates on particular Parity  
18 Bonds of an issue and interest rates on other Parity Bonds of the same issue, as set forth in the  
19 applicable Parity Bond Ordinance, or the net economic effect of a Payment Agreement with  
20 respect to particular Parity Bonds, in either case is to produce obligations that bear interest at a  
21 fixed interest rate; and Parity Bonds with respect to which a Payment Agreement is in force shall  
22 be treated as Variable Interest Rate Bonds if the net economic effect of the Payment Agreement  
23 is to produce obligations that bear interest at a Variable Interest Rate.

24 **Section 2. Adoption of Plan of Additions.** The CIP constitutes a system or plan of  
25 additions and betterments to and extensions of the Drainage and Wastewater System (the “Plan  
26 of Additions”). To the extent not previously specified, adopted and ordered to be carried out by  
27 ordinance of the City, the City specifies, adopts and orders to be carried out the Plan of  
28 Additions as generally provided for in the CIP. The estimated cost of the Plan of Additions, as



1 nearly as may be determined, is declared to be \$575.5 million, of which approximately \$121.1  
2 million is expected to be financed from the proceeds of the Bonds.

3 The Plan of Additions shall include any amendments, updates, supplements or  
4 replacements to the CIP, all of which automatically shall constitute amendments to the Plan of  
5 Additions. The Plan of Additions also may be modified, without amending the CIP, to include  
6 other improvements if the City determines by ordinance that those amendments or other  
7 improvements constitute a system or plan of additions to or betterments or extensions of the  
8 Drainage and Wastewater System.

9 The Plan of Additions includes the purchase and installation of all materials, supplies,  
10 appliances, equipment and facilities, the acquisition of all permits, franchises, property and  
11 property rights, other capital assets and all engineering, consulting and other professional  
12 services and studies (whether performed by the City or by other public or private entities)  
13 necessary or convenient to carry out the Plan of Additions.

14 **Section 3. Authorization and Description of Bonds.** The City shall issue and sell  
15 the Bonds in the aggregate principal amount of not to exceed \$87 million for the purposes of  
16 paying all or part of the cost of carrying out the Plan of Additions, providing for the Reserve  
17 Requirement for the Parity Bonds, and issuing and selling the Bonds. The Bonds may be issued  
18 in one or more series. Each series of the Bonds shall be issued as Parity Bonds and may be  
19 combined with other Parity Bonds authorized separately.

20 The Bonds shall be dated and have such title, year and series or other designation as  
21 determined by the Director of Finance or as specified by the Bond Resolution; shall be in the  
22 denomination of \$5,000 or any integral multiple thereof within a single maturity or such other  
23 denomination specified in the Bond Resolution; and shall be numbered separately, in the manner  
24 and with any additional designation as the Bond Registrar deems necessary for the purpose of  
25 identification. The Bonds shall mature on the dates and in the amounts and bear interest payable  
26 on the dates and at the rates specified in the Bond Resolution, except that the net interest cost  
27  
28



1 shall not exceed a weighted average rate of ten percent per annum. The final maturity of any  
2 series of Bonds shall not exceed 40 years from the issue date for that series.

3 The Bonds shall be subject to optional or mandatory redemption, purchase or defeasance  
4 on the terms and at the times specified in the Bond Resolution, and all or some of the Bonds may  
5 be Term Bonds with mandatory redemption amounts, all as specified by the Bond Resolution.  
6 The Director of Finance also may specify in Bond closing documents the respective amounts of  
7 each maturity of the Bonds allocated to paying the costs of carrying out the Plan of Additions.

8 **Section 4. Bond Resolution.** With respect to each series of Bonds, the City Council  
9 may adopt the Bond Resolution and in that resolution may provide for the matters described in  
10 this ordinance, including the manner of sale and delivery of and payment for the Bonds, and such  
11 other matters that the City Council deems necessary and appropriate to carry out the purposes of  
12 this ordinance. Once adopted, the Bond Resolution shall be deemed a part of this ordinance as if  
13 set forth herein.

14 For each series of Bonds, the Bond Resolution may provide for Qualified Insurance or  
15 Alternate Security, and conditions or covenants relating thereto, including additional terms,  
16 conditions and covenants relating to the Bonds that are required by the provider of Qualified  
17 Insurance, Alternate Security, letter of credit or other credit facility and are consistent with the  
18 provisions of this ordinance, including but not limited to restrictions on investments and  
19 requirements of notice to and consent of the provider of Qualified Insurance, Alternate Security,  
20 letter of credit or other credit facility.

21 For each series of Bonds, the Bond Resolution may approve and authorize the execution  
22 and delivery on behalf of the City of any contracts consistent with the provisions of this  
23 ordinance for which the City's approval is necessary or to which the City is a party and that are  
24 related or incidental to the initial issuance and sale of the Bonds, the establishment of the interest  
25 rate or rates on the Bonds and any redemption of the Bonds, including but not limited to  
26 securities depository agreements, agreements relating to the provision of Qualified Insurance,  
27  
28



1 Alternate Security, letter of credit or other credit facility, Payment Agreements and similar  
2 contracts for such purposes.

3 The Bond Resolution may specify that a series of Bonds is a series of Tax-Exempt  
4 Bonds, or is a series of Tax Credit Subsidy Bonds.

5 The City Council may specify in the Bond Resolution the amount, if any, from the  
6 proceeds of or accrued interest on the Bonds to be deposited into specified funds, subfunds,  
7 accounts and subaccounts. In the absence of such a determination and specification in the Bond  
8 Resolution, the Director of Finance may make such determination and specification.

9 The City Council may, in the Bond Resolution, authorize the Director of Finance to serve  
10 as its designated representative and to accept, on behalf of the City, an offer to purchase the  
11 Bonds, which offer must be consistent with the terms of this ordinance and the Bond Resolution.  
12 Any such authorization of the Director of Finance to accept an offer to purchase the Bonds must  
13 also be consistent with terms for the bonds and/or parameters with respect to the Bonds pursuant  
14 to RCW 39.46.040.

15 **Section 5. Registration and Transfer or Exchange of Bonds.** The Bonds shall be  
16 issued only in registered form as to both principal and interest and recorded on the Bond  
17 Register. The Bond Register shall contain the name and mailing address of the Registered  
18 Owner of each Bond and the principal amount and number of each of the Bonds held by each  
19 Registered Owner.

20 Bonds surrendered to the Bond Registrar may be exchanged for Bonds in any authorized  
21 denomination of an equal aggregate principal amount and of the same series, interest rate and  
22 maturity. Bonds may be transferred only if endorsed in the manner provided thereon and  
23 surrendered to the Bond Registrar. Any exchange or transfer shall be without cost to the  
24 Registered Owner or transferee. The Bond Registrar shall not be obligated to exchange or  
25 transfer any Bond after notice of redemption of such Bond has been prepared.

26 The City appoints DTC as initial Securities Depository for the Bonds. For so long as  
27 DTC is the Securities Depository for the Bonds, DTC or its nominee shall be deemed to be the  
28



1 Registered Owner of the Bonds for all purposes hereunder, and all references in this ordinance or  
2 the Bond Resolution to the Registered Owners of the Bonds shall mean DTC or its nominee and  
3 shall not mean the owners of any beneficial interests in the Bonds. The Bonds so registered shall  
4 be held in fully immobilized form by DTC as depository in accordance with the provisions of the  
5 Letter of Representations.  
6

7 Bonds executed and delivered in fully immobilized form shall be executed and delivered  
8 in the form of one fully-registered immobilized certificate for each maturity of each series of the  
9 Bonds representing the aggregate principal amount of the Bonds of that maturity, which Bonds  
10 shall (except as provided below for the discontinuation or substitution of Securities Depository)  
11 be registered in the name of the Securities Depository or its nominee. For so long as DTC serves  
12 as Securities Depository for the Bonds, the Bonds shall be registered in the name of Cede & Co.,  
13 as nominee of DTC; however, if DTC shall request that the Bonds be registered in the name of a  
14 different nominee, the Bond Registrar shall exchange all or any portion of the Bonds for an equal  
15 aggregate principal amount of Bonds registered in the name of such other nominee or nominees  
16 of DTC. No person other than DTC or its nominee shall be entitled to receive from the City or  
17 the Bond Registrar any Bond or any other evidence of ownership of the Bonds, or any right to  
18 receive any payment in respect thereof, unless DTC or its nominee shall transfer record  
19 ownership of all or any portion of the Bonds on the Bond Register, in connection with  
20 discontinuing the book entry system as provided below or otherwise.

21 For so long as the Bonds are registered in the name of DTC or any nominee thereof, all  
22 payments of the principal of, or premium, if any, or interest with respect to the Bonds shall be  
23 made to DTC or its nominee in immediately available funds on the dates provided for such  
24 payments under this ordinance and the Bond Resolution and at such times and in the manner  
25 provided in the Letter of Representations. Each such payment to DTC or its nominee shall be  
26 valid and effective to fully discharge all liability of the City or the Bond Registrar with respect to  
27 the principal of, premium, if any, or interest with respect to the Bonds to the extent of the sum or  
28 sums so paid. In the event of the redemption of less than all of the Bonds of any maturity of a



1 series, the Bond Registrar shall not require surrender by DTC or its nominee of the Bonds so  
2 redeemed, and DTC or its nominee may retain such Bonds and make an appropriate notation  
3 thereon as to the amount of such partial redemption. DTC shall deliver to the Bond Registrar,  
4 upon request, a written confirmation of such partial redemption. The records maintained by the  
5 Bond Registrar shall be conclusive as to the amount of the Bonds of such maturity that have been  
6 redeemed.

7 All transfers of beneficial ownership interests in Bonds registered in the name of DTC or  
8 its nominee shall be effected by the procedures of DTC's participants and/or indirect participants  
9 for recording and transferring the ownership of beneficial interests in bonds.

10 The City and the Bond Registrar may treat DTC (or its nominee) as the sole and  
11 exclusive Registered Owner of the Bonds registered in its name for the purposes of payment of  
12 the principal of, premium, if any, or interest with respect to those Bonds, selecting Bonds or  
13 portions thereof to be redeemed, giving any notice permitted or required to be given to  
14 Registered Owners under this ordinance or the Bond Resolution, registering the transfer of  
15 Bonds, obtaining any consent or other action to be taken by Registered Owners of Bonds and for  
16 all other purposes whatsoever; and the City and the Bond Registrar shall not be affected by any  
17 notice to the contrary. The City and the Bond Registrar shall not have any responsibility or  
18 obligation to any direct or indirect DTC participant, any person claiming a beneficial ownership  
19 interest in the Bonds under or through DTC or any such participant, or any other person which is  
20 not shown on the Bond Register as being a Registered Owner of Bonds, with respect to: (i) the  
21 Bonds; (ii) any records maintained by DTC or any such participant; (iii) the payment by DTC or  
22 any such direct or indirect participant of any amount in respect of the principal of, premium, if  
23 any, or interest with respect to the Bonds; (iv) any notice which is permitted or required to be  
24 given to Registered Owners of Bonds under this ordinance or the Bond Resolution; (v) the  
25 selection by DTC or any such direct or indirect participant of any person to receive payment in  
26 the event of a partial redemption of the Bonds; or (vi) any consent given or other action taken by  
27 DTC as Registered Owner of the Bonds.  
28



1 For so long as the Bonds are registered in the name of DTC or any nominee thereof, all  
2 notices required or permitted to be given to the Registered Owners of such Bonds under this  
3 ordinance or the Bond Resolution shall be given to DTC as provided in the Letter of  
4 Representations.

5 In connection with any notice or other communication to be provided to Registered  
6 Owners pursuant to this ordinance or the Bond Resolution by the City or the Bond Registrar with  
7 respect to any consent or other action to be taken by Registered Owners of the Bonds, DTC shall  
8 consider the date of receipt of notice requesting such consent or other action as the record date  
9 for such consent or other action; however, the City or the Bond Registrar may establish a special  
10 record date for such consent or other action and shall give DTC notice of such special record  
11 date not less than 15 calendar days in advance of such special record date to the extent practical.

12 Any successor Bond Registrar, in its written acceptance of its duties under this ordinance  
13 and the Bond Resolution, shall agree to take any actions necessary from time to time to comply  
14 with the requirements of the Letter of Representations.

15 The book-entry system for registration of the ownership of the Bonds delivered in fully  
16 immobilized form may be discontinued at any time if: (i) after notice to the City and the Bond  
17 Registrar, DTC determines to resign as Securities Depository for the Bonds; or (ii) after notice to  
18 DTC and the Bond Registrar, the City determines that a continuation of the system of book-entry  
19 transfers through DTC (or through a successor Securities Depository) is not in the best interests  
20 of the City. In each of such events (unless, in the case described in clause (i) above, the City  
21 appoints a successor Securities Depository), the Bonds shall be delivered in registered certificate  
22 form to such persons, and in such maturities and principal amounts, as may be designated by  
23 DTC, but without any liability on the part of the City or the Bond Registrar for the accuracy of  
24 such designation. Whenever DTC requests the City and the Bond Registrar to do so, or  
25 whenever the City requests DTC and the Bond Registrar to do so after the determination by the  
26 City to replace DTC with a successor Securities Depository, the City and the Bond Registrar  
27  
28



1 shall cooperate with DTC in taking appropriate action after reasonable notice to arrange for  
2 another Securities Depository to maintain custody of certificates evidencing the Bonds.

3       **Section 6.     Mutilated, Lost, Stolen and Destroyed Bonds.** In case any Bonds issued  
4 hereunder shall become mutilated or be destroyed, stolen or lost, the City may, if not then  
5 prohibited or otherwise required by law, cause to be executed and delivered a new Bond of like  
6 amount, series, interest rate, maturity date and tenor in exchange and substitution for and upon  
7 cancellation of such mutilated Bonds, or in lieu of and in substitution for such destroyed, stolen  
8 or lost Bonds, upon payment by the Registered Owner thereof of the reasonable expenses and  
9 charges of the City and the Bond Registrar in connection therewith, and in the case of a Bond  
10 destroyed, stolen or lost, the filing with the Bond Registrar of evidence satisfactory to the City  
11 that such Bond was destroyed, stolen or lost, and of the ownership thereof, and furnishing the  
12 City and the Bond Registrar with indemnity satisfactory to each of them. If the mutilated,  
13 destroyed, stolen or lost Bond already has matured or been called for redemption in accordance  
14 with its terms it shall not be necessary to issue a new Bond prior to payment. If the provisions of  
15 State law at any time differ from the provisions of this Section with respect to the requirements  
16 or procedures for replacing or otherwise handling mutilated, lost, stolen or destroyed Bonds, then  
17 the provisions of State law shall prevail.

18       **Section 7.     Payment of Bond Principal and Interest.** Principal of, premium, if any,  
19 and interest on the Bonds shall be payable in lawful money of the United States of America.  
20 Interest on the Bonds shall be paid by checks or drafts mailed by the Bond Registrar on the  
21 interest payment date to the Registered Owners at the addresses appearing on the Bond Register  
22 on the 15th day of the month preceding the interest payment date (or other record date  
23 established by the Bond Resolution) (the "Record Date") or, at the request of a Registered Owner  
24 of \$1,000,000 or more in aggregate principal amount of Bonds, by wire transfer to an account in  
25 the United States designated in writing by such Registered Owner prior to the Record Date.  
26 Principal of and premium, if any, on the Bonds shall be payable upon presentation and surrender  
27 of the Bonds by the Registered Owners to the Bond Registrar. Notwithstanding the foregoing,  
28



1 payment of any Bonds registered in the name of DTC or its nominee shall be made in accordance  
2 with the Letter of Representations.

3 The Bonds shall be payable solely out of the Parity Bond Account. The Bonds shall not  
4 be general obligations of the City.

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

6 **(a) Optional Redemption.** All or some of the Bonds may be subject to redemption  
7 at the option of the City at the times and on the terms set forth in the Bond Resolution.

8 **(b) Mandatory Redemption.** The City shall redeem any Term Bonds, if not  
9 redeemed under the optional redemption provisions set forth in the Bond Resolution or  
10 purchased under the provisions set forth below, randomly (or in such other manner as the Bond  
11 Registrar shall determine) at par plus accrued interest on the dates and in the years and principal  
12 amounts as set forth in the Bond Resolution.

13 If the City redeems Term Bonds under the optional redemption provisions set forth in the  
14 Bond Resolution, purchases or defeases Term Bonds, the Term Bonds so redeemed, purchased or  
15 defeased (irrespective of their actual redemption or purchase price) shall be credited at the par  
16 amount thereof against one or more scheduled mandatory redemption amounts for those Term  
17 Bonds. The Director of Finance shall determine the manner in which the credit is to be allocated  
18 and shall notify the Bond Registrar in writing of such allocation at least 60 days prior to the  
19 earliest mandatory redemption date for that maturity of Term Bonds for which notice of  
20 redemption has not already been given. If no such determination is made, such allocation shall  
21 be on a pro rata basis unless otherwise provided in the Bond Resolution.

22 **(c) Partial Redemption.** Unless otherwise provided in the Bond Resolution,  
23 whenever less than all of the Bonds of a maturity of a series are to be redeemed, the Bond  
24 Registrar shall select the Bonds or portions thereof to be redeemed from the Bonds of that  
25 maturity randomly, or in such other manner as the Bond Registrar shall determine, except that, so  
26 long as the Bonds are registered in the name of DTC or its nominee, DTC shall select the Bonds  
27 or portions thereof to be redeemed in accordance with the Letter of Representations.  
28



1 Portions of the principal amount of any Bond, in integral multiples of \$5,000, may be  
2 redeemed unless otherwise provided in the Bond Resolution. If less than all of the principal  
3 amount of any Bond is redeemed, upon surrender of that Bond at either of the principal offices of  
4 the Bond Registrar, there shall be issued to the Registered Owner, without charge therefor, a new  
5 Bond (or Bonds, at the option of the Registered Owner) of the same series, maturity and interest  
6 rate in any of the denominations authorized by the Bond Resolution in the aggregate total  
7 principal amount remaining unredeemed.  
8

9 (d) **Purchase.** The City reserves the right and option to purchase any or all of the  
10 Bonds at any time at any price acceptable to the City plus accrued interest to the date of  
11 purchase. The principal amount of Term Bonds purchased pursuant to this Section shall be  
12 credited at the par amount thereof against the next mandatory redemption requirement that is at  
13 least 60 days after the date of purchase, or as otherwise directed by the Director of Finance.

14 (e) **Bonds to be Canceled.** All Bonds purchased or redeemed under this Section  
15 shall be canceled.

16 **Section 9. Notice of Redemption.** The City shall cause notice of any intended  
17 redemption of Bonds to be given not less than 20 nor more than 60 days prior to the date fixed  
18 for redemption by first-class mail, postage prepaid, to the Registered Owner of any Bond to be  
19 redeemed at the address appearing on the Bond Register at the time the Bond Registrar prepares  
20 the notice, and the requirements of this sentence shall be deemed to have been fulfilled when  
21 notice has been mailed as so provided, whether or not it is actually received by the Registered  
22 Owner of any Bond. Interest on Bonds called for redemption shall cease to accrue on the date  
23 fixed for redemption unless the Bond or Bonds called are not redeemed when presented pursuant  
24 to the call. In addition, the redemption notice shall be mailed by the Bond Registrar within the  
25 same period, postage prepaid, to the Rating Agencies, at their offices in New York, New York,  
26 or their successors, to any provider of Qualified Insurance or Alternate Security for the Bonds,  
27 and to such other persons and with such additional information as the Director of Finance shall  
28

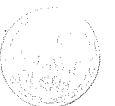
1 determine or as specified in the Bond Resolution, but none of these additional mailings shall be a  
2 condition precedent to the redemption of Bonds.

3 Notwithstanding the provisions of the foregoing paragraph, in the case of an optional  
4 redemption, the notice may state that the City retains the right to rescind the redemption notice  
5 and the related optional redemption of Bonds by giving a notice of rescission to the affected  
6 Registered Owners at any time on or prior to the scheduled optional redemption date. Any  
7 notice of optional redemption that is so rescinded shall be of no effect, and the Bonds for which  
8 the notice of optional redemption has been rescinded shall remain outstanding.

9 **Section 10. Failure to Redeem Bonds.** If any Bond is not redeemed when properly  
10 presented at its maturity or call date, the City shall be obligated to pay interest on that Bond at  
11 the same rate provided in the Bond from and after its maturity or call date until that Bond,  
12 principal, premium, if any, and interest, is paid in full or until sufficient money for its payment in  
13 full is on deposit in the Parity Bond Account and the Bond has been called for payment by giving  
14 notice of that call to the Registered Owner of each of those unpaid Bonds.

15 **Section 11. Form and Execution of Bonds.** The Bonds shall be typed, photocopied,  
16 printed or lithographed on good bond paper in a form consistent with the provisions of this  
17 ordinance, the Bond Resolution and State law, shall be signed by the Mayor of the City and  
18 Director of Finance, either or both of whose signatures may be manual or in facsimile, and the  
19 seal of the City or a facsimile reproduction thereof shall be impressed or printed thereon.

20 Only Bonds bearing a Certificate of Authentication in substantially the following form  
21 (with the designation, year, and series of the Bonds completed consistent with this ordinance),  
22 manually signed by the Bond Registrar, shall be valid or obligatory for any purpose or entitled to  
23 the benefits of this ordinance:  
24  
25  
26  
27  
28



CERTIFICATE OF AUTHENTICATION

This Bond is one of the fully registered The City of Seattle,  
Washington, Drainage and Wastewater Revenue Bonds, [Year],  
[Series], described in the Bond Ordinance.

Bond Registrar

By \_\_\_\_\_  
Authorized Signer

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 facsimile signature appears on the Bonds ceases to be an officer of  
the City authorized to sign bonds before the Bonds bearing his or her facsimile signature are  
authenticated or delivered by the Bond Registrar or issued by the City, those Bonds 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. Bond Registrar; Appointment of Other Agents.** The Bond Registrar  
shall keep, or cause to be kept, at its principal corporate trust office, sufficient books for the  
registration and transfer of the Bonds which shall be open to inspection by the City at all times.  
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 SMC Chapter 5.10 establishing a system of registration for  
the City's bonds and obligations, as that chapter now exists or may be amended.

The City reserves the right in its discretion to appoint special paying agents, registrars or  
trustees in connection with the payment of some or all of the principal of or interest on the



1 Bonds. If a new Bond Registrar is appointed by the City, notice of the name and address of the  
2 new Bond Registrar shall be mailed to the Registered Owners of the Bonds. The notice may be  
3 mailed together with the next interest payment due on the Bonds, but, to the extent practicable,  
4 shall be mailed not less than 15 days prior to a maturity date of the principal of any Bond.

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

11 **Section 13. Finding of Sufficiency of Revenues.** A series of Bonds will be issued  
12 only if the City finds and determines in the Bond Resolution that (a) the issuance and sale of the  
13 Bonds is in the best interest of the City and in the public interest, and (b) the Gross Revenues, at  
14 the rates established from time to time consistent with Section 15(a), will be sufficient, in the  
15 judgment of the City, to meet all expenses of operation and maintenance of the Drainage and  
16 Wastewater System and to provide the amounts previously pledged for the payment of all  
17 outstanding obligations payable out of the Gross Revenue (including Outstanding Parity Bonds)  
18 and pledged herein for the payment of the Bonds. In making such findings and determinations,  
19 the City shall have had due regard to the cost of operation and maintenance of the Drainage and  
20 Wastewater System and to any portion of the Gross Revenues pledged for the payment of any  
21 bonds, warrants or other indebtedness.

22 **Section 14. Security for Parity Bonds; Flow of Funds.**

23 (a) **Pledge; Lien and Charge of Parity Bonds.** The Net Revenue and all ULID  
24 Assessments are pledged for the payment of the Parity Bonds. This pledge shall constitute a lien  
25 and charge upon such Net Revenue and ULID Assessments prior and superior to any other liens  
26 and charges whatsoever.  
27  
28



1                   **(b) Priority Expenditure of Gross Revenue.** So long as any Parity Bonds are  
2 outstanding, all Gross Revenue, except for earnings on investments in the Parity Bond Account  
3 or other bond redemption fund, arbitrage rebate account, refunding escrow account or other trust  
4 account, unless those earnings are transferred from those accounts or funds to the Drainage and  
5 Wastewater Fund, shall be deposited as received in the Drainage and Wastewater Fund and shall  
6 be used, paid out and distributed in the following order of priority (by paragraphs):

7                   (i) To pay, together with any other money made available for such purpose,  
8 the Operating and Maintenance Expense;

9                   (ii) To make the required payments into the Principal and Interest Subaccount  
10 for all Parity Bonds;

11                   (iii) To make the required payments into the Reserve Subaccount for all Parity  
12 Bonds;

13                   (iv) To make all required payments into any revenue bond redemption fund  
14 created to pay and secure the payment of the principal of and interest on any revenue  
15 bonds or short-term obligations of the City having a lien and charge upon the Net  
16 Revenue of the Drainage and Wastewater System subordinate to the lien thereon for the  
17 payment of the principal of and interest on Parity Bonds; and

18                   (v) To redeem and retire any sewer revenue bonds of the City then  
19 outstanding or to purchase any or all of those bonds at a price not in excess of the price at  
20 which those bonds could be redeemed at the next call date; to make necessary additions,  
21 betterments, repairs, extensions and replacements of the Drainage and Wastewater  
22 System or other purposes proper to its maintenance and operation, including the payment  
23 of any City taxes or payments in lieu of taxes payable from Gross Revenue of the  
24 Drainage and Wastewater System, deposits to the Rate Stabilization Account, or for any  
25 other lawful Drainage and Wastewater System purpose.  
26

1           The City may transfer from any funds or accounts of the City legally available therefor,  
2 except bond redemption funds, any money therein to meet the required payments to be made into  
3 the Parity Bond Account.

4           **(c) Parity Bond Account; Deposit of Net Revenue.** The Parity Bond Account has  
5 been created in the Drainage and Wastewater Fund as a special fund of the City, which account  
6 is divided into two subaccounts, a Principal and Interest Subaccount and a Reserve Subaccount.  
7 So long as any Parity Bonds are outstanding against the Parity Bond Account, the City obligates  
8 and binds itself to set aside and pay into the Parity Bond Account from the Drainage and  
9 Wastewater Fund out of the Net Revenue and all ULID Assessments, certain fixed amounts  
10 without regard to any fixed proportion, namely:

11           (i) Into the Principal and Interest Subaccount, on or before each interest or  
12 principal and interest payment date, money which, together with the money already  
13 deposited in that account, is sufficient to pay the interest or principal and interest (as the  
14 case may be) due that date (including any mandatory redemption, mandatory sinking  
15 fund or optional redemption payments) on the Parity Bonds; and

16           (ii) Into the Reserve Subaccount an amount necessary to provide for the  
17 Reserve Requirement for the Parity Bonds within the time and in the manner required by  
18 this ordinance. The amount necessary to satisfy the Reserve Requirement upon the  
19 issuance of the Bonds may be funded (i) on the date of issue of the Bonds, by a deposit  
20 from the proceeds of the Bonds or by an Alternate Security or (ii) in annual installments  
21 from Net Revenue so that the Reserve Requirement is fully funded by the fifth  
22 anniversary of the date of issue of the Bonds. The manner of funding the Reserve  
23 Requirement for the Bonds shall be specified in the Bond Resolution.

24           **(d) Reserve Subaccount.** The City covenants and agrees that it will at all times  
25 maintain in the Reserve Subaccount an amount equal to the Reserve Requirement for all Parity  
26 Bonds, except for withdrawals therefrom as authorized herein, until there is a sufficient amount  
27 in the Principal and Interest Subaccount and Reserve Subaccount to pay the principal of and  
28



1 interest on all outstanding Parity Bonds, at which time the money in the Reserve Subaccount  
2 may be used to pay any such principal and interest so long as the money remaining on deposit in  
3 the Reserve Subaccount is not less than the Reserve Requirement of the remaining outstanding  
4 Parity Bonds.

5 If there shall be a deficiency in the Principal and Interest Subaccount to meet maturing  
6 installments of either principal of or interest on any of the Parity Bonds, such deficiency shall be  
7 made up from the Reserve Subaccount by the withdrawal of cash therefrom. Any deficiency  
8 created in the Reserve Subaccount by reason of any such withdrawal will then be made up from  
9 the Net Revenue of the Drainage and Wastewater System which shall be first available after  
10 making necessary provisions for the required payments into the Principal and Interest  
11 Subaccount.

12  
13 (e) **Investment of Money in Parity Bond Account.** All money in the Parity Bond  
14 Account may be kept in cash or invested in Permitted Investments maturing not later than the  
15 date when needed (for investments in the Principal and Interest Subaccount) or the last maturity  
16 of any outstanding Parity Bonds (for investments in the Reserve Subaccount). In no event shall  
17 any money in the Parity Bond Account or any other money reasonably expected to be used to  
18 pay principal and/or interest on the Parity Bonds be invested at a yield which would cause the  
19 Bonds to be arbitrage bonds within the meaning of Section 148 of the Code. Income from  
20 investments in the Principal and Interest Subaccount shall be deposited in that subaccount.  
21 Income from investments in the Reserve Subaccount shall be deposited in that subaccount until  
22 the amount therein is equal to the Reserve Requirement for all Parity Bonds, and thereafter shall  
23 be deposited in the Principal and Interest Subaccount.

24 The City may create sinking fund subaccounts or other subaccounts in the Parity Bond  
25 Account for the payment or securing the payment of Parity Bonds as long as the maintenance of  
26 such subaccounts does not conflict with the rights of the registered owners of Parity Bonds.

27 Notwithstanding the provisions for deposit or retention of earnings in the Parity Bond  
28 Account, any earnings which are subject to a federal tax or rebate requirement may be withdrawn



1 from the Parity Bond Account for deposit in a separate fund or account for that purpose. If no  
2 longer required for such rebate, money in that separate fund or account shall be returned to the  
3 Parity Bond Account.

4 (f) **Failure to Deposit Money in Parity Bond Account.** If the City fails to set aside  
5 and pay into the Parity Bond Account, including the Reserve Subaccount, the amounts set forth  
6 above, the registered owner of any of the outstanding Parity Bonds may bring action against the  
7 City for failure to make the required deposits to the Parity Bond Account only in accordance  
8 with Section 26.

9 (g) **Provision for Maintenance and Operation Expense.** It is declared that in  
10 creating the Parity Bond Account and in fixing the amounts to be paid into it as provided in  
11 subsections (c) and (d) of this Section, the City Council has had due regard for Operating and  
12 Maintenance Expense (and cost of maintenance and operation as contemplated by RCW  
13 35.67.130), and is not setting aside into the Parity Bond Account a greater amount than in the  
14 judgment of the City Council, based on the rates to be established from time to time consistent  
15 with Section 15(a), will be available over and above such Operating and Maintenance Expense  
16 (and such cost of maintenance and operation).

17 **Section 15. Parity Bond Covenants.** The City covenants and agrees with the  
18 registered owner of each of the Parity Bonds as follows:

19 (a) **Rates and Charges; Coverage Requirement.** It will establish, maintain, revise  
20 as necessary and collect such rates and charges for drainage and wastewater service furnished  
21 which will produce Adjusted Net Revenue available for debt service each calendar year at least  
22 equal to the Coverage Requirement. It will not change any rate or charge for drainage and  
23 wastewater service as now established by the existing rate ordinance or ordinances of the City  
24 that will substantially reduce the annual Gross Revenue of the Drainage and Wastewater System  
25 below that which would have been obtained before such change unless the City shall have on file  
26 a certificate from an Independent Consulting Engineer or a certified public accountant  
27 experienced in drainage and wastewater system rates and charges, stating the rates and charges  
28



as so changed will provide Gross Revenue of the Drainage and Wastewater System sufficient to comply with all the covenants and requirements of this ordinance, including the Coverage Requirement.

*Upon the redemption or defeasance of all then-outstanding 1999 Bonds, 2001 Bonds, 2002 Bonds and 2004 Bonds, this paragraph (a) shall be replaced in its entirety with the following:*

**(a) Rates and Charges; Coverage Requirement.** *It will establish, maintain, revise as necessary and collect such rates and charges for services and facilities provided by the Drainage and Wastewater System so that Adjusted Net Revenue in each fiscal year will be at least equal to the Coverage Requirement. The failure of the City to comply with this paragraph (a) shall not be an Event of Default under this ordinance if the City promptly retains an Independent Consulting Engineer to recommend to the City Council adjustments in the rates of the Drainage and Wastewater System necessary to meet the requirements of this paragraph (a) and if the City Council adopts the recommended modifications within 180 days of the date the failure became known to the City Council.*

**(b) Maintenance of Drainage and Wastewater System.** *It will at all times maintain and keep the Drainage and Wastewater System in good repair, working order and condition, including, from time to time, making or causing to be made all necessary and proper repairs, renewals and replacements so that at all times the operation of such system shall be properly and advantageously conducted, and will at all times operate the Drainage and Wastewater System and the business in connection therewith in an efficient manner and at a reasonable cost.*

**(c) Sale of Drainage and Wastewater System.** *It will not sell, lease, mortgage, or in any manner encumber or dispose of all of the property of the Drainage and Wastewater System unless provision is made for the payment into the Parity Bond Account of an amount sufficient to pay the principal of and interest on Parity Bonds then outstanding; and it will not sell, lease, mortgage, or in any manner encumber or dispose of any part of the property of the*

1 Drainage and Wastewater System that is used, useful and material to the operation thereof,  
2 except consistent with one or more of the following:

3 (i) if provision is made for replacement thereof, or for payment into the Parity  
4 Bond Account of the total amount of Gross Revenue received from the portion of the  
5 Drainage and Wastewater System sold, leased, mortgaged, encumbered or disposed of  
6 which shall not be less than an amount which shall bear the same ratio to the amount of  
7 Parity Bonds then outstanding as the Gross Revenue available for debt service for such  
8 outstanding bonds for the 12 months preceding such sale, lease, mortgage, encumbrance  
9 or disposal from the portion of the Drainage and Wastewater System sold, leased,  
10 mortgaged, encumbered or disposed of bears to the Gross Revenue available for debt  
11 service for the then outstanding Parity Bonds from the entire Drainage and Wastewater  
12 System of the City for the same period. Any such money so paid into the Parity Bond  
13 Account shall be used to retire such Parity Bonds at the earliest possible date; or

14 (ii) if the aggregate depreciated cost value of the property being encumbered  
15 or disposed of under this subparagraph (ii) in any fiscal year comprises no more than 5%  
16 of the total assets of the Drainage and Wastewater System; or

17 (iii) *upon the redemption or defeasance of all then outstanding 1999 Bonds,*  
18 *2001 Bonds, 2002 Bonds and 2004 Bonds, and then only if the proceeds from such*  
19 *transfer are used to acquire new useful operating facilities or properties of the Drainage*  
20 *and Wastewater System, or are used to retire outstanding Parity Bonds or other revenue*  
21 *obligations of the Drainage and Wastewater System, and if, at the time of such transfer,*  
22 *the City has on file a certificate of both the Director of Finance and the Director of*  
23 *Seattle Public Utilities (or any officer who succeeds to substantially all of the*  
24 *responsibilities of either office) demonstrating that in their opinion, upon such transfer*  
25 *and the use of proceeds of the transfer as proposed by the City, the remaining facilities of*  
26 *the Drainage and Wastewater System will retain their operational integrity and, based on*  
27 *the financial statements for the most recent fiscal year available, the proposed transfer*  
28



1        *would not prevent the Drainage and Wastewater System from complying with the*  
2        *Coverage Requirement during the five fiscal years following the fiscal year in which the*  
3        *transfer is to occur. The certificate shall take into account, (A) the reduction in revenue*  
4        *and expenses, if any, resulting from the transfer; (B) the use of any proceeds of the*  
5        *transfer for the redemption of Parity Bonds, (C) the estimate of revenue from customers*  
6        *anticipated to be served by any additions to and betterments and extensions of the*  
7        *Drainage and Wastewater System financed in part by the proposed portion of the*  
8        *proceeds of the transfer, and (D) any other adjustment permitted in the preparation of a*  
9        *certificate under Section 17(d). Before such a transfer, the City also must obtain*  
10       *confirmation from each of the Rating Agencies to the effect that the rating then in effect*  
11       *will not be reduced or withdrawn upon such transfer.*

12       **(d)    Books and Records.** It will, while any of the Bonds remain outstanding, keep  
13       proper and separate accounts and records in which complete and separate entries shall be made  
14       of all transactions relating to the Drainage and Wastewater System, and it will furnish the  
15       Registered Owner(s) of the Bonds or any subsequent Registered Owner(s) thereof, at the written  
16       request of such Registered Owner(s), complete operating and income statements of the Drainage  
17       and Wastewater System in reasonable detail covering any fiscal year not more than six months  
18       after the close of such fiscal year and it will grant any Registered Owner(s) of at least 25% of the  
19       outstanding Bonds the right at all reasonable times to inspect the entire Drainage and Wastewater  
20       System and all records, accounts and data of the City relating thereto. Upon request of any  
21       Registered Owner of any of the Bonds, it also will furnish to such Registered Owner a copy of  
22       the most recently completed audit of the City's accounts by the State Auditor of Washington.

23       **(e)    Operating and Maintenance Expense.** It will pay all Operating and  
24       Maintenance Expense and otherwise meet the obligations of the City as herein set forth.

25       **Section 16.    Preservation of Tax Exemption for Interest on Tax-Exempt Bonds.**

26       The City covenants that it will take all actions consistent with the terms of the Bonds issued on a  
27       tax-exempt basis (the "Tax-Exempt Bonds"), this ordinance and the Bond Resolution reasonably  
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1 within its power and necessary to prevent interest on the Tax-Exempt Bonds from being included  
2 in gross income for federal income tax purposes, and the City will neither take any action nor  
3 make or permit any use of the proceeds of the Tax-Exempt Bonds or other funds of the City  
4 treated as gross proceeds of the Tax-Exempt Bonds at any time during the term of the Bonds  
5 which will cause interest on the Tax-Exempt Bonds to be included in gross income for federal  
6 income tax purposes.

7 **Section 17. Future Parity Bond Conditions.** The City further covenants with the  
8 Registered Owner of each of the Bonds for as long as any of the Bonds are outstanding that it  
9 will not create any special account or fund or accounts or funds for the payment of the principal  
10 of and interest on any other revenue obligations or issue any other revenue obligations which  
11 will have any priority over or which will rank on a parity with the payments required by this  
12 ordinance to be made out of the Net Revenue of the Drainage and Wastewater System nor will it  
13 issue Future Parity Bonds, except that it reserves the right for

14 **First,** the purpose of acquiring, constructing and installing additions to, and  
15 betterments and improvements and extensions of, acquiring necessary equipment for, or  
16 making necessary replacements of or repairs or capital improvements to the Drainage and  
17 Wastewater System pursuant to an adopted system or plan of additions thereto and  
18 betterments and improvements thereof, or

19 **Second,** the purpose of refunding by exchange or purchasing and retiring or  
20 advance refunding by call and payment at or prior to their maturity any part or all of the  
21 outstanding Parity Bonds, or

22 **Third,** other purposes then permitted by law,  
23 to issue Future Parity Bonds therefor, and to make payments into the Parity Bond Account from  
24 the Net Revenue sufficient to pay the principal of and interest on such Future Parity Bonds and  
25 to maintain a reserve therefor as hereinafter required, which payments may rank equally with the  
26 payments out of the Net Revenue required to be made into the Parity Bond Account by this  
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1 ordinance, if the following conditions and requirements are met and complied with at the time of  
2 the issuance of such Future Parity Bonds:

3 (a) At the time of issuance of such Future Parity Bonds, there shall not be a  
4 deficiency in either the Principal and Interest Subaccount or the Reserve Subaccount in the Parity  
5 Bond Account.

6 (b) The Parity Bond Ordinance authorizing Future Parity Bonds shall provide for the  
7 creation of a sinking fund account in the Parity Bond Account for any Term Bonds to be issued  
8 and for regular payments to be made into such account for the payment of the principal of such  
9 Term Bonds on or before their maturity, or, as an alternative, the mandatory redemption of such  
10 Term Bonds prior to their maturity date (except for a portion of such Term Bonds scheduled for  
11 redemption on their maturity date) from money in the Principal and Interest Account.

12 (c) The Parity Bond Ordinance authorizing such Future Parity Bonds shall provide  
13 for the payment of the principal thereof and interest thereon out of the Parity Bond Account and  
14 shall further provide for the payment from the Net Revenue, from ULID Assessments or from  
15 proceeds of those Future Parity Bonds or from an Alternate Security, or by more than one, the  
16 Reserve Requirement of such Future Parity Bonds, except if such Future Parity Bonds are issued  
17 for the purpose of refunding any outstanding Parity Bonds, the amount of such reserve allocated  
18 to such bonds being so refunded shall be retained or used as a reserve for such refunding Future  
19 Parity Bonds or used to retire outstanding Bonds or outstanding Future Parity Bonds pursuant to  
20 the refunding plan, which reserve amount shall be replaced in the same manner and within the  
21 same time as required for additional Future Parity Bonds, or such reserve may remain in the  
22 Reserve Subaccount to be used as the reserve for remaining Parity Bonds. To the extent that the  
23 Reserve Requirement is not funded with proceeds of such Future Parity Bonds or by an Alternate  
24 Security, it shall be funded by equal annual deposits from Net Revenue and from ULID  
25 Assessments so that it is fully deposited in the Reserve Subaccount by the fifth anniversary date  
26 of the date of the Future Parity Bonds.  
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1  
2 Immediately prior to the issuance of Future Parity Bonds, amounts then deposited in the  
3 Reserve Subaccount shall be valued as determined on the most recent annual financial report of  
4 the City applicable to the Drainage and Wastewater System, and the additional amounts, if any,  
5 needed to be deposited into the Reserve Subaccount to satisfy the Reserve Requirement shall be  
6 based on that valuation.

7 (d) At the time of the issuance of such Future Parity Bonds, the City shall have on file  
8 a certificate of the Director of Seattle Public Utilities or a certificate from an Independent  
9 Consulting Engineer or a certified public accountant experienced in Drainage and Wastewater  
10 System rates and charges showing that in his or her professional opinion the Adjusted Net  
11 Revenue will be equal to the Coverage Requirement. However, if Future Parity Bonds proposed  
12 to be so issued are for the sole purpose of refunding outstanding Parity Bonds, such certification  
13 of coverage shall not be required if the Annual Debt Service in each year for the refunding bonds  
14 is not increased over the amount required for the bonds to be refunded thereby and the maturities  
15 of those refunding bonds are not extended beyond the maturities of the bonds to be refunded  
16 thereby.

17 The certificate, in estimating the Adjusted Net Revenue shall use the historical Gross  
18 Revenue for any 12 consecutive months out of the 24 months immediately preceding the month  
19 of delivery of the Future Parity Bonds. The Gross Revenue may be adjusted to reflect any  
20 changes in rates in effect and being charged or expressly committed by ordinance of the City  
21 Council to be made in the future; may include income derived from customers of the Drainage  
22 and Wastewater System that have become customers during the 12 consecutive month period or  
23 thereafter adjusted to reflect one year's net revenue from such customers; may include revenues  
24 from any customers to be connected to the Drainage and Wastewater System who have paid the  
25 required connection charges; may include the revenue to be derived from any person, firm,  
26 corporation or municipal corporation under any executed contract for Drainage or Wastewater  
27 service which revenue was not included in the historical Gross Revenue; and may include an  
28 estimate of the Gross Revenue to be derived by the City from customers with improved property



1 available to connect to any additions to and improvements and extensions of the Drainage and  
2 Wastewater System to be paid for out of the proceeds of the sale of the additional Future Parity  
3 Bonds or other additions to and improvements and extensions of the Drainage and Wastewater  
4 System then under construction and not fully connected to the facilities of the Drainage and  
5 Wastewater System when such additions, improvements and extensions are completed.  
6

7 Actual or reasonably anticipated changes in the Operating and Maintenance Expense  
8 subsequent to such 12 month period shall be added or deducted, as is applicable. The use of  
9 money other than Gross Revenue for the payment of Operating and Maintenance Expense shall  
10 not exceed per year an amount used for that purpose during the 12 months immediately  
11 preceding the date of issuance of the Future Parity Bonds.

12 Nothing contained in the provisions for Future Parity Bonds shall prevent the City from  
13 issuing revenue bonds or other obligations having a lien on the Gross Revenue subordinate to the  
14 lien of the Bonds and any Future Parity Bonds.

15 The City, at its option, may provide a certificate of the Director of Finance or the Director  
16 of Seattle Public Utilities demonstrating that during any 12 consecutive calendar months out of the  
17 immediately preceding 24 calendar months Adjusted Net Revenue was at least equal to the  
18 Coverage Requirement for all Parity Bonds plus the Future Parity Bonds proposed to be issued (and  
19 assuming that the debt service of the proposed Future Parity Bonds for that 12 month period was the  
20 Average Annual Debt Service for those proposed bonds).

21 *Upon the redemption or defeasance of all then-outstanding 1999 Bonds, 2001 Bonds, 2002*  
22 *Bonds and 2004 Bonds, this subsection (d) shall be replaced in its entirety with the following:*

23 (d) *There shall be on file with the City either:*

24 (1) *a certificate of the Director of Finance demonstrating that*  
25 *during any 12 consecutive calendar months out of the immediately*  
26 *preceding 24 calendar months Adjusted Net Revenue was at least equal to*  
27 *the Coverage Requirement for all Parity Bonds plus the Future Parity*  
28 *Bonds proposed to be issued (and assuming that the debt service of the*



1                   *proposed Future Parity Bonds for that 12 month period was the Average*  
2                   *Annual Debt Service for those proposed bonds); or*

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

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

19                         (ii)    *Net revenue from customers of the Drainage and*  
20                         *Wastewater System who have become customers during the*  
21                         *12 consecutive month period or thereafter, and their estimate of*  
22                         *net revenue from any customers to be connected to the Drainage*  
23                         *and Wastewater System who have paid the required connection*  
24                         *charges, adjusted to reflect one year's net revenue from those*  
25                         *customers;*

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

(iv) *Net revenue from any person, firm, corporation or municipal corporation under any executed contract for drainage and wastewater or other utility service, which revenue was not included in the historical Net Revenue of the Drainage and Wastewater 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.*

*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 the Gross Revenue subordinate to the charge or lien of the Parity Bonds, or from pledging the payment of ULID assessments into a bond redemption fund created for the payment of the principal of and interest on those junior lien bonds as long as such ULID assessments are levied for improvements constructed from the proceeds of those junior lien bonds.*

(e) The Parity Bond Ordinance authorizing the Future Parity Bonds shall provide that all ULID Assessments shall be paid directly into the Parity Bond Account.

**Section 18. Continuing Disclosure.** The City shall undertake to provide for the benefit of holders of the Bonds disclosure of certain financial information and operating data of the type included in the final official statement for the Bonds, as well as disclosure of certain material events respecting the Bonds, in the manner and to the extent required by United States

Securities and Exchange Commission Rule 15c2-12(b)(5). The particular terms of any such Undertaking shall be set forth in the Bond Resolution.

**Section 19. Refunding and Defeasance.** The Bonds are hereby designated "Refundable Bonds" for purposes of Ordinance 121938, as amended. 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 the Bonds, 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 sufficient in amount, together with known earned income from the investments thereof, to redeem and retire, release, refund or defease the defeased Bonds in accordance with their terms, are set aside in a special trust fund or escrow account irrevocably pledged to such redemption, retirement or defeasance (the "trust account"), then all right and interest of the Registered Owners of the defeased Bonds in the covenants of this ordinance and in the Net Revenue and the funds and accounts pledged to the payment of such defeased Bonds, other than the right to receive the funds so set aside and pledged, thereafter shall cease and become void. Such Registered 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. The City shall include in the refunding or defeasance plan such provisions as the City deems necessary for the random selection of any defeased Bonds that constitute less than all of a particular maturity of the Bonds, for notice of the defeasance to be given to the Registered Owners of the defeased Bonds and to such other persons as the City shall determine, and for any required replacement of Bond certificates for defeased Bonds.

After the establishing and full funding of such a trust account, the defeased Bonds shall be deemed no longer outstanding and the City 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 as it shall determine, subject only to the rights of the registered owners of any other Parity Bonds.

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

10 **Section 20. Sale of Bonds.** The Director of Finance may provide for the sale of each  
11 series of Bonds (or any portion thereof) by public sale or by a negotiated sale with an  
12 underwriter or other financial institution chosen through a selection process acceptable to the  
13 Director of Finance. The Director of Finance is authorized to specify a date and time of sale of  
14 the Bonds, to give notice of that sale, to determine any bid requirements and criteria for  
15 determining the award of the bid, to provide for the use of an electronic bidding mechanism, and  
16 to specify other matters in his or her determination necessary, appropriate, or desirable to carry  
17 out the sale of the Bonds. The terms of that sale shall be consistent with this ordinance and the  
18 Bond Resolution and shall be confirmed by the Bond Resolution. The Bonds shall be delivered  
19 to the purchasers as provided in the Bond Resolution immediately upon payment to the City of  
20 the purchase price plus accrued interest, if any, to the Closing Date in immediately available  
21 federal funds in Seattle, Washington, at the City's expense or at another time or place upon  
22 which the Director of Finance and the purchaser may mutually agree at the purchaser's expense.

23 If one or more series of Bonds are sold and issued as Tax Credit Subsidy Bonds, the  
24 Director of Finance is hereby authorized on behalf of the City to take such actions and enter into  
25 such agreements as are necessary or appropriate for the City to receive from the United States  
26 Treasury the applicable Tax Credit Subsidy Payments.  
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CUSIP numbers will be printed on the Bonds if requested by the purchasers, but neither failure to print CUSIP numbers on any Bond nor error with respect thereto shall constitute cause for a failure or refusal by the purchasers to accept delivery of and pay for the Bonds in accordance with the purchase offer. All expenses in relation to the printing of CUSIP numbers on the Bonds shall be paid by the City, but the fee of the CUSIP Service Bureau for the assignment of those numbers shall be the responsibility of and shall be paid by the purchasers.

The City will cause the Bonds to be typed, photocopied, printed or lithographed, sealed and executed and will furnish the approving legal opinion of Bond Counsel, the opinion also being printed on each Bond unless the Bond is typed or photocopied.

**Section 21. Supplemental or Amendatory Ordinances.**

(a) This ordinance shall not be supplemented or amended in any respect subsequent to the initial issuance of the Bonds, except as provided in and in accordance with and subject to the provisions of this Section.

(b) The City may from time to time and at any time, without the consent of or notice to the registered owners of the Parity Bonds, pass supplemental or amendatory ordinances for the following purposes:

(1) To cure any formal defect, omission, inconsistency or ambiguity in this ordinance in a manner not adverse to the registered owner of any Parity Bonds;

(2) To impose upon the Bond Registrar (with its consent) for the benefit of the Registered Owners of the 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;

(3) 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;

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2 (4) To confirm, as further assurance, any pledge under, and the subjection to  
3 any claim, lien or pledge created or to be created by this ordinance of any other money,  
4 securities or funds;

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

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

15 (7) To modify, alter, amend or supplement this ordinance in any other respect  
16 which is not materially adverse to the registered owners of the Parity Bonds and which  
17 does not involve a change described in subsection (c) of this Section.

18 Before the City shall pass any such supplemental or amendatory ordinance pursuant to  
19 this subsection, there shall have been delivered to the City and the Bond Registrar an opinion of  
20 Bond Counsel, stating that such supplemental or amendatory ordinance is authorized or  
21 permitted by this ordinance and will, upon the execution and delivery thereof, be valid and  
22 binding upon the City in accordance with its terms, will not adversely affect the exclusion from  
23 gross income for federal income tax purposes of interest on any Tax-Exempt Bonds.

24 (c) (1) Except for any supplemental or amendatory ordinance passed pursuant to  
25 subsection (b) of this Section, subject to the terms and provisions contained in this subsection (c)  
26 and not otherwise, registered owners of not less than 60% in aggregate principal amount of the  
27 Parity Bonds then outstanding shall have the right from time to time to consent to and approve  
28 the passage by the City Council of any supplemental or amendatory ordinance deemed necessary

1 or desirable by the City for the purpose of modifying, altering, amending, supplementing or  
2 rescinding, in any particular, any of the terms or provisions contained in this ordinance; except  
3 that, unless approved in writing by the registered owners of all Parity Bonds then outstanding,  
4 nothing contained in this Section shall permit, or be construed as permitting:

5 (i) A change in the times, amounts or currency of payment of the principal of  
6 or interest on any outstanding Parity Bond, or a reduction in the principal amount or  
7 redemption price of any outstanding Parity Bond or a change in the method of  
8 redemption or redemption price of any outstanding Parity Bond or a change in the  
9 method of determining the rate of interest thereon, or

10 (ii) A preference or priority of any Parity Bond or Bonds over any other Parity  
11 Bond or Bonds, or

12 (iii) A reduction in the aggregate principal amount of Parity Bonds, the consent  
13 of the Registered Owners of Bonds of which is required for any such supplemental or  
14 amendatory ordinance.

15 (2) If at any time the City shall pass any supplemental or amendatory  
16 ordinance for any of the purposes of this subsection (c), the Bond Registrar shall cause  
17 notice of the proposed supplemental or amendatory ordinance to be given by first class  
18 United States Mail to all registered owners of the then outstanding Parity Bonds, to any  
19 Bond Insurer and to the Rating Agencies. Such notice shall briefly set forth the nature of  
20 the proposed supplemental or amendatory ordinance and shall state that a copy thereof is  
21 on file at the office of the Bond Registrar for inspection by all registered owners of the  
22 outstanding Parity Bonds.

23 (3) Within two years after the date of the mailing of such notice, the  
24 City may pass such supplemental or amendatory ordinance in substantially the form  
25 described in such notice, but only if there shall have first been delivered to the Bond  
26 Registrar (i) the required consents, in writing, of the registered owners of the Parity  
27 Bonds, and (ii) an opinion of Bond Counsel, stating that such supplemental or  
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1           amendatory ordinance is authorized or permitted by this ordinance and, upon the  
2           execution and delivery thereof, will be valid and binding upon the City in accordance  
3           with its terms, will not adversely affect the exclusion from gross income for federal  
4           income tax purposes of interest on any Tax-Exempt Bonds.

5                       (4)    If registered owners of not less than the percentage of Parity Bonds  
6           required by this subsection (c) shall have consented to and approved the execution and  
7           delivery thereof as herein provided, no registered owner of the Parity Bonds shall have  
8           any right to object to the passage of such supplemental or amendatory ordinance, or to  
9           object to any of the terms and provisions contained therein or the operation thereof, or in  
10          any manner to question the propriety of the passage thereof, or to enjoin or restrain the  
11          City or the Bond Registrar from passing the same or from taking any action pursuant to  
12          the provisions thereof.

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

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

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

24                   (e)    Upon the execution and delivery of any supplemental or amendatory ordinance  
25          pursuant to the provisions of this Section, this ordinance shall be, and be deemed to be, modified  
26          and amended in accordance therewith, and the respective rights, duties and obligations under this  
27          ordinance of the City, the Bond Registrar and all registered owners of Parity Bonds then  
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1 outstanding shall thereafter be determined, exercised and enforced under this ordinance subject  
2 in all respects to such modifications and amendments.

3       **Section 22.    Construction Account; Deposit of Proceeds.** An account to be known as  
4 the Drainage and Wastewater Construction Account, 2012 (the "Construction Account") is  
5 created in the Drainage and Wastewater Fund. The principal proceeds of the sale of the Bonds  
6 remaining after the deposit of accrued interest on the Bonds, if any, into the Principal and  
7 Interest Subaccount and the deposit of any proceeds as determined by the Bond Resolution into  
8 the Reserve Subaccount, shall be deposited into the Construction Account, unless otherwise  
9 specified in the Bond Resolution or directed by the Director of Finance, to be used for the  
10 purpose of paying part of the costs of carrying out the Plan of Additions and to pay for the costs  
11 of issuance of the Bonds. Until needed to pay such costs, the City may invest principal proceeds  
12 and interest thereon temporarily in any legal investment, and the investment earnings may, as  
13 determined by the Director of Finance, be retained in the Construction Account and be spent for  
14 the purposes of that fund or deposited in the Parity Bond Account.

15       **Section 23.    Separate Utility Systems.** The City may create, acquire, construct,  
16 finance, own and operate one or more additional systems for drainage and wastewater or other  
17 commodity or service relating to the Drainage and Wastewater System. The revenue of that  
18 separate utility system shall not be included in the Gross Revenue and may be pledged to the  
19 payment of revenue obligations issued to purchase, construct, condemn or otherwise acquire or  
20 expand the separate utility system. Neither the Gross Revenue nor the Net Revenue of the  
21 Drainage and Wastewater System shall be pledged by the City to the payment of any obligations  
22 of a separate utility system except (1) as a Contract Resource Obligation upon compliance with  
23 Section 24 and/or (2), with respect to the Net Revenue, on a basis subordinate to the lien of the  
24 Parity Bonds on that Net Revenue.

25       **Section 24.    Contract Resource Obligations.** The City may at any time enter into one  
26 or more Contract Resource Obligations for the acquisition, from facilities to be constructed, of  
27 drainage and wastewater or other commodity or service relating to the Drainage and Wastewater  
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System. 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 drainage and wastewater or other commodity or service is being provided, or during a suspension or after termination of 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:

(a) No Event of Default as defined in Section 26 has occurred and is continuing.

(b) There shall be on file a certificate of an Independent Consulting Engineer stating that (i) the payments to be made by the City in connection with the Contract Resource Obligation are reasonable for the commodity or service rendered; (ii) any facilities to be constructed to provide the commodity or service are sound from a drainage and wastewater service or other commodity or service 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 Consulting Engineer's certification; and (iii) the Adjusted Net Revenue (further adjusted by the Independent Consulting Engineer'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 Consulting Engineer in accordance with the provisions of and adjustments permitted in Section 17(d), will be at least equal to the Coverage Requirement.

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

Nothing in this Section shall be deemed to prevent the City from entering into other agreements for the acquisition of drainage and wastewater services or other commodity or service from existing facilities and from treating those payments as Operating and Maintenance Expenses. Nothing in this Section shall be deemed to prevent the City from entering into other agreements for the acquisition of drainage and wastewater services or other commodity or service from facilities to be constructed and from agreeing to make payments with respect thereto, such payments constituting a lien and charge on Net Revenue subordinate to the Parity Bonds.

1           **Section 25.   Rate Stabilization Account.** The Rate Stabilization Account has been  
2 created as a separate account in the Drainage and Wastewater Fund. The City may at any time,  
3 as determined by the City and as consistent with Section 15(b), deposit in the Rate Stabilization  
4 Account Gross Revenue and any other money received by the Drainage and Wastewater System  
5 and available to be used therefor. The City may withdraw any or all of the money from the Rate  
6 Stabilization Account for inclusion in the Adjusted Gross Revenue for any fiscal year of the  
7 Drainage and Wastewater System. Such deposits or withdrawals may be made up to and  
8 including the date 90 days after the end of the fiscal year for which the deposit or withdrawal  
9 will be included as Adjusted Gross Revenue.

10           No deposit of Gross Revenue shall be made into the Rate Stabilization Account to the  
11 extent that such deposit would prevent the City from meeting the Coverage Requirement in the  
12 relevant fiscal year.

13           **Section 26.   Defaults and Remedies.**

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

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

18                   (2)   If the City defaults in the observance and performance of any other  
19 of the covenants, conditions and agreements on the part of the City set forth in this  
20 ordinance or in any Parity Bond Ordinance (except as otherwise provided herein or in  
21 such Parity Bond Ordinance) and such default or defaults have continued for a period of  
22 six months after they have received from the Bondowners' Trustee (as defined below) or  
23 from the registered owners of not less than 25% in principal amount of the Parity Bonds,  
24 a written notice specifying and demanding the cure of such default. However, if the  
25 default in the observance and performance of any other of the covenants, conditions and  
26 agreements is one which cannot be completely remedied within the six months after  
27 written notice has been given, it shall not be an Event of Default with respect to the  
28

1 Bonds as long as the City has taken active steps within the six months after written notice  
2 has been given to remedy the default and is diligently pursuing such remedy.

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

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

24 The Bondowners' Trustee appointed in the manner herein provided, and each successor  
25 thereto, is declared to be a trustee for the registered owners of all the Parity Bonds and is  
26 empowered to exercise all the rights and powers herein conferred on the Bondowners' Trustee.  
27  
28

1           (c) **Suits at Law or in Equity.** Upon the happening of an Event of Default and  
2 during the continuance thereof, the Bondowners' Trustee may, and upon the written request of  
3 the registered owners of not less than 25% in principal amount of the Parity Bonds outstanding  
4 shall, take such steps and institute such suits, actions or other proceedings, all as it may deem  
5 appropriate for the protection and enforcement of the rights of the registered owners of the Parity  
6 Bonds, to collect any amounts due and owing to or from the City, or to obtain other appropriate  
7 relief, and may enforce the specific performance of any covenant, agreement or condition  
8 contained in this ordinance or in any of the Parity Bonds.  
9

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

15           Any action, suit or other proceedings instituted by the Bondowners' Trustee hereunder  
16 shall be brought in its name as Bondowners' Trustee and all such rights of action upon or under  
17 any of the Parity Bonds or the provisions of this ordinance may be enforced by the Bondowners'  
18 Trustee without the possession of any of those Parity Bonds and without the production of the  
19 same at any trial or proceedings relative thereto except where otherwise required by law. Any  
20 such suit, action or proceeding instituted by the Bondowners' Trustee shall be brought for the  
21 ratable benefit of all of the registered owners of those Parity Bonds, subject to the provisions of  
22 this ordinance. The respective registered owners of the Parity Bonds, by taking and holding the  
23 same, shall be conclusively deemed irrevocably to appoint the Bondowners' Trustee the true and  
24 lawful trustee of the respective registered owners of those Parity Bonds, with authority to  
25 institute any such action, suit or proceeding; to receive as trustee and deposit in trust any sums  
26 becoming distributable on account of those Parity Bonds; to execute any paper or documents for  
27 the receipt of money; and to do all acts with respect thereto that the registered owner himself or  
28 herself might have done in person. Nothing herein shall be deemed to authorize or empower the

Bondowners' Trustee to consent to accept or adopt, on behalf of any registered 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 Bondowners' 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 Bondowners' Trustee.** Any money collected by the Bondowners' Trustee at any time pursuant to this Section shall be applied in the following order of priority:

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

(ii) ~~over~~second, 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) third, 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 Bondowners' Trustee.** The Bondowners' Trustee shall not be liable except for the performance of such duties as are specifically set forth herein. During an Event of Default, the Bondowners' 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



1 prudent person would exercise or use under the circumstances in the conduct of his or her own  
2 affairs. The Bondowners' Trustee shall have no liability for any act or omission to act hereunder  
3 except for the Bondowners' Trustee's own negligent action, its own negligent failure to act or its  
4 own willful misconduct. The duties and obligations of the Bondowners' Trustee shall be  
5 determined solely by the express provisions of this ordinance, and no implied powers, duties or  
6 obligations of the Bondowners' Trustee shall be read into this ordinance.

7  
8 The Bondowners' Trustee shall not be required to expend or risk its own funds or  
9 otherwise incur individual liability in the performance of any of its duties or in the exercise of  
10 any of its rights or powers as the Bondowners' Trustee, except as may result from its own  
11 negligent action, its own negligent failure to act or its own willful misconduct.

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

15 The Bondowners' Trustee may consult with counsel and the opinion of such counsel shall  
16 be full and complete authorization and protection in respect of any action taken or suffered by it  
17 hereunder in good faith and in accordance with the opinion of such counsel. The Bondowners'  
18 Trustee shall not be answerable for any neglect or default of any person, firm or corporation  
19 employed and selected by it with reasonable care.

20 (f) **Suits by Individual Parity Bond Owners Restricted.** Neither the registered  
21 owner nor the beneficial owner of any one or more Parity Bonds shall have any right to institute  
22 any action, suit or proceeding at law or in equity for the enforcement of same unless:

- 23 (i) an Event of Default has happened and is continuing; and  
24 (ii) a Bondowners' Trustee has been appointed; and  
25 (iii) such owner previously shall have given to the Bondowners' Trustee  
26 written notice of the Event of Default on account of which such suit, action or proceeding  
27 is to be instituted; and  
28

(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 Bondowners' Trustee and have afforded the Bondowners' Trustee a reasonable opportunity to institute such suit, action or proceeding; and

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

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

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

(g) **Failure to Comply With Undertaking.** Notwithstanding anything in this Section to the contrary, the failure of the City or any obligated person to comply with the Undertaking adopted by the Bond Resolution pursuant to Section 18 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.

**Section 27. General Authorization.** The Mayor of the City 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 their 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 limitation, 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) deem final and approve the



1 distribution of any preliminary official statement or official statement relating to the Bonds, (iii)  
2 comply with any continuing disclosure requirements applicable to the Bonds and (iv) change the  
3 Bond Registrar or any securities depository appointed for the Bonds.  
4

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

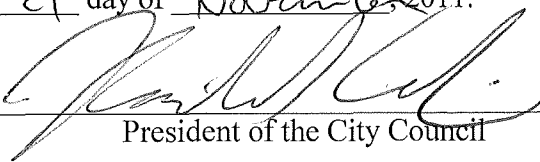
14 **Section 29. Ratification of Prior Acts.** Any action taken consistent with the authority  
15 of this ordinance, after its passage but prior to the effective date, is ratified, approved and  
16 confirmed.

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

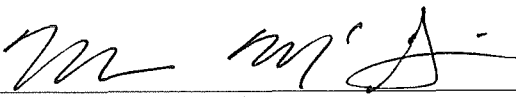
19 **Section 31. Effective Date.** This ordinance shall take effect and be in force 30 days  
20 from and after its approval by the Mayor, but if not approved and returned by the Mayor within  
21 ten days after presentation, it shall take effect as provided by Municipal Code Section 1.04.020.  
22  
23  
24  
25  
26  
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28




1 Passed by the City Council the 21 day of November, 2011, and signed by me in  
2 open session in authentication of its passage this 21 day of November, 2011.

3  
4   
5 President of the City Council

6 Approved by me this 30<sup>th</sup> day of November, 2011.

7  
8   
9 Michael McGinn, Mayor

10 Filed by me this 30<sup>th</sup> day of November, 2011.

11  
12   
13 *For* Monica Martinez Simmons, City Clerk

14 (SEAL)

15  
16 Attachment: Exhibit A – List of Outstanding Parity Bonds  
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## EXHIBIT A

### Outstanding Drainage and Wastewater Parity Bonds

Issue Name	Dated Date	Original Par Amount	Parity Bond Authorizing Legislation
Drainage and Wastewater Improvement and Refunding Revenue Bonds, 1999 ("1999 Bonds")	10/1/1999	\$55,000,000	Ordinance 119620 and Resolution 30039
Drainage and Wastewater Revenue Bonds, 2001 ("2001 Bonds")	7/1/2001	\$60,080,000	Ordinance 120386 and Resolution 30347
Drainage and Wastewater Revenue and Refunding Bonds, 2002 ("2002 Bonds")	12/1/2002	\$78,550,000	Ordinance 120386, Ordinance 120965 and Resolution 30548
Drainage and Wastewater Revenue Bonds, 2004 ("2004 Bonds")	10/28/2004	\$62,010,000	Ordinance 121551 and Resolution 30716
Drainage and Wastewater Revenue and Refunding Bonds, 2006 ("2006 Bonds")	11/1/2006	\$121,765,000	Ordinance 121938, as amended by Ordinance 122209, Ordinance 122209 and Resolution 30927
Drainage and Wastewater Revenue Bonds, 2008 ("2008 Bonds")	4/16/2008	\$84,645,000	Ordinance 122637 and Resolution 31050
Drainage and Wastewater Revenue Bonds, Series 2009A (Taxable Build America Bonds-Direct Payment) ("2009A Bonds")	12/17/2009	\$102,535,000	Ordinance 123055 and Resolution 31177
Drainage and Wastewater Improvement and Refunding Revenue Bonds, Series 2009B ("2009B Bonds")	12/17/2009	\$36,680,000	Ordinance 121938, as amended by Ordinance 122209 and Ordinance 122637; Ordinance 123055, and Resolution 31177



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**APPENDIX B**  
**FORM OF BOND COUNSEL OPINION**

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FOSTER PEPPER PLLC

[FORM OF BOND COUNSEL OPINION]

The City of Seattle, Washington

Re: The City of Seattle, Washington, \$222,090,000  
Drainage and Wastewater Improvement and Refunding Revenue Bonds, 2012

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”). In our capacity as bond counsel, we have examined such law and such certified proceedings and other documents as we have deemed necessary to render this opinion. As to matters of fact material to this opinion and of which attorneys within the firm involved with the issuance of the Bonds have no independent knowledge, we have relied upon representations contained in the certified proceedings and other certifications of public officials furnished to us.

The Bonds are issued pursuant to the laws of the State of Washington and pursuant to Ordinance 121938, as amended, Ordinance 123753 and Resolution 31387 of the City (collectively, the “Bond Legislation”) to provide the funds (i) to pay for a portion of the costs of various projects of the Drainage and Wastewater System of the City; (ii) to refund certain outstanding obligations of the Drainage and Wastewater System; (iii) to provide for the Reserve Requirement; and (iv) to pay the administrative costs of the refunding and the costs of issuance and sale of the Bonds, all as set forth in the Bond Legislation.

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

The Bonds are special limited obligations of the City payable solely out of the Drainage and Wastewater Revenue Bond Account (the “Parity Bond Account”), into which account the City irrevocably has bound itself to pay all ULID Assessments upon their collection (except for ULID Assessments deposited in a construction account) and, out of the Net Revenue, certain fixed amounts without regard to any fixed proportion, namely amounts sufficient to pay the principal of and interest on the Parity Bonds and net payments on Parity Payment Agreements as they respectively become due and to fund the Reserve Requirement, all at the times and in the manner set forth in the Bond Legislation.

The Net Revenue and all money and investments held in the Parity Bond Account (including the Reserve Subaccount therein) and the Rate Stabilization Account have been pledged to the payment of the Parity Bonds and to make payments into the Reserve Subaccount required by the Bond Legislation and Parity Bond Authorizing Ordinances, and this pledge constitutes a lien and charge upon the Net Revenue prior and superior to any other charges whatsoever.

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 solely out of the Net Revenue of the Drainage and Wastewater System and money in the Parity Bond Account (including the Reserve Subaccount therein) and the Rate Stabilization Account, except only to the extent that enforcement of payment may be limited by bankruptcy, insolvency or other laws affecting creditors' rights and by the 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 that the foregoing opinions are expressions of our professional judgment on the matters expressly addressed and do not constitute guarantees of result.

Respectfully submitted,



**APPENDIX C**

**2011 AUDITED FINANCIAL STATEMENTS OF THE DRAINAGE AND WASTEWATER FUND**

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**SEATTLE PUBLIC UTILITIES -  
DRAINAGE AND WASTEWATER FUND  
(An Enterprise Fund of the City of Seattle)**

**Report of Independent Auditors and  
Financial Statements with Required  
Supplementary Information and  
Supplemental Information**

**December 31, 2011 and 2010**

**MOSS ADAMS <sup>LLP</sup>**

Certified Public Accountants | Business Consultants

*Acumen. Agility. Answers.*

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## REPORT OF INDEPENDENT AUDITORS

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

We have audited the accompanying balance sheets of Seattle Public Utilities - Drainage and Wastewater Fund (the "Fund") as of December 31, 2011 and 2010, and the related statements of revenues, expenses and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Fund's management. 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Seattle Public Utilities - Drainage and Wastewater Fund as of December 31, 2011 and 2010, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

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

Our audit was conducted for the purpose of forming an opinion on the basic financial statements. The supplemental information following the financial statements is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The supplemental information following the financial statements has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

*Moss Adams LLP*

Seattle, Washington  
April 25, 2012

**SEATTLE PUBLIC UTILITIES -  
DRAINAGE AND WASTEWATER FUND**  
(An Enterprise Fund of the City of Seattle)  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**YEARS ENDED DECEMBER 31, 2011 AND 2010**

As management of Seattle Public Utilities ("SPU"), a department of the City of Seattle (the "City"), we offer readers of SPU's financial statements this narrative overview and analysis of the financial activities of the Drainage and Wastewater Fund (the "Fund") for the fiscal years ended December 31, 2011 and 2010. The revenues, expenses, assets, and liabilities of Seattle's drainage and wastewater system are recorded in the Drainage and Wastewater 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 about the Fund using accounting methods similar to those used by private sector companies. These statements offer short-term and long-term financial information about its activities. The basic financial statements begin on page 12 of this report and are comprised of three components: (1) Balance Sheets, (2) Statements of Revenues, Expenses, and Changes in Net Assets, and (3) Statements of Cash Flows.

The Balance Sheets present information, as of December 31, 2011 and 2010, on all of the Fund's assets and liabilities, with the difference between the two reported as net assets. They also provide information about the nature and amounts of investments in resources (assets), obligations to the Fund's creditors (liabilities), and provide the basis for assessing the liquidity and financial flexibility of the Fund.

The Statements of Revenues, Expenses, and Changes in Net Assets present changes in the Fund's net assets for the years ended December 31, 2011 and 2010. All changes in net assets 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, 2011 and 2010. To provide answers to questions about sources, uses, and impacts to cash, these statements report cash receipts, cash payments, and net changes in cash resulting from operations, investing and financing activities for the reporting period.

**Notes to the Financial Statements** - The notes are an integral part of the financial statements. They provide additional disclosures that are essential to a full understanding of the data provided in the financial statements, such as for certain estimates and financing details. The notes to the financial statements begin on page 17 of this report.

**SEATTLE PUBLIC UTILITIES -  
DRAINAGE AND WASTEWATER FUND**  
(An Enterprise Fund of the City of Seattle)  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**YEARS ENDED DECEMBER 31, 2011 AND 2010**

**FINANCIAL ANALYSIS**

Increases or decreases in net assets may serve over time as a useful indicator of whether the Fund's financial position is improving or deteriorating. At December 31, 2011 and 2010, the Fund's assets exceeded liabilities, resulting in a surplus of in total assets of \$270.3 million and \$252.3 million, respectively. In 2011, the Fund's overall position improved, with an increase in net assets of \$18.0 million (7.1%) as compared to an increase in net assets of \$5.9 million (2.4%) in 2010. The following summary balance sheets present the assets of the Fund and show the mix of liabilities and net assets used to acquire these assets:

**SUMMARY BALANCE SHEETS**

	2011	2010	2009
<b>ASSETS</b>			
Current assets	\$ 71,477,456	\$ 67,258,730	\$ 58,500,719
Capital assets, net	663,434,318	628,042,924	593,680,810
Other	107,346,278	143,778,405	180,578,109
Total assets	842,258,052	839,080,059	832,759,638
<b>LIABILITIES</b>			
Current liabilities	55,753,517	58,065,225	49,047,862
Revenue bonds	477,318,769	491,116,902	504,395,035
Other	38,926,782	37,608,873	32,879,570
Total liabilities	571,999,068	586,791,000	586,322,467
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	223,131,662	216,471,199	207,138,801
Restricted	28,383,412	28,099,086	26,200,782
Unrestricted	18,743,910	7,718,774	13,097,588
TOTAL NET ASSETS	\$ 270,258,984	\$ 252,289,059	\$ 246,437,171

**2011 Compared to 2010**

**Assets** - Current assets increased \$4.2 million (6.3%) over the prior year primarily due to increases totaling \$5.9 million in unbilled revenue, due from other governments and accounts receivable, net from the Combined Customer Service System. These increases were offset by decreases totaling \$1.7 million in cash and equity in pooled investments and due from other city funds.

Other assets decreased \$36.4 million (25.3%) due to the spending of \$40.4 million for use toward construction projects, reductions of \$0.7 million in deferred external infrastructure costs and a decrease in vendor deposits, and cash and equity in pooled investments of \$0.5 million. These decreases were impacted by increases totaling \$2.7 million in other restricted accounts, cash and equity in pooled investments mainly due to funding received for work toward the Alaskan Way Viaduct project and in notes and contracts receivable from the Public Infrastructure Agreement with the Seattle Housing Authority (see Note 11). In addition, the Fund experienced increases totaling \$2.6 million in deferred environmental costs and recoveries and other deferred charges, which primarily related to the 2010 Combined Sewer Overflow Plan. The projects identified in the plan will ultimately enhance the water quality of Lake Washington, Puget Sound, Elliot Bay, the Ship Canal, the Duwamish, Longfellow Creek, Lake Union, Union Bay, and Portage Bay.

**SEATTLE PUBLIC UTILITIES -  
DRAINAGE AND WASTEWATER FUND**  
(An Enterprise Fund of the City of Seattle)  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**YEARS ENDED DECEMBER 31, 2011 AND 2010**

**FINANCIAL ANALYSIS** (Continued)

**Liabilities** - Current liabilities decreased \$2.3 million (4.0%) from 2010. This is mostly attributable to decreases in deferred credits, accounts payable and due to other city funds, totaling \$3.3 million, offset by an increase of \$1.0 million in due to other governments.

Noncurrent and other liabilities increased \$1.3 million (3.5%). This is due to an increase in Public Works Trust Fund loans (see Note 10), offset by a decrease in environmental liabilities (see Note 9).

**Net Assets** - The largest portion of the Fund's net assets (\$223.1 million or 82.6%) 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 2011, net assets invested in capital assets net of related debt increased \$6.7 million from 2010 due to an increase in capital assets placed in service, net of depreciation offset by the related debt.

The Fund's restricted net assets (\$28.4 million or 10.5%) represent resources that are subject to restrictions on how they may be used. This portion of net assets increased \$0.3 million from 2010. This change was primarily due to an increase in deferred charges related to the 2010 Combined Sewer Overflow Plan, less related debt.

The remaining portion of the Fund's net assets (\$18.7 million or 6.9%) represent resources that are unrestricted and may be used to meet the Fund's obligations to creditors. Unrestricted net assets increased \$11.0 million from 2010 in part due to the rate increase effective January 1, 2011.

**2010 Compared to 2009**

**Assets** - Current assets increased \$8.7 million (15.0%) over the prior year. This increase was primarily due to the use of bond proceeds for 2011 expenditures on CIP projects. In addition there were increases in accounts receivable, net from the Combined Customer Service System.

Other assets decreased \$36.8 million (20.4%) mainly due to the spending of \$40.6 million for use toward construction projects and a decrease in restricted interest receivables of \$0.5 million. These decreases were offset by an increase of \$4.3 million in deferred charges, which primarily related to the 2010 Combined Sewer Overflow Plan. The projects identified in the plan will ultimately enhance the water quality of Lake Washington, Puget Sound, Elliot Bay, the Ship Canal, the Duwamish, Longfellow Creek, Lake Union, Union Bay, and Portage Bay.

**Liabilities** - Current liabilities increased \$9.0 million (18.4%) from 2009. This is mostly attributable to a \$3.9 million increase in accounts payable to support the work involved with the Madison Valley Long Term Solution project and a \$1.7 million increase in due to other city funds for funding provided to the general fund for taxes and general judgments and claims. In addition, deferred credits and other increased \$1.7 million from customer billings and \$1.6 million from receipt of a contribution from the Seattle Department of Transportation for future work on the Alaskan Way Viaduct.

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**FINANCIAL ANALYSIS** (Continued)

Noncurrent and other liabilities increased \$4.7 million (14.4%). This is due to increases in Public Works Trust Fund loans (see Note 10), the noncurrent portion of claims payable (see Note 7), the noncurrent portion of compensated absences (see Note 8), and environmental liabilities (see Note 9).

**Net Assets** - The largest portion of the Fund's net assets (\$216.5 million or 85.8%) 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 2010, net assets invested in capital assets net of related debt increased \$9.4 million from 2009 due to an increase in capital assets placed in service, net of depreciation offset by the related debt.

The Fund's restricted net assets (\$28.1 million or 11.1%) represent resources that are subject to restrictions on how they may be used. This portion of net assets increased \$1.9 million. This change was primarily due to an increase in deferred charges related to the 2010 Combined Sewer Overflow Plan, less related debt.

The remaining portion of the Fund's net assets (\$7.7 million or 3.1%) represent resources that are unrestricted and may be used to meet the Fund's obligations to creditors. Unrestricted net assets decreased approximately \$5.4 million primarily due to a higher percentage of capital projects funded with operating cash as compared to the prior year.

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

**SUMMARY STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**

	2011	2010	2009
Operating revenues	\$ 278,956,907	\$ 249,733,794	\$ 250,194,607
Operating expenses	(253,071,273)	(230,118,012)	(230,823,698)
Net operating income	25,885,634	19,615,782	19,370,909
Other income (expenses)	(18,239,166)	(16,894,597)	(17,240,103)
Fees, contributions, and grants			
and special items	10,323,457	3,130,703	4,140,738
Change in net assets	\$ 17,969,925	\$ 5,851,888	\$ 6,271,544

**2011 Compared to 2010**

Current year operating revenues increased approximately \$29.2 million (11.7%) from 2010. This is primarily due to a \$20.2 million increase in wastewater revenues resulting from an average increase in rates of 14.5% and a \$9.4 million increase in drainage revenues due to increased rates. These increases were offset by a decrease of \$0.6 million in system usage.

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**FINANCIAL ANALYSIS (Continued)**

Operating expenses increased \$23.0 million (10.0%) from 2010. Notable factors affecting this change include increases in wastewater treatment of \$14.0 million due to an increase in the treatment rate imposed by King County in 2011. Additional increases to expenses include \$4.9 million in the utility systems management branch related to the abandonment of the Densmore Basin project and the unsuccessful Ballard rain gardens project. Finally, city and other tax expenses increased \$3.8 million related to the overall increase in revenue.

Other income (expenses) increased \$1.3 million from 2010. Factors impacting this change were lower environmental cost recoveries and insurance recoveries totaling \$2.7 million. These factors were offset by an additional \$1.0 million in interest expense for capitalized interest costs related to construction projects and higher Build America Bond interest income of \$0.3 million.

Fees, contributions, and grants and special items increased \$7.2 million due to infrastructure assets donated by the Seattle Department of Transportation, as well as, revenue from the Seattle Housing Authority, Sound Transit and the Alaskan Way Viaduct project. In addition, the Fund had a decrease in environmental remediation expenses.

**2010 Compared to 2009**

Prior year operating revenues decreased approximately \$0.5 million (0.2%). This is due to an overall \$1.7 million decrease in other operating revenue related primarily to a \$1.4 million decrease in other engineering services. This decrease was offset by a \$0.9 million increase in wastewater revenues due to an average increase in rates of 5.2% offset by a 1.0% decrease in system usage.

Operating expenses decreased \$0.7 million (0.3%). Notable factors affecting this change include decreases in branch spending of \$3.2 million for the field operations, project delivery, and customer service branches. These decreases were offset by increases in the utility systems management branch of \$0.3 million, claims expense in the general and administrative branch of \$1.6 million, and an increase in city and other tax expenses of \$0.6 million.

Other income (expenses) decreased \$0.3 million. Factors impacting this change include an environmental cost recovery of \$2.4 million. Further, Build America Bond interest income from the 2009 bond issuance totaled \$1.6 million and an insurance recovery totaled \$0.3 million. These factors were offset by an additional \$4.0 million in interest expense for bonded debt.

Fees, contributions, and grants and special items decreased \$1.0 million (24.4%) primarily due to revenue from the Seattle Housing Authority received in 2009, which did not occur in 2010, offset by a decrease in environmental remediation costs.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
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**CAPITAL ASSETS**

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

**SUMMARY OF CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION**

	2011	2010	2009
Land and land rights	\$ 14,279,516	\$ 14,279,516	\$ 11,090,693
Buildings	7,745,381	8,017,345	8,135,837
Structures	114,758,607	101,910,764	99,346,669
Machinery and equipment	450,664,575	424,460,591	406,794,994
Computer systems	12,492,853	13,640,712	12,638,307
Construction in progress	62,822,427	65,071,758	55,054,703
Other property	670,959	662,238	619,607
Capital assets, net of accumulated depreciation	\$ 663,434,318	\$ 628,042,924	\$ 593,680,810

**2011 Compared to 2010**

The Fund's investment in capital assets, net of accumulated depreciation, for the year ended December 31, 2011 was \$663.4 million. This represented an increase of approximately \$35.4 million (5.6%) compared to 2010. Highlights of the Fund's major capital assets placed in service during 2011 included the following:

- \$26.2 million for the completion of the Madison Valley Phase II project.
- \$4.7 million to replace sewer pipelines throughout several locations within the city.
- \$4.2 million in donated sewer and drainage pipes from the Seattle Department of Transportation.
- \$3.1 million in improvements related to stormwater quality conditions in the Norfolk Basin.
- \$1.4 million in emergency rehabilitation work on sewer mainlines.
- \$1.2 million for I-SCADA improvements at wastewater pump stations.
- \$1.2 million to reduce infiltration and enhance the capacity of the sewer at 12<sup>th</sup> Avenue NW.
- \$1.1 million for the installation of onsite generators at critical wastewater pump stations.

Highlights of the Fund's major construction projects in progress at the end of 2011 include the following:

- \$16.2 million for improvements to the Windermere combined sewer overflow storage.
- \$8.2 million for improvements to the South Henderson combined sewer overflow storage.



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**CAPITAL ASSETS (Continued)**

- \$5.9 million for a detention project to reduce flooding near North 107<sup>th</sup> Street and Midvale.
- \$5.9 million to build a pump station and a water quality facility near 7th and Riverside in South Park.
- \$3.8 million for improvements to the South Genesee combined sewer overflow facilities.
- \$3.7 million for the relocation and replacement of wastewater related facilities in the Mercer Corridor.
- \$1.8 million in Capital Hill water quality improvements.
- \$1.1 million to upgrade the Maximo system.
- \$1.1 million to review conceptual designs, business case development, negotiation of agreements, and project management related to the Alaskan Way Viaduct bored tunnel project.

**2010 Compared to 2009**

The Fund's investment in capital assets, net of accumulated depreciation, for the year ended December 31, 2010 was \$628.0 million. This represented an increase of approximately \$34.4 million (5.8%) compared to 2009. Highlights of the Fund's major capital assets placed in service during 2010 included the following:

- \$5.2 million to replace sewer pipelines throughout several locations within the city.
- \$3.9 million for storm improvements to replace undersized pipes along Martin Luther King Way and Norfolk Street.
- \$3.2 million for the completion of Madison Valley Phase I and the purchase of land in conjunction with the project.
- \$2.9 million to replace existing pipes along the Alaskan Way Viaduct and Seawall with improved earthquake resistant structures.
- \$2.6 million in emergency rehab work on sewer mainlines.
- \$2.1 million for storm improvements at 30th and Johns Street.
- \$1.6 million for culvert repairs at NE 105<sup>th</sup> and 17<sup>th</sup>.
- \$1.5 million for major enhancements to the I-SCADA data management program and IMS web site portal application.

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**CAPITAL ASSETS (Continued)**

- \$1.5 million for wastewater and pump station improvements and rehabilitation.
  - \$1.1 million in donated sewer and drainage pipes from Seattle Department of Transportation and Sound Transit.
- Highlights of the Fund's major construction projects in progress at the end of 2010 included the following:
- \$6.9 million for improvements to mitigate flooding and sewer backups at the storm water facility in Madison Valley.
  - \$5.1 million for a detention project to reduce flooding near North 107<sup>th</sup> Street and Midvale.
  - \$4.4 million to build a pump station and a water quality facility near 7th and Riverside in South Park.
  - \$3.0 million for improvements to the Windermere combined sewer overflow storage.
  - \$1.8 million for improvements to the South Henderson combined sewer overflow storage.
  - \$1.8 million for improvements to the South Genesee combined sewer overflow facilities.
  - \$1.7 million to evaluate stormwater quality conditions in the Norfolk Basin.

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

**DEBT ADMINISTRATION**

The Fund's debt primarily consists of bonded debt and public works trust fund loans. Bonded debt is secured solely by drainage and wastewater system revenues and provides financing for capital improvements. Public works trust loans are unsecured loans issued by the Washington State Department of Commerce for certain capital improvements. The Fund's credit ratings on its bonds were AA+ by Standard and Poor's Rating Service and Aa1 by Moody's Investor Service.

**2011 Compared to 2010**

At the end of 2011, the Fund had \$486.6 million in bonded debt, as compared to \$499.8 million in 2010, all of which was secured solely by drainage and wastewater system revenues. There were no new bonds issued in 2011. Additional information about the Fund's long-term debt can be found in Notes 4 and 10.

During 2011, the Fund made additional draws on public works trust fund loans. The Fund borrowed an additional \$3,574,418 from the Washington State Department of Commerce and the Fund also borrowed \$228,682 from the Washington State Department of Ecology, which was funded by the American Recovery and Reinvestment Act of 2009 (ARRA) (see Note 10).



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**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**YEARS ENDED DECEMBER 31, 2011 AND 2010**

**DEBT ADMINISTRATION (Continued)**

**2010 Compared to 2009**

At the end of 2010, the Fund had \$499.8 million in bonded debt, as compared to \$513.1 million in 2009, all of which was secured solely by drainage and wastewater system revenues. There were no new bonds issued in 2010.

During 2010, the Fund made additional draws on public works trust fund loans. The Fund borrowed an additional \$170,000 from the Washington State Department of Commerce and \$359,363 from the Washington State Department of Ecology. This loan was funded by the American Recovery and Reinvestment Act of 2009 (ARRA) (see Note 10).

**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, Washington 98124-4018, telephone: (206) 684-3000.

**SEATTLE PUBLIC UTILITIES -  
DRAINAGE AND WASTEWATER FUND**  
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**BALANCE SHEETS**  
**DECEMBER 31, 2011 AND 2010**

<b>ASSETS</b>		2011	2010
		\$	\$
<b>CURRENT ASSETS</b>			
Cash and equity in pooled investments		29,121,787	30,284,181
Bond parity account, restricted cash and equity in pooled investment		1,571,461	1,619,724
Accounts receivable, net of allowance for doubtful accounts of \$1,866,543 and \$1,490,824, respectively		19,951,276	16,982,980
Unbilled revenues		15,914,459	14,226,363
Due from other City funds		1,870,874	2,410,515
Due from other governments		2,344,910	1,032,752
Materials and supplies inventory		570,165	608,523
Prepayments and other		132,524	93,692
Total current assets		<u>71,477,456</u>	<u>67,258,730</u>
<b>RESTRICTED ASSETS</b>			
Bond reserve account, cash and equity in pooled investments		12,777,456	12,769,423
Construction fund			
Cash and equity in pooled investments		36,123,278	51,572,451
Dedicated investments		-	24,943,188
Interest receivable		-	125,426
Other restricted accounts, cash and equity in pooled investments		1,441,148	-
Vendor deposits, cash and equity in pooled investments		13,611	527,241
Total restricted assets		<u>50,355,493</u>	<u>89,937,729</u>
<b>DEFERRED CHARGES AND OTHER</b>			
Unamortized bond issue costs		3,089,486	3,228,093
Notes and contracts receivable		1,306,324	-
Deferred external infrastructure costs		20,577,735	21,270,289
Deferred environmental costs and recoveries		7,398,798	7,180,984
Other deferred charges		24,618,442	22,161,310
Total deferred charges and other		<u>56,990,785</u>	<u>53,840,676</u>
<b>CAPITAL ASSETS</b>			
Capital assets, excluding land		831,908,520	776,878,196
Less accumulated depreciation		<u>(246,247,104)</u>	<u>(228,848,784)</u>
		585,661,416	548,029,412
Construction in progress		62,822,427	65,071,758
Land and land rights		14,279,516	14,279,516
Other property		670,959	662,238
Total capital assets		<u>663,434,318</u>	<u>628,042,924</u>
<b>TOTAL ASSETS</b>		<u>\$ 842,258,052</u>	<u>\$ 839,080,059</u>

**SEATTLE PUBLIC UTILITIES -  
DRAINAGE AND WASTEWATER FUND  
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**BALANCE SHEETS (CONTINUED)**  
**DECEMBER 31, 2011 AND 2010**

**LIABILITIES AND NET ASSETS**

	2011	2010
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 8,637,576	\$ 9,036,993
Accrued payroll and payroll taxes payable	1,401,256	1,265,767
Taxes payable	246,344	245,728
Interest payable	6,451,933	6,587,144
Due to other City funds	4,696,918	6,603,770
Due to other governments	10,339,097	9,252,282
Claims payable	3,459,286	3,468,383
Environmental liabilities	2,263,979	2,839,874
Compensated absences payable	374,356	355,705
Revenue bonds due within one year	13,695,000	13,175,000
Loans due within one year	903,774	814,130
Deferred credits and other	3,283,998	4,420,449
Total current liabilities	<u>55,753,517</u>	<u>58,065,225</u>
<b>REVENUE BONDS</b>		
Revenue bonds, due serially	486,610,000	499,785,000
Less revenue bonds due within one year	(13,695,000)	(13,175,000)
Bond discounts	(1,077,502)	(1,123,061)
Bond premiums	9,633,210	10,055,705
Loss on refunding	(4,151,939)	(4,425,742)
Total revenue bonds	<u>477,318,769</u>	<u>491,116,902</u>
<b>NONCURRENT AND OTHER LIABILITIES</b>		
Vendor deposits payable	13,611	527,241
Compensated absences payable	4,050,598	3,926,874
Other postemployment benefits	1,894,828	1,378,711
Claims payable	8,830,523	9,133,451
Loans	17,693,988	14,809,874
Environmental liabilities	6,291,846	7,760,059
Other noncurrent liabilities	151,388	72,663
Total noncurrent and other liabilities	<u>38,926,782</u>	<u>37,608,873</u>
Total liabilities	<u>571,999,068</u>	<u>586,791,000</u>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	223,131,662	216,471,199
Restricted	28,383,412	28,099,086
Unrestricted	18,743,910	7,718,774
Total net assets	<u>270,258,984</u>	<u>252,289,059</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 842,258,052</u>	<u>\$ 839,080,059</u>

See accompanying notes.

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**SEATTLE PUBLIC UTILITIES -  
DRAINAGE AND WASTEWATER FUND  
(An Enterprise Fund of the City of Seattle)**  
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
**YEARS ENDED DECEMBER 31, 2011 AND 2010**

	2011	2010
<b>OPERATING REVENUES</b>		
Direct service	\$ 274,224,369	\$ 244,947,310
Other	4,732,538	4,786,484
Total operating revenues	<u>278,956,907</u>	<u>249,733,794</u>
<b>OPERATING EXPENSES</b>		
Wastewater treatment	125,251,546	111,282,206
Utility systems management	16,574,074	14,475,619
Field operations and maintenance	18,873,873	18,553,795
Project delivery	11,368,181	8,589,280
Customer services	5,207,443	4,738,617
Pre-capital planning and development	2,565,065	1,132,929
General and administrative	17,367,886	18,937,703
City taxes	32,448,908	29,177,471
Other taxes	3,582,168	3,099,045
Depreciation and amortization	19,832,129	20,131,347
Total operating expenses	<u>253,071,273</u>	<u>230,118,012</u>
<b>NET OPERATING INCOME</b>	<u>25,885,634</u>	<u>19,615,782</u>
<b>OTHER INCOME (EXPENSES)</b>		
Investment income	2,820,139	2,595,478
Interest expense	(21,129,394)	(22,608,323)
Amortization of bond premiums	376,936	376,936
Amortization of bond refunding loss	(273,803)	(273,803)
Amortization of debt issuance costs	(138,607)	(138,607)
Gain (loss) on disposition of capital assets	12,901	(27,289)
Other, net	92,662	3,181,011
Total other expenses	<u>(18,239,166)</u>	<u>(16,894,597)</u>
<b>FEES, CONTRIBUTIONS, AND GRANTS AND SPECIAL ITEMS</b>		
Capital fees, contributions, and grants	7,475,683	3,822,548
Operating fees, contributions, and grants	2,309,750	1,256,310
Environmental remediation	538,024	(1,948,155)
Total fees, contributions, and grants and special items	<u>10,323,457</u>	<u>3,130,703</u>
<b>CHANGE IN NET ASSETS</b>	<u>17,969,925</u>	<u>5,851,888</u>
<b>NET ASSETS</b>		
Beginning of year	<u>252,289,059</u>	<u>246,437,171</u>
End of year	<u>\$ 270,258,984</u>	<u>\$ 252,289,059</u>

See accompanying notes.

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**SEATTLE PUBLIC UTILITIES -  
DRAINAGE AND WASTEWATER FUND  
(An Enterprise Fund of the City of Seattle)  
STATEMENTS OF CASH FLOWS  
YEARS ENDED DECEMBER 31, 2011 AND 2010**

	2011	2010
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from customers	\$ 271,464,707	\$ 251,065,796
Cash paid to suppliers	(148,849,754)	(126,922,634)
Cash paid to employees	(49,700,928)	(46,039,524)
Cash paid for taxes	(35,822,166)	(29,754,787)
Net cash provided by operating activities	37,091,859	48,348,851
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Operating grants received	2,204,999	1,186,505
Environmental remediation outflows	(2,848,308)	(2,794,071)
Other nonoperating cash inflows	1,308,380	4,358,057
Other nonoperating cash outflows	(15,145)	(27,303)
Net cash provided by noncapital financing activities	649,926	2,723,188
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Proceeds from loans	3,818,263	2,846,570
Capital fees, contributions, and grants	2,938,786	2,726,656
Principal payments on revenue bonds	(13,175,000)	(13,285,000)
Principal payments on loans	(844,505)	(533,467)
Capital expenditures and deferred charges	(49,442,364)	(55,569,549)
Interest paid on long-term debt	(24,307,874)	(24,105,731)
Proceeds from sale of capital assets	111,858	49,322
Net cash used in capital and related financing activities	(80,900,836)	(87,871,199)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of investments	-	(34,400,000)
Proceeds from sales of investments	24,600,000	108,600,000
Interest received on investments	2,834,772	2,573,687
Net cash provided by investing activities	27,434,772	76,773,687
<b>NET (DECREASE) INCREASE IN CASH AND EQUITY IN POOLED INVESTMENTS</b>	(15,724,279)	39,974,527
<b>CASH AND EQUITY IN POOLED INVESTMENTS</b>		
Beginning of year	96,773,020	56,798,493
End of year	\$ 81,048,741	\$ 96,773,020

See accompanying notes.

**SEATTLE PUBLIC UTILITIES -  
DRAINAGE AND WASTEWATER FUND  
(An Enterprise Fund of the City of Seattle)  
STATEMENTS OF CASH FLOWS (CONTINUED)  
YEARS ENDED DECEMBER 31, 2011 AND 2010**

	2011	2010
<b>RECONCILIATION OF NET OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Net operating income	\$ 25,885,634	\$ 19,615,782
Adjustments to reconcile net operating income to net cash provided by operating activities		
Depreciation and amortization	19,832,129	20,131,347
Changes in operating assets and liabilities		
Accounts receivable	(2,968,296)	(2,391,175)
Unbilled revenues	(1,688,096)	343,003
Due from other City funds	539,641	(833,240)
Due from other governments	(984,235)	854,113
Materials and supplies	38,358	(60,527)
Other assets	(8,775)	(5,481)
Vendor deposits payable	(434,904)	(160,318)
Notes and contracts receivable	(1,351,014)	-
Accounts payable	(399,418)	3,972,421
Accrued payroll and payroll taxes payable	135,489	145,174
Taxes payable	616	(66,355)
Compensated absences payable	142,375	458,304
Other postemployment benefits	516,117	405,349
Due to other City funds	(1,906,852)	1,675,465
Due to other governments	1,086,815	(3,672)
Claims payable	(312,025)	900,844
Deferred credits and other liabilities	(1,031,700)	3,367,817
Total adjustments	11,206,225	28,733,069
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>\$ 37,091,859</b>	<b>\$ 48,348,851</b>
<b>NONCASH TRANSACTIONS</b>		
Change in fair value of investments	\$ (4,085)	\$ (42,763)
Contributed infrastructure	4,208,974	1,095,892
Total noncash transactions	\$ 4,204,889	\$ 1,053,129

See accompanying notes.

**Note 1 - Operations and Summary of Significant Accounting Policies**

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

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

SPU receives certain services from other departments and agencies of the City, including some that are normally considered to be general and administrative. The Fund is charged a share of these costs and additionally pays a business and occupation tax to the City's General Fund. During 2011 and 2010, the Fund paid \$8,739,578 and \$8,224,907, respectively, to the City for its share of general and administrative services. Additionally, the Fund paid \$32,448,908 and \$29,177,471 to the City for business and occupation utility taxes in 2011 and 2010, respectively.

Wastewater disposal services provided to other City departments and agencies are billed at rates prescribed by City ordinances. The Fund collected \$1,852,250 in 2011 and \$1,776,680 in 2010 from the City for wastewater 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 bills and reimburses each other for these services. 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 \$1,396,068 and \$1,589,558 in 2011 and 2010, respectively. The Fund paid \$384,365 and \$307,173 for CCSS services in 2011 and 2010, 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 City Council. Accounting policies and financial reporting are regulated by the Washington State Auditor's Office, and conform 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. The Fund has chosen to apply all pronouncements and interpretations issued by the GASB, as well as those issued by the Financial Accounting Standards Board ("FASB") on or before November 30, 1989, except when they conflict with the GASB.

**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 and liabilities associated with the Fund's operations are included on the balance sheet. The operating statements present increases (revenues) and decreases (expenses) in total net assets.

**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 Balance Sheets 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.

**Investments** - The Fund's restricted cash resources are invested by the Finance and Administration Services Department separate from the cash and investments pool. Investments are managed in accordance with the City's investment policy, with limits and restrictions applied at the City-wide level rather than to specific investments of the Fund. These investments are reported at fair value.

**Receivables and Unbilled Revenues** - Customer accounts receivable consist of amounts owed by private individuals and organizations for goods delivered or services rendered in the regular course of business operations. Receivables are shown net of allowances for doubtful accounts. The Fund also accrues an estimated amount for services that have been provided but not billed.

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 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.

**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)**

**Restricted Assets** - The construction fund accounts are comprised of unexpended bond proceeds, a portion of which is scheduled to be spent in 2012.

**Unamortized Bond Issue Costs** - Costs associated with the issuance of bonds are amortized to expense over the term of the related debt. Amortization expense is calculated using the straight line method.

**Deferred External Infrastructure Costs** - The Fund has contributed \$21,962,828 to a joint project with King County to expand one of their transmission lines to help alleviate sewer overflows in the area. These costs represent the portion of the project that did not result in an asset for the Fund. The project was completed in 2005. The Fund has deferred these costs and began amortizing them in 2006 over a 75 year period.

**Environmental Remediation Costs** - The Fund is involved in several remediation efforts around the City (see Note 9). When estimated remediation costs are approved to be recovered through rates, the costs associated with these efforts are deferred when accrued and are amortized over the rate recovery period. Certain environmental remediation costs that are infrequent in occurrence are treated as a special item in the Statements of Revenues, Expenses, and Changes in Net Assets.

**Other Deferred Charges** - Other deferred charges primarily include costs related to leasehold improvements and plans, such as the Combined Sewer Overflow Update plan and the Comprehensive Ditch and Culvert plan. The Fund amortizes these charges over a 5 to 30 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 generally capitalize assets with a cost of \$5,000 or more. The Fund received donated assets, such as sewer and drainage pipes, from developers and other government agencies.

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

**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.

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

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

Buildings and fixtures	10 - 50 years
Laterals, mains, and outfalls	75 years
Detention structures	50 years
Pumping stations, equipment, and overflow structures	10 to 50 years
Machinery and equipment	3 to 20 years
Computer systems	3 to 10 years

Composite rates based on year of addition are used for depreciating the laterals, mains, and outfalls asset group. 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.

**Environmental Liabilities** - The Fund has accrued a liability for pollution remediation activities in accordance with GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. GASB 49 outlines five specific obligating events that give rise to estimating expected pollution remediation outlays. These outlays may be accrued as a liability and expensed, or if appropriate, capitalized.

The Fund will accrue a liability if any of the following obligating events occurs:

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

Most pollution remediation outlays do not qualify for capitalization and the Fund does not anticipate significant capitalized costs in the future. See Note 9 for site descriptions.

**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.



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

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

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

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

**Operating Expenses** - Certain expenses of the Fund are reported on the income statement by functional category. The types of work performed within each category are as follows:

- Pre-capital 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 drainage and wastewater systems.
- 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.

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

**Taxes** - The Fund is charged a public utility tax by the City at a rate of 12.0% for Wastewater revenues and 11.5% for Drainage revenues, net of certain credits. In addition, the Fund paid a 3.85% public utility tax to the State on a certain portion of revenues identified as sewer collection revenues. The Fund also paid business and occupation tax to the State at the rate of 1.8% on certain other non-utility revenues.

**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 Fund and are of a recurring nature. Major items are investment and interest income, interest expense, amortization of debt expenses, and sale of capital assets.

**Net Assets** - The Balance Sheet reports all financial and capital resources. The difference between assets and liabilities is net assets. There are three components of net assets: invested in capital assets - net of related debt, restricted, and unrestricted.

Invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Net assets are restricted when constraints placed on net asset 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 assets as of December 31, 2011 and 2010 are related to the bond debt reserve funds and certain deferred charges. Unrestricted net assets are those that are not "invested in capital assets, net of related debt" or "restricted."

**Arbitrage Rebate Requirement** - The Fund is subject to the Internal Revenue Code ("IRC"), Section 148(f), related to its tax-exempt revenue bonds. The IRC requires that earnings on gross proceeds of any revenue bonds that are in excess of the amount prescribed be surrendered to the Internal Revenue Service. As such, the Fund would record such a rebate as a liability. The Fund had no liability for arbitrage as of December 31, 2011 and 2010.

**Accounting Changes** - The Fund adopted GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, as of January 1, 2010. This statement clarified the definition of intangible assets as used in the description of capital assets in GASB Statement No. 34. The adoption of GASB 51 did not have a significant impact on the Fund's financial statements for 2011 or 2010.

The Fund adopted GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, as of January 1, 2010. This statement provides guidance for the recognition, measurement and disclosure of activity related to derivative instruments held by state and local governments. The adoption of GASB 53 did not have a significant impact on the Fund's financial statements for 2011 or 2010.

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

GASB issued Statement No. 59 *Financial Instruments Omnibus*, to update and improve existing financial reporting and disclosure standards of certain financial instruments and external investment pools. This statement became effective for periods beginning after June 15, 2010 and did not have a significant impact on the Fund's financial statements for 2011 or 2010.

GASB has issued Statement No. 62 *Codification of Pre-November 30, 1989 FASB Pronouncements*. This statement combines the authoritative accounting and financial reporting of the FASB and the American Institute of Certified Public Accountants ("AICPA"). The statement will eliminate the need for financial statement preparers and auditors to determine which FASB and AICPA pronouncement provisions apply to state and local governments. The statement is effective for periods beginning after December 15, 2011 and will not have a significant impact on the Fund's financial statements.

GASB has issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The requirements of this statement will standardize the presentation of deferred inflows and outflows of resources, and their effects on a government's net position. The statement is effective for periods beginning after December 15, 2011. The Fund is evaluating the impact of this standard on the financial statements.

**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, environmental liabilities, risk liabilities, and other contingencies. Changes in these estimates and assumptions may have a material impact on the financial statements.

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

**Reclassifications** - Certain reclassifications have been made to prior year balances to provide a presentation consistent with the current year.

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**Note 2 - Cash and Investments**

**Custodial Credit Risk - Deposits** - As of December 31, 2011 and 2010, the City's pool contained cash on deposit with the City's custodial banks in the amounts of \$19,666,051 and \$16,663,123, respectively. The deposits in excess of \$250,000 in both 2011 and 2010 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.

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 depositories, 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:

	2011				Weighted Average Maturity (Days)
	Dedicated Investments of the Fund	City Pool	Other Dedicated Investments	Total	
U.S. Government Agencies	\$ -	\$ 991,128,738	\$ -	\$ 991,128,738	974
State and Local Governments	-	105,403,511	-	105,403,511	513
Commercial Paper	-	77,494,937	-	77,494,937	10
Repurchase Agreements	-	66,785,435	-	66,785,435	3
U.S. Government Obligations	-	37,993,718	-	37,993,718	816
Total	\$ -	\$ 1,278,806,339	\$ -	\$ 1,278,806,339	
			Portfolio Weighted Average Maturity		823

	2010				Weighted Average Maturity (Days)
	Dedicated Investments of the Fund	City Pool	Other Dedicated Investments	Total	
U.S. Government Agencies	\$ 24,943,188	\$ 628,004,011	\$ 56,590,968	\$ 709,538,167	655
Commercial Paper	-	256,364,545	-	256,364,545	21
Repurchase Agreements	-	36,263,894	-	36,263,894	3
U.S. Government Obligations	-	39,624,011	-	39,624,011	308
State and Local Governments	-	1,020,110	-	1,020,110	213
Total	\$ 24,943,188	\$ 981,379,181	\$ 56,590,968	\$ 1,062,913,337	
			Portfolio Weighted Average Maturity		458

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**Note 2 - Cash and Investments (Continued)**

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

	2011	2010
Cash and equity in pooled investments	\$ 29,121,787	\$ 30,284,181
Restricted cash and equity in pooled investments	51,926,954	66,488,839
Total	<u>\$ 81,048,741</u>	<u>\$ 96,773,020</u>
Balance as a percentage of City pool cash and investments	6.2%	9.7%

**Interest Rate Risk** - Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. In general, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. 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, 2011 and 2010, the City's investments in commercial paper were rated P-1 by Moody's Investors Service and A-1 or 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 Home Loan Mortgage Corporation, Federal Farm Credit Bank, and Federal National Mortgage Association. As of December 31, 2011, these investments were rated Aaa, Aa1 and P-1 by Moody's Investors Service and AAA, AA+, and AA by Standard & Poor's Rating Service. As of December 31, 2010, these investments were rated Aaa by Moody's Investors Service and AAA by Standard & Poor's Rating Service.

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**Note 2 - Cash and Investments (Continued)**

As of December 31, 2011, the City's investments in repurchase agreements require a signed and executed 2011 Version of the Global Master Repurchase Agreement, a standardized form published by the Securities Industry and Financial Markets Association ("SIFMA") and International Capital Market Association ("ICMA"), with an approved repo counterparty of the City. Additionally, the City will have to sign and execute a Tri-Party Custodial Agreement between the counterparty and one of the two third-party custodians, JPMorgan Chase and BNY Mellon. The City conducts repo transactions with investment grade rated primary dealers after thorough internal credit due diligence of the counterparty. Securities delivered as collateral must be priced at a minimum of 102% of their market value. Potentially higher margins of 103% to 105% would be used for pricing collateral in a volatile market environment. Parameters for acceptable collateral are determined by the City's investment policy, which abides by Washington State statute. As of December 31, 2011, the securities underlying the City's investments in repurchase agreements have included U.S. Treasuries, U.S. Agency debentures, and U.S. Agency mortgage-backed pass-throughs. The City has not accepted collateral containing credit risk, such as bankers' acceptances, commercial paper, or municipal bonds. Repurchase agreements do not have credit ratings.

**Concentration of Credit Risk** - The City's investment policy limits concentration of credit risk for the City's investments as a whole, inclusive of the Fund's investments. These policy limits vary for each investment category. The City's investments in which five percent or more is invested in any single issuer, as of December 31, are as follows:

	2011		2010	
Issuer	Fair Value	Percent of Total Investments	Fair Value	Percent of Total Investments
Federal Home Loan Mortgage Corp	\$ 395,358,375	31%	\$ 114,398,437	11%
Federal National Mortgage Association	\$ 317,039,812	25%	\$ 276,373,623	26%
Federal Home Loan Bank	\$ 194,321,359	15%	\$ 218,644,903	21%
Federal Farm Credit Bank	\$ 83,708,078	7%	\$ 100,121,203	9%
Washington State	\$ 68,388,721	5%	-	0%
Wells Fargo	\$ 66,785,435	5%	\$ 32,565,904	3%
Sheffield Receivables Corporation	-	0%	\$ 54,343,164	5%

As of December 31, 2011, the Fund liquidated all dedicated investments to the construction fund account. The Fund's dedicated investments in which five percent or more is invested in any single issuer as of December 31 are as follows:

	2011		2010	
Issuer	Fair Value	Percent of Total Investments	Fair Value	Percent of Total Investments
Federal Home Loan Bank	\$ -	0%	\$ 19,243,813	77%
Federal National Mortgage Association	\$ -	0%	\$ 5,699,375	23%



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**Note 3 - Capital Assets**

Capital asset activity consisted of the following for the year ended December 31, 2011:

	Beginning Balance	Additions and Transfers In	Retirements and Transfers Out	Ending Balance
Buildings	\$ 14,071,027	\$ 28,702	\$ -	\$ 14,099,729
Structures	133,693,948	16,627,109	-	150,321,057
Machinery and equipment	582,471,588	36,852,622	(378,605)	618,945,605
Computer systems	46,641,633	2,555,206	(654,710)	48,542,129
Total capital assets,				
excluding land	776,878,196	56,063,639	(1,033,315)	831,908,520
Less accumulated depreciation	(228,848,784)	(18,332,131)	933,811	(246,247,104)
	548,029,412	37,731,508	(99,504)	585,661,416
Construction in progress	65,071,758	57,742,377	(59,991,708)	62,822,427
Land and land rights	14,279,516	-	-	14,279,516
Other property	662,238	8,721	-	670,959
Capital assets, net	\$ 628,042,924	\$ 95,482,606	\$ (60,091,212)	\$ 663,434,318

Capital asset activity consisted of the following for the year ended December 31, 2010:

	Beginning Balance	Additions and Transfers In	Retirements and Transfers Out	Ending Balance
Buildings	\$ 13,886,080	\$ 184,947	\$ -	\$ 14,071,027
Structures	127,678,398	6,015,550	-	133,693,948
Machinery and equipment	555,305,459	27,577,447	(411,318)	582,471,588
Computer systems	41,949,377	4,692,256	-	46,641,633
Total capital assets,				
excluding land	738,819,314	38,470,200	(411,318)	776,878,196
Less accumulated depreciation	(211,903,507)	(17,279,983)	334,706	(228,848,784)
	526,915,807	21,190,217	(76,612)	548,029,412
Construction in progress	55,054,703	57,269,796	(47,252,741)	65,071,758
Land and land rights	11,090,693	3,188,823	-	14,279,516
Other property	619,607	42,631	-	662,238
Capital assets, net	\$ 593,680,810	\$ 81,691,467	\$ (47,329,353)	\$ 628,042,924

During 2011 and 2010, the Fund capitalized interest costs relating to construction of \$3,043,269 and \$2,059,584, respectively.

**SEATTLE PUBLIC UTILITIES -  
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**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 \$12,777,456 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, 2011 and 2010 were \$486,610,000 and \$499,785,000, respectively.

Revenue bonds outstanding as of December 31, 2011 and 2010 consisted of the following Municipal Drainage and Wastewater bonds:

Name of Issue	Issuance Date	Maturity Years	Interest Rates	Original Amount	Bonds Outstanding 2011	Bonds Outstanding 2010
2001 party bonds	7/3/01	2002-2031	4.25-5.25%	\$ 60,680,000	\$ 48,880,000	\$ 50,280,000
2002 party bonds	12/7/02	2003-2032	3.25-5.25%	36,450,000	36,450,000	36,450,000
2003 party bonds	10/28/03	2004-2033	3.25-5.25%	62,010,000	54,140,000	55,435,000
2004 party bonds	10/28/04	2005-2034	2.25-5.125%	121,765,000	108,100,000	111,825,000
2005 party bonds	11/1/06	2006-2037	4.0-5.0%	84,645,000	80,450,000	81,905,000
2006 party revenue bonds	4/16/08	2009-2038	4.0-5.0%	102,535,000	102,535,000	102,535,000
2009A party revenue and refunding bonds	12/17/09	2017-2039	4.2-5.5%	36,680,000	29,830,000	32,985,000
2009B party revenue bonds	12/17/09	2010-2027	2.0-4.0%	546,865,000	486,610,000	499,785,000

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

Years Ending December 31,	Principal	Interest	Total
2012	\$ 13,695,000	\$ 23,589,261	\$ 37,284,261
2013	14,290,000	23,042,836	37,332,836
2014	14,935,000	22,455,793	37,390,793
2015	15,590,000	21,847,780	37,437,780
2016	16,340,000	21,177,825	37,517,825
2017 - 2021	92,670,000	93,438,417	186,108,417
2022 - 2026	102,815,000	69,701,717	172,516,717
2027 - 2031	109,000,000	43,217,512	152,217,512
2032 - 2036	75,555,000	18,456,194	94,011,194
2037 - 2041	31,720,000	2,674,433	34,394,433
	\$ 486,610,000	\$ 339,601,768	\$ 826,211,768

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**Note 4 - Revenue Bonds (Continued)**

The following table shows the revenue bond activity during the year ended December 31, 2011:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable					
Revenue bonds	\$ 499,785,000	\$ -	\$ (13,175,000)	\$ 486,610,000	\$ 13,695,000
Add (deduct) deferred amounts:					
Issuance premiums	10,055,705	-	(422,495)	9,633,210	-
Issuance discounts	(1,123,061)	-	45,559	(1,077,502)	-
Loss on refunding	(4,425,742)	-	273,803	(4,151,939)	-
Total bonds payable	\$ 504,291,902	\$ -	\$ (13,278,133)	\$ 491,013,769	\$ 13,695,000

The following table shows the revenue bond activity during the year ended December 31, 2010:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable					
Revenue bonds	\$ 513,070,000	\$ -	\$ (13,285,000)	\$ 499,785,000	\$ 13,175,000
Add (deduct) deferred amounts:					
Issuance premiums	10,478,200	-	(422,495)	10,055,705	-
Issuance discounts	(1,168,620)	-	45,559	(1,123,061)	-
Loss on refunding	(4,699,545)	-	273,803	(4,425,742)	-
Total bonds payable	\$ 517,680,035	\$ -	\$ (13,388,133)	\$ 504,291,902	\$ 13,175,000

**Defeasance of Debt** - The Fund defeases certain obligations by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. As a result, the old bonds are considered defeased, and the corresponding liabilities and trust account assets are not included in the Balance Sheet. At December 31, 2011 no outstanding bonds are considered defeased. During 2010, \$18,395,000 of 1998 parity bonds was redeemed.

**Debt Service Coverage** - The revenue bonds contain certain financial covenants, the most significant of which requires the Fund to maintain net revenue available for debt service of at least equal to 125% of average annual debt service. For 2011, net revenue available for debt service, as defined by the bond covenants, was 280% of average annual debt service. For 2010, net revenue available for debt service was 253% of average annual debt service.

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**Note 4 - Revenue Bonds (Continued)**

Net revenue available for debt service for the years ended December 31, is determined as follows:

	2011	2010
Net operating income	\$ 25,885,634	\$ 19,615,782
Add:		
City taxes	32,448,908	29,177,471
Depreciation and amortization	19,832,129	20,131,347
Investment income	2,820,139	2,595,478
Claims expense	1,515,945	3,728,612
Adjusted net revenue available for debt service	\$ 82,502,755	\$ 75,248,690
Debt service requirement	\$ 29,507,563	\$ 29,774,837
Coverage	280%	253%

**Note 5 - Leases**

The Fund has non-cancelable operating lease commitments for real and personal property, with payments of \$108,115 and \$105,887 in 2011 and 2010, respectively. Rents are paid as they become due and payable. Minimum lease payments under the leases as of December 31, 2011 are as follows:

2012	\$ 110,248
2013	69,707
2014	59,568
2015	61,610
2016	52,760
	<u>\$ 353,893</u>

**Note 6 - Retirement and Other Postemployment Benefit Plans**

**Pension Costs** - All permanent Fund employees are eligible to participate in the Seattle City Employees' Retirement System (the "System"), a cost-sharing public employee retirement system operated by the City. Benefits vest after five years of covered service. City employees may retire after 30 years of service regardless of age; after age 52, with 20 or more years of service; after age 57, with 10 or more years of service, and after age 62, with five or more years of service. The System also provides death and disability benefits. These benefit provisions and all other requirements are established by City ordinances.

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**Note 6 - Retirement and Other Postemployment Benefit Plans** (Continued)

City employees are required to contribute 9.03% of their annual base salaries to the System. The City's contribution rate increased to 9.03% for 2011 from 8.03% in 2009 and 2010. 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, 2011, 2010 and 2009, were \$3,465,961, \$2,910,580, and \$2,717,853, respectively. The Fund's contribution in 2011 represents its full liability to the System.

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, telephone: (206) 386-1293.

Employer contributions for the City are as follows (dollars in millions):

Year Ended December 31,	City Required Contribution	City Actual Contribution	Percentage Contributed
2009	\$ 46.7	\$ 46.7	100%
2010	\$ 45.2	\$ 45.2	100%
2011	\$ 50.2	\$ 50.2	100%

Actuarial data and assumptions

Valuation date	January 1, 2011
Actuarial cost method	Entry age
Amortization method	Level percent
Remaining amortization period	30 years, open
Asset valuation method	5-Year Smoothing Method
Investment rate of return	7.75%
Projected general wage inflation	4.0%
Postretirement benefit increases	1.5%

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**Note 6 - Retirement and Other Postemployment Benefit Plans** (Continued)

Schedules of funding progress are as follows (dollars in millions):

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liabilities (AAL) Entry Age <sup>1</sup> (b)	Unfunded AAL (UAAAL) <sup>2</sup> (b-a)	Funded Ratio (a/b)	Covered Payroll <sup>3</sup> (c)	UAAAL as a % of Covered Payroll (b-a)/c
January 1, 2008	\$ 2,119.4	\$ 2,294.6	\$ 175.2	92.4%	\$ 501.9	34.9%
January 1, 2010	\$ 1,645.3	\$ 2,653.8	\$ 1,008.5	62.0%	\$ 580.9	173.6%
January 1, 2011	\$ 2,013.7	\$ 2,709.0	\$ 695.4	74.3%	\$ 563.2	123.5%

<sup>1</sup> Actuarial present value of benefits less actuarial present value of future normal costs based on entry age actuarial cost method.

<sup>2</sup> Actuarial accrued liabilities less actuarial value of assets.

<sup>3</sup> Covered payroll includes compensation paid to all active employees on which contributions are calculated.

**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.

**Note 6 - Retirement and Other Postemployment Benefit Plans** (Continued)

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 Seattle 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 \$3.2 million in 2010 and \$3.0 million in 2009.

The table below summarizes the City's annual cost, expected contributions to the plan, and changes in the net OPEB obligation for fiscal year ended December 31, 2010. These calculations are based on the most recent actuarial valuation data available, dated January 1, 2010. The Fund has accrued \$1,894,828 to the plan as of December 31, 2011, as a reasonable estimate of expected contributions.

	2010	2009
Annual required contribution	\$ 10,709,000	\$ 9,269,000
Interest on net OPEB obligation	898,000	693,000
Adjustment to annual required contribution	(1,239,000)	(915,000)
Annual OPEB cost (expense)	10,368,000	9,047,000
Expected contribution (employer-paid benefits)	(3,202,000)	(2,954,000)
Increase in net OPEB obligation	7,166,000	6,093,000
Net OPEB obligation, beginning of year	20,446,000	14,353,000
Net OPEB obligation, end of year	\$ 27,612,000	\$ 20,446,000
Fund's allocated share of city liability	\$ 1,378,711	\$ 973,362

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 - Retirement and Other Postemployment Benefit Plans** (Continued)

Significant methods and assumptions are as follows:

Actuarial data and assumptions	January 1, 2010
Valuation date	Entry age normal
Actuarial cost method	Level dollar
Amortization method	30 years, open
Remaining amortization period	4.39%
Discount rate	10.0%, decreasing by 0.5% for each year for 10 years to an ultimate rate of 5%.
Health care cost trend rates - medical	40% of Active Employees who retire participate.
Participation	General Service Actives and Retirees based on the Group Annuity Mortality (GAM) 1994 Static Table (Final) with ages set forward one year.
Mortality	60% of members electing coverage are assumed to be married or to have a registered domestic partner. Male spouses two years older than their female spouses.
Marital status	Morbidity rate ranges for ages 50 through 64: 104.25% to 203.61% for male retirees, 76.78% to 149.96% for female retirees, 123.03% to 229.84% for male spouses, and 90.62% to 169.29% for female spouses.
Morbidity factors	Retirees' spouses pay a lower premium than retirees. Active employees with current spousal and/or dependent coverage are assumed to elect same plan and coverage after retirement.
Other considerations	

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**Note 6 - Retirement and Other Postemployment Benefit Plans** (Continued)

Schedules of funding progress are as follows (dollars in millions):

Actuarial Valuation Date	Actuarial Value of Assets	AAL Entry Age	UAAL (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percent of Covered Payroll (b-a)/c
January 1, 2008	\$ -	\$ 78.8	\$ 78.8	0.0%	NA	NA
January 1, 2009	\$ -	\$ 84.1	\$ 84.1	0.0%	NA	NA
January 1, 2010	\$ -	\$ 93.5	\$ 93.5	0.0%	NA	NA

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

**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 2011 and 2010, 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, 0.824% and 1.027%, respectively. Claims expected to be paid within one year were \$3,459,286 and \$3,468,383 as of December 31, 2011 and 2010, respectively. The schedules below present the changes in the liability for workers' compensation claims and other claims (risk financing liabilities) as of December 31:

	2011	2010
Beginning liability, undiscounted	\$ 13,011,297	\$ 12,063,426
Payments	(1,827,970)	(2,827,768)
Incurred claims and change in estimate	1,422,624	3,775,639
Ending liability, undiscounted	\$ 12,605,951	\$ 13,011,297
Ending liability, discounted (recorded balance at December 31)	\$ 12,289,809	\$ 12,601,834

The Fund is involved in litigation from time to time as a result of operations. Claims are pursued if determined to be in the best interest of the Fund's customers.

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**Note 8 - Compensated Absences**

The Fund has recorded a liability for earned but unused holiday, compensatory, merit, and vacation leave, as well as estimated sick leave payments calculated based on the termination payment method. The schedules below show the compensated absences activity during the years ended December 31, 2011 and 2010:

	2011	2010
Beginning liability	\$ 4,282,579	\$ 3,824,275
Additions	3,475,788	4,764,200
Reductions	(3,333,413)	(4,305,896)
Ending liability	\$ 4,424,954	\$ 4,282,579

**Note 9 - Environmental Liabilities**

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

**Duwamish Sites** - The U.S. Environmental Protection Agency ("EPA") has indicated that it will require the clean-up and remediation of certain Duwamish sites under its Superfund authority. No specific requirements for remediation by potentially responsible parties ("PRP") have been made by the EPA as of the date of this report, except related to specific "early action sites" which are or have been under Administrative Orders on Consent ("AOC"). In order to manage the liability, the City is working with the EPA and other PRPs on a Remedial Investigation ("RI") and Feasibility Study ("FS") to evaluate the risk to human health and the environment within the six mile superfund area, identify the possible early action clean-up sites, and generally evaluate the feasibility of clean-up options for use in the ultimate remedial actions that the EPA will require. The Remedial Investigation document has been completed and the draft Feasibility Study was submitted to the EPA at the end of 2010. The EPA will likely complete their proposed plan in 2012 followed by a Record of Decision in 2013.

The Fund, together with other PRP's, has voluntarily agreed to initiate clean-up of two early action sites identified during the RI under EPA issued Administrative Orders on Consent: Slip 4 and T-117.

**East Waterway Site** - In 2006 the EPA issued an AOC for a Supplemental RI and FS for the East Waterway, an operable unit of the Harbor Island Superfund Site. Subsequent to an agreement between the EPA, the Port of Seattle ("Port"), King County and the City, the Port alone signed the order. Both the City and King County signed a Memorandum of Agreement with the Port to participate as cost share partners in the work required by the EPA. No specific requirements for remediation by PRPs have been made by the EPA as of the date of this report. The Remedial Investigation is anticipated to be completed by 2014.

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**Note 9 - Environmental Liabilities (Continued)**

**Gas Works Park Sediment Site** - In April 2002, the Department of Ecology ("DOE") named the City and another party, Puget Sound Energy, as PRPs for contamination at the Gas Works Sediments Site in North Lake Union. The City and Puget Sound Energy signed an Agreed Order with the DOE in 2005 to initiate two RI and FSs for the sediment site - one in the western portion of the site led by the City, and another in the eastern portion of the site led by Puget Sound Energy. The City, with the Fund as lead, is now working to complete the RI and FS for the western portion of the site for submittal to the DOE. The RI and FS include an evaluation of the nature and extent of contamination on the site, an evaluation of multiple alternatives for remediating the sediments and a recommended preferred alternative. Recently the EPA has begun in-depth discussions with DOE. As a result, a Clean-up Action Plan is expected from the Department of Ecology in 2015 or 2016.

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

**7th Avenue South Pump Station** - The City acquired land in the South Park area of Seattle to construct the 7th Ave South Pump Station. The land was determined to be contaminated subsequent to the purchase. The Fund has voluntarily agreed to clean up the contamination in order to continue with the planned construction of the pump station. The cleanup is anticipated to be completed in 2012.

The Fund has included in its estimated liability those portions of the environmental remediation work that are currently deemed to be reasonably estimable. Cost estimates were developed using the expected cash flow technique in accordance with GASB 49. Estimated outlays were based on current cost and no adjustments were made for discounting or inflation. Cost scenarios were developed for a given site based on data available at the time of estimation and will be adjusted for changes in circumstance. Scenarios consider the relevant potential requirements and are adjusted when benchmarks are met or when new information revises estimated outlays, such as changes in the remediation plan or operating conditions. Costs were calculated on a weighted average that was based on the probabilities of each scenario being selected and reflected cost-sharing agreements in effect. In addition, certain estimates were derived from independent engineers and consultants. The estimates were made with the latest information available; however, as new information becomes available, estimates may vary significantly due to price fluctuations, technological advances, or applicable laws or regulations.

The Fund is aggressively pursuing other third parties that may have contributed to the contamination of the sites noted. The Fund's estimate for not yet realized recoveries from other parties for their share of remediation work that offset the Fund's estimated environmental liability was \$6.3 million and \$4.9 million, as of December 31, 2011 and 2010, respectively. During 2010, the Fund received an environmental cost recovery of \$2.4 million from Boeing. The recovery represented settlement for prior legal costs incurred in defining their cost share in remediating the contaminated sites in the future. No cost recovery funds were received in 2011.

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**Note 9 - Environmental Liabilities (Continued)**

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

	2011	2010
Beginning environmental liability, net of recovery Payments or amortization	\$ 10,599,933 (2,848,308)	\$ 10,243,773 (2,794,071)
Incurred environmental liability	804,200	3,150,231
Ending environmental liability, net of recovery	<u>\$ 8,555,825</u>	<u>\$ 10,599,933</u>

The provision for environmental liabilities included in current and non-current liabilities at December 31 are:

	2011	2010
Environmental liability, current	\$ 2,263,979	\$ 2,839,874
Environmental liability, noncurrent	6,291,846	7,760,059
Ending liability	<u>\$ 8,555,825</u>	<u>\$ 10,599,933</u>

**Note 10 - Public Works Trust and Other Loans**

The Fund has various construction projects that are financed by low interest loans issued by the State of Washington. The loan agreements require that the Fund finance a portion of these projects from other sources. These loans have been used to enhance the drainage system. The fund also financed the purchase of land with a small loan in the amount of \$161,000 from a private party.

In 2011, the Fund was approved for a public works trust fund loan of \$3,574,418 from the Washington State Department of Commerce for construction and site improvements in the Midvale area of Seattle. Amounts borrowed under this agreement accrue interest at 0.5% per annum and are to be repaid by June 2032.

In 2010, the Fund made an additional draw on a loan in the amount of \$170,000 from the Washington State Department of Commerce for construction and site improvements in the South Park Area. Amounts borrowed under this agreement accrue interest at 0.5% per annum and are to be repaid by June 2025.

The Fund was approved for a public works trust fund loan in 2009 in the amount of \$1,394,678 from the Washington State Department of Ecology. This loan is funded with resources from the American Recovery and Reinvestment Act of 2009 (ARRA), which provides a 50% forgivable provision. In 2010, the Fund borrowed \$718,726 of which \$359,363 is forgivable. More draw downs are expected in the future.



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**Note 10 - Public Works Trust and Other Loans (Continued)**

Loans outstanding as of December 31, 2011 and 2010 are as follows:

Description	Maturity Years	Interest Rate	Amount Borrowed	Loans Outstanding 2011	Loans Outstanding 2010
Private Loan	1999-2013	7.0%	\$ 161,100	\$ 261,34	\$ 40,956
Midvale	2013-2032	0.50%	4,000,000	3,574,418	-
Thornton Creek Natural Drainage					
Systems	2004-2024	0.50%	3,700,000	2,546,471	2,742,352
High Point Natural Drainage Systems	2010-2029	1.50%	2,679,413	2,421,364	2,541,470
South Park Flood Control and Local					
Drainage Program	2005-2025	0.50%	3,400,000	2,759,719	2,956,842
Ballard Green Streets ARRA Project	2013-2022	2.90%	359,363	572,558	359,363
Thornton Creek Water Quality Project	2009-2030	1.50%	6,983,021	6,697,098	6,983,021
			<u>\$ 21,282,897</u>	<u>\$ 18,597,762</u>	<u>\$ 15,624,004</u>

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

Years Ending December 31,	Principal	Interest	Total
2012	\$ 903,774	\$ 180,218	\$ 1,083,992
2013	906,474	196,215	1,102,689
2014	1,092,756	175,618	1,268,374
2015	1,101,338	164,130	1,265,468
2016	1,110,076	152,487	1,262,563
2017-2021	5,613,748	582,684	6,196,432
2022-2026	4,941,434	303,266	5,244,700
2027-2031	2,928,162	71,362	2,999,524
	<u>\$ 18,597,762</u>	<u>\$ 1,825,980</u>	<u>\$ 20,423,742</u>

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

	2011	2010
Net public works trust loans, beginning of year	\$ 15,624,004	\$ 13,310,901
Loan proceeds	3,818,263	2,846,570
Principal payments	(844,505)	(533,467)
Net public works trust loans, end of year	<u>\$ 18,597,762</u>	<u>\$ 15,624,004</u>
Public works trust loans due within one year	<u>\$ 903,774</u>	<u>\$ 814,130</u>
Public works trust loans, noncurrent	<u>\$ 17,693,988</u>	<u>\$ 14,809,874</u>

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**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, 2011 the Seattle Housing Authority receivable was \$1,341,705, which will be repaid over 30 years.

In April 2011, the Fund entered into an agreement with private individuals for a sewer connection charge contract. The receivable was \$9,309 at year end 2011.

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

	2011	2010
Seattle Housing Authority receivable	\$ 1,341,705	\$ -
Dalcerro receivable	9,309	-
Total notes and contracts receivable	<u>1,351,014</u>	<u>-</u>
Due within one year	<u>(44,690)</u>	<u>-</u>
Total non-current notes and contracts receivable	<u>\$ 1,306,324</u>	<u>\$ -</u>

**Note 12 - Wastewater Disposal Agreement**

The Fund has a wastewater disposal agreement with the King County Department of Natural Resources Wastewater Treatment Division (the "Division"), which expires in 2036. The monthly wastewater disposal charge paid to the Division is based on the Division's budgeted cost for providing the service. The charges are determined by water consumption and the number of single-family residences as reported by SPU and other component agencies. Payments made by the Fund were \$123,702,566 and \$110,799,772 for fiscal years 2011 and 2010, respectively.

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**SUPPLEMENTAL INFORMATION**

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**Statistics Required for Revenue Bond Continuing Disclosure**

<u>Wastewater System Operating Statistics</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Population Served	586,200	592,800	602,000	612,000	612,100
Billed Wastewater Revenues	\$ 160,917	\$ 164,837	\$ 185,058	\$ 185,473	\$ 202,885
Billed Wastewater Volume (MG)					
Residential	6,027	5,931	5,941	5,870	5,535
Commercial	10,196	9,988	9,834	9,752	9,577
Total	16,223	15,919	15,775	15,622	15,112
Gallons Used per Day per Capita	75.8	73.6	71.8	69.9	67.6

**Drainage and Wastewater - 2011 Accounts and Billed Revenues**

	<u>Drainage</u>	<u>Wastewater</u>
<b>Customer Accounts</b>		
Residential	139,018	164,276
Commercial	73,555	20,654
Total	212,573	184,930
	<u>212,573</u>	<u>184,930</u>
<b>Billed Revenue</b>		
Residential	\$ 33,171,813	\$ 73,963,652
Commercial	35,265,351	128,921,800
Total	\$ 68,437,164	\$ 202,885,452
	<u>\$ 68,437,164</u>	<u>\$ 202,885,452</u>

**SUPPLEMENTAL INFORMATION**

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**SEATTLE PUBLIC UTILITIES -  
DRAINAGE AND WASTEWATER FUND  
(An Enterprise Fund of the City of Seattle)  
SUPPLEMENTAL INFORMATION**

**Major Wastewater Customers - 2011 Annual Billed Revenues and Volumes**

<b>Name</b>	<b>Revenue</b>	<b>Volume</b>
University of Washington	\$ 5,797,527	674,151
Seattle Housing Authority	\$ 2,444,775	241,010
City of Seattle	\$ 1,864,321	187,204
King County	\$ 1,257,366	125,176
Port of Seattle	\$ 951,655	121,417
Darigold	\$ 869,700	74,210
Harborview Medical Center	\$ 788,913	82,349
Swedish Medical Center	\$ 762,378	89,220
Virginia Mason	\$ 713,909	72,062
Boeing Commercial Airplane Group	\$ 700,370	68,020

**Major Drainage Customers - 2011 Annual Billed Revenues and Acreage**

<b>Name</b>	<b>Revenue</b>	<b>Acres</b>
City of Seattle	\$ 4,549,371	5,143
Port of Seattle	\$ 2,682,237	967
Seattle Public Schools	\$ 1,311,587	685
King County	\$ 1,172,259	571
BNSF Rwy Co.	\$ 980,943	417
University of Washington	\$ 965,814	568
United States Government	\$ 616,129	300
Seattle Housing Authority	\$ 575,350	337
Union Pacific Railroad Co.	\$ 405,018	154
Seattle Community Colleges	\$ 258,395	158

**SEATTLE PUBLIC UTILITIES -  
DRAINAGE AND WASTEWATER FUND  
(An Enterprise Fund of the City of Seattle)  
SUPPLEMENTAL INFORMATION**

**Wastewater Rates**

	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
<b>Volume rate per ccf</b>	\$7.45	\$7.75	\$8.89	\$8.98	\$10.28	\$10.68
<b>Note:</b> 1 CCF equals 748 gallons. Wastewater rate increased 14.5% and 1.0% in 2011 and 2010, respectively.						

**Drainage Rates**

<b>Flat Rate per Parcel</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>% Impervious Space</b>
Single Family Residential*						
< 3,000 sq. ft.	\$ 91.38	\$ 102.90	\$ 104.90	\$ 134.06	\$ 149.33	
3,000 - 4,999 sq. ft.	\$ 132.65	\$ 149.56	\$ 152.46	\$ 173.10	\$ 192.79	
5,000 - 6,999 sq. ft.	\$ 179.27	\$ 202.17	\$ 206.09	\$ 234.94	\$ 261.66	
7,000 - 9,999 sq. ft.	\$ 213.00	\$ 256.38	\$ 261.35	\$ 298.32	\$ 332.23	

**Rate per 1,000 sq. ft.**

Undeveloped						0 - 15%
Regular	\$ 11.21	\$ 16.85	\$ 17.18	\$ 19.72	\$ 21.96	
Low Impact	\$ 9.09	\$ 10.19	\$ 10.39	\$ 12.35	\$ 13.76	
Light						16 - 35%
Regular	\$ 18.58	\$ 25.20	\$ 25.69	\$ 29.62	\$ 32.98	
Low Impact	\$ 16.99	\$ 18.98	\$ 19.35	\$ 23.47	\$ 24.14	
Medium						36 - 65%
Regular	\$ 32.83	\$ 36.61	\$ 37.32	\$ 42.89	\$ 47.76	
Low Impact	\$ 26.63	\$ 29.70	\$ 30.28	\$ 34.43	\$ 38.35	
High	\$ 42.52	\$ 47.34	\$ 48.26	\$ 56.57	\$ 63.01	66 - 85%
Very High	\$ 50.53	\$ 56.23	\$ 57.32	\$ 66.90	\$ 74.49	86 - 100%

\* Prior to 2008, all single family residential (SFR) parcels were billed a flat rate per parcel. Since 2008, SFR parcels less than 10,000 sq. ft. have been billed a flat rate that depends on parcel size. Larger SFR parcels have been billed under the commercial rate structure.

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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 King County, and of the County's population, 32% live in the City of Seattle.

### Population

Historical and current population figures for the State of Washington, the County, the two largest cities in the County, and the unincorporated areas of the County are given below.

POPULATION					
<u>Year</u>	<u>Washington</u>	<u>King County</u>	<u>Seattle</u>	<u>Bellevue</u>	<u>Unincorporated King County</u>
1980 <sup>(1)</sup>	4,130,163	1,269,749	493,846	73,903	503,100
1990 <sup>(1)</sup>	4,866,692	1,507,319	516,259	86,874	NA
2000 <sup>(1)</sup>	5,894,121	1,737,034	563,374	109,827	349,773
2001 <sup>(2)</sup>	5,974,900	1,758,300	568,100	111,500	353,579
2002 <sup>(2)</sup>	6,041,700	1,774,300	570,800	117,000	351,675
2003 <sup>(2)</sup>	6,098,300	1,779,300	571,900	116,400	351,843
2004 <sup>(2)</sup>	6,167,800	1,788,300	572,600	116,500	356,795
2005 <sup>(2)</sup>	6,256,400	1,808,300	573,000	115,500	364,498
2006 <sup>(2)</sup>	6,375,600	1,835,300	578,700	117,000	367,070
2007 <sup>(2)</sup>	6,488,800	1,861,300	586,200	118,100	368,255
2008 <sup>(2)</sup>	6,587,600	1,884,200	592,800	119,200	341,150
2009 <sup>(2)</sup>	6,668,200	1,909,300	602,000	120,600	343,180
2010 <sup>(2)</sup>	6,733,250	1,933,400	612,000	122,900	343,340
2011 <sup>(2)</sup>	6,767,900	1,942,600	612,100	123,400	285,265

(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 Primary Metropolitan Statistical Area ("PMSA"), the County, the State, and the United States.

PER CAPITA INCOME						
	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Seattle PMSA	\$ 50,202	\$ 53,327	\$ 54,621	\$ 51,118	\$ 51,698	N/A
King County	54,641	57,735	58,628	54,517	55,136	N/A
State of Washington	39,570	42,192	44,106	41,837	42,589	44,294
United States	37,725	39,506	40,947	38,846	39,937	41,663

Source: U.S. Bureau of Economic Analysis, U.S. Department of Commerce

## Construction

The table below lists the value of housing construction for which building permits have been issued by entities within the City of Seattle. The value of public construction is not included in this table.

### CITY OF SEATTLE RESIDENTIAL BUILDING PERMIT VALUES

Year	New Single Family Units		New Multi-Family Units		Total Value(\$)
	Number	Value(\$)	Number	Value(\$)	
2005	533	94,398,888	3,185	278,146,082	372,544,970
2006	482	90,534,640	5,538	597,085,138	687,619,778
2007	775	153,268,586	5,939	681,283,338	834,551,924
2008	595	122,997,326	4,256	562,871,753	685,869,079
2009	216	47,666,932	562	67,880,407	115,547,339
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

Source: U.S. Bureau of the Census

## Retail Activity

The following table presents taxable retail sales in Seattle and King County.

### THE CITY OF SEATTLE AND KING COUNTY TAXABLE RETAIL SALES (000)

<u>Year</u>	<u>King County</u>	<u>Seattle</u>
2005	\$ 40,498,328,830	\$ 14,236,200,469
2006	43,993,478,514	15,564,363,159
2007	47,766,338,768	17,030,512,254
2008	45,711,920,389	17,096,581,492
2009	39,594,903,520	15,101,407,742
2010	39,275,353,182	14,783,168,934
2011	40,846,119,020	15,751,585,858

Source: Washington State Department of Revenue

## Industry and Employment

The following table presents State-wide employment data in 2010 for certain major employers in the Puget Sound area.

### PUGET SOUND AREA MAJOR EMPLOYERS

Employer	Employees*
The Boeing Company	76,400
U.S. Army Fort Lewis	51,000
Navy Region Northwest	41,300
Microsoft	40,300
University of Washington	27,900
Providence Health & Services	19,100
Wal-Mart Stores, Inc.	18,000
Fred Meyer Stores	13,500
King County Government	13,400
U.S. Postal Service	12,400
City of Seattle	10,700
MultiCare Health System	9,000
Franciscan Health System	8,200
Costco	8,200
Group Health Cooperative	8,100

\* Excludes part-time or seasonal employment figures.

Source: *Puget Sound Book of Lists, 2012 (rounded)*

**KING COUNTY**  
**RESIDENT CIVILIAN LABOR FORCE AND EMPLOYMENT**  
**AND NONAGRICULTURAL WAGE AND SALARY EMPLOYMENT\***

	<b>Annual Average</b>				
	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
Civilian Labor Force	1,071,850	1,094,310	1,115,900	1,107,060	1,105,550
Total Employment	1,030,140	1,042,790	1,021,540	1,006,000	1,015,970
Total Unemployment	41,710	51,520	94,360	101,060	89,580
Percent of Labor Force	3.9	4.7	8.5	9.1	8.1
<b>NAICS INDUSTRY</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
Total Nonfarm	1,156,242	1,133,200	1,151,950	1,217,567	1,200,600
Total Private	991,450	966,233	984,750	1,051,158	1,037,175
Goods Producing	149,983	148,158	160,442	186,475	188,358
Natural Resources and Mining	500	467	508	583	692
Construction	48,792	49,675	57,142	73,883	74,525
Manufacturing	100,717	98,017	102,792	112,000	113,133
Services Providing	1,006,258	985,042	991,508	1,031,092	1,012,242
Trade, Transportation, and Utilities	212,233	206,350	209,175	224,667	224,392
Information	80,050	79,408	80,192	79,767	75,642
Financial Activities	67,292	67,658	71,192	77,525	78,683
Professional and Business Services	184,592	176,675	176,792	194,242	189,925
Educational and Health Services	142,908	138,142	137,683	133,258	127,683
Leisure and Hospitality	112,133	108,700	108,117	113,358	111,750
Other Services	42,258	41,142	41,158	41,867	40,742
Government	164,792	166,967	167,200	166,408	163,425
Workers in Labor/Management Disputes	0	0	0	958	0
	<b>Mar. 2012</b>				
Civilian Labor Force	1,108,310				
Total Employment	1,029,730				
Total Unemployment	78,590				
Percent of Labor Force	7.1%				

\* Columns may not add to totals due to rounding.

Source: Washington State Employment Security Department



**APPENDIX E**  
**BOOK-ENTRY TRANSFER SYSTEM**

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## BOOK-ENTRY TRANSFER SYSTEM

*The following information has been provided by DTC. The City makes no representation as to the accuracy or completeness thereof. Purchasers of the Bonds (the “beneficial owners”) should confirm the following with DTC or its participants (the “Participants”).*

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 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has a Standard & Poor’s rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

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. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts 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 that the City believes to be reliable, but the City takes no responsibility for the accuracy thereof.

The Bond Registrar is not obligated to exchange or transfer any Bond after notice of redemption of such Bond has been prepared.

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 any such direct or indirect 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 direct or indirect 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.