

SALE DATE: JUNE 4, 2014  
SALE TIME: 8:00 A.M., PACIFIC TIME

PRELIMINARY OFFICIAL STATEMENT DATED MAY 23, 2014

New Issue  
Book-Entry Only

Moody's Rating: Aa3  
Standard & Poor's Rating: AA  
(See "Other Bond Information—Ratings" herein.)

*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—Tax Exemption" and "—Certain Other Federal Tax Consequences" herein.*

\$96,190,000<sup>(1)</sup>

THE CITY OF SEATTLE, WASHINGTON  
SOLID WASTE REVENUE AND REFUNDING BONDS, 2014

DATED: DATE OF INITIAL DELIVERY

DUE: MAY 1, AS SHOWN ON PAGE i

The City of Seattle, Washington (the "City"), will issue its Solid Waste Revenue and Refunding Bonds, 2014 (the "Bonds"), as fully registered bonds under a book-entry only system, registered in the name of Cede & Co. as registered owner and nominee for The Depository Trust Company, New York, New York ("DTC").

DTC will act as initial securities depository for the Bonds. Individual purchases of the Bonds will be made in book-entry form, in the denomination of \$5,000 or any integral multiple thereof. Purchasers will not receive certificates representing their interest in the Bonds purchased. Interest on the Bonds will be paid semiannually on each May 1 and November 1, beginning November 1, 2014. 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 D.

The Bonds are being issued to pay for part of the costs of various projects of the City's Solid Waste System, to fund a reserve for the Parity Bonds, to refund certain outstanding obligations of the Solid Waste System and to pay the costs of issuing the Bonds and administering the Refunding Plan.

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

The Bonds are special limited obligations of the City payable from and secured solely by the Net Revenue of the Solid Waste System and by money in the Bond Account. This pledge constitutes a lien and charge on Net Revenue on a parity with that of the Outstanding Parity Bonds and any Future Parity Bonds and prior and superior to any other lien or charge. 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 lien or 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 ordinance 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 Solid Waste System, are pledged to the payment of the Bonds.**

The Bonds are offered for delivery by the Underwriter, when, as, and if issued, subject to the approving legal opinion of 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 delivered to the Bond Registrar on behalf of DTC for closing by Fast Automated Securities Transfer, on or about June 12, 2014.

*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.*

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Dated:

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(1) Preliminary, subject to change

This is a Preliminary Official Statement, subject to correction and change. The City has authorized the distribution of the Preliminary Official Statement to prospective purchasers and others. Upon the sale of the Bonds, the City will complete and deliver an Official Statement substantially in this form.

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

*Information on website addresses set forth in this Official Statement is not incorporated into this Official Statement and cannot be relied upon to be accurate as of the date of this Official Statement, nor should any such information be relied upon in making investment decisions regarding the Bonds.*

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

*In connection with this offering, the Underwriter may over allot 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 without prior notice to any person.*

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

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

*The information set forth in the Solid Waste System’s Audited Financial Statements that are included in Appendix B speaks only as of the date of the those statements and is subject to revision or restatement in accordance with applicable accounting principles and procedures. The City specifically disclaims any obligation to update this information except to the extent described under “Legal and Tax Information—Continuing Disclosure Undertaking.”*

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

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

*This Preliminary Official Statement, as of its date, is in a form “deemed final” by the City for purposes of Securities and Exchange Commission Rule 15c2-12(b)(1) but is subject to revision, amendment, and completion in a final Official Statement which will be available within seven business days of the sale date.*

**MATURITY SCHEDULE**

**\$96,190,000<sup>(1)</sup>**

**THE CITY OF SEATTLE, WASHINGTON  
SOLID WASTE REVENUE AND REFUNDING BONDS, 2014**

<b>Due May1</b>	<b>Amounts<sup>(1)</sup></b>	<b>Interest Rates</b>	<b>Yields</b>	<b>Prices</b>	<b>CUSIP Numbers<sup>(3)</sup></b>
2015	\$ 1,340,000				
2016	1,390,000				
2017	1,445,000				
2018	4,040,000				
2019	4,205,000				
2020	4,385,000				
2021	4,585,000				
2022	4,805,000				
2023	5,015,000				
2024	5,250,000				
2025	5,490,000 <sup>(2)</sup>				
2026	5,745,000 <sup>(2)</sup>				
2027	6,005,000 <sup>(2)</sup>				
2028	6,290,000 <sup>(2)</sup>				
2029	6,575,000 <sup>(2)</sup>				
2030	2,400,000 <sup>(2)</sup>				
2031	2,510,000 <sup>(2)</sup>				
2032	2,625,000 <sup>(2)</sup>				
2033	2,745,000 <sup>(2)</sup>				
2034	2,870,000 <sup>(2)</sup>				
2035	3,005,000 <sup>(2)</sup>				
2036	3,145,000 <sup>(2)</sup>				
2037	3,290,000 <sup>(2)</sup>				
2038	3,440,000 <sup>(2)</sup>				
2039	3,595,000 <sup>(2)</sup>				

- (1) Preliminary, subject to change.
- (2) These amounts will constitute principal maturities of the Bonds unless Term Bonds are specified by the successful bidder, in which case these amounts may constitute mandatory sinking fund redemptions of the Term Bonds.
- (3) The CUSIP data herein are provided by CUSIP Global Services, managed on behalf of the American Bankers Association by Standard & Poor's. CUSIP numbers are not intended to create a database and do not serve in any way as a substitute for CUSIP service. CUSIP numbers have been assigned by an independent company not affiliated with the City and are provided solely for convenience and reference. The CUSIP number for a specific maturity is subject to change after the issuance of the Bonds. Neither the City nor the successful bidder take responsibility for the accuracy of the CUSIP numbers.

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**TABLE OF CONTENTS**

	<u>PAGE</u>
OFFICIAL NOTICE OF BOND SALE .....	v
INTRODUCTION.....	1
DESCRIPTION OF THE BONDS.....	1
Authorization for the Bonds .....	1
Principal Amounts, Dates, Interest Rates, and Maturities.....	1
Registration and Book-Entry Transfer System .....	1
Payment of the Bonds.....	2
Redemption of the Bonds .....	2
Purchase .....	3
Refunding or Defeasance of Bonds .....	4
Failure to Pay Bonds .....	4
USE OF PROCEEDS.....	4
Sources and Uses of Funds.....	5
Refunding Plan.....	5
SECURITY FOR THE BONDS.....	6
Pledge of Net Revenue .....	6
Reserve Subaccount.....	6
Outstanding Parity Bonds .....	6
Other Covenants.....	7
Rate Stabilization Account .....	8
No Acceleration of the Bonds.....	8
Combined Utility Systems .....	8
Separate Utility Systems.....	8
Debt Service Requirements .....	8
SEATTLE PUBLIC UTILITIES.....	10
Administrative Structure.....	10
Management.....	10
Employee Relations and Employment Retirement System .....	11
SOLID WASTE SYSTEM.....	12
General.....	12
Solid Waste Operations .....	12
Revenues.....	13
Expenses.....	14
Operating Results .....	15
Management Discussion and Analysis of Operating Results .....	17
Rates.....	18
Financial Policies .....	20
Interfund Loans .....	21
Future Capital Improvements .....	21
Flow Control .....	22
Solid Waste Comprehensive Plan.....	23
Risk Management and Quality Assurance .....	23
Environmental Liability.....	23
Emergency Operations Plan .....	24
THE CITY OF SEATTLE.....	24
Municipal Government.....	24
Financial Management .....	25
Investments .....	26
Risk Management.....	27
Pension Plans.....	27
Other Post-Employment Retirement Benefits.....	34
Labor Relations .....	34
Emergency Management and Preparedness .....	35
INITIATIVE AND REFERENDUM .....	35
State-wide Measures.....	35
Local Measures .....	35
FEDERAL SEQUESTRATION.....	35
LEGAL AND TAX INFORMATION .....	36
No Litigation Relating to the Bonds .....	36
Other Litigation .....	36
Approval of Counsel.....	36
Limitations on Remedies and Municipal Bankruptcies.....	36
Tax Exemption.....	37
Certain Other Federal Tax Consequences.....	37
Continuing Disclosure Undertaking .....	38
OTHER BOND INFORMATION.....	40
Ratings .....	40
Underwriting .....	40
Conflicts of Interest .....	40
Official Statement.....	41
Ordinance .....	Appendix A
Form of Bond Counsel Opinion.....	Appendix B
2013 Audited Financial Statements of the Solid Waste System .....	Appendix C
Book-Entry Transfer System .....	Appendix D
Demographic and Economic Information .....	Appendix E

**THE CITY OF SEATTLE**

**CITY OFFICIALS AND CONSULTANTS**

**MAYOR AND CITY COUNCIL**

Edward B. Murray	Mayor
Tim Burgess	President, City Council
Sally Bagshaw	Council Member
Sally Clark	Council Member
Jean Godden	Council Member
Bruce Harrell	Council Member
Nick Licata	Council Member
Mike O'Brien	Council Member
Tom Rasmussen	Council Member
Kshama Sawant	Council Member

**CITY ADMINISTRATION**

Glen Lee	Director of Finance
Peter Holmes	City Attorney

**SEATTLE PUBLIC UTILITIES**

Ray Hoffman	Director
Martin Baker	Deputy Director for Corporate Strategies and Communications
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 Sánchez	Deputy Director for Customer Service
Nancy Ahern	Deputy Director for Utilities Systems Management
Vladimir Khazak	Interim Deputy Director for Project Delivery

**FINANCIAL ADVISOR**

Piper Jaffray & Co./Seattle-Northwest Division  
Seattle, Washington

**BOND COUNSEL**

Foster Pepper PLLC  
Seattle, Washington

**BOND REGISTRAR**

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

**OFFICIAL NOTICE OF BOND SALE**

**\$96,190,000<sup>(1)</sup>**

**THE CITY OF SEATTLE, WASHINGTON  
SOLID WASTE REVENUE AND REFUNDING BONDS, 2014**

Electronic bids for purchase of The City of Seattle Solid Waste Revenue and Refunding Bonds, 2014 (the “Bonds”), will be received by The City of Seattle, Washington (the “City”), by the Director of Finance via the PARITY Electronic Bid Submission System (“Parity”), in the manner described below, on

**JUNE 4, 2014, NO LATER THAN 8:00 A.M., PACIFIC TIME,**

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

**Bids must be submitted electronically via Parity in accordance with this Official Notice of Bond Sale. For further information about Parity, potential bidders may contact Parity at 212-849-5021. Hard copy bids will not be accepted.**

No bid will be received after the cut-off time for receiving bids specified above. All proper bids received with respect to the Bonds will be considered and acted on by the City Council at approximately 1:30 p.m. on June 4, 2014. No bid will be awarded until the City Council has adopted a resolution accepting the bid at its meeting.

**Modification, Cancellation, Postponement**

The City may modify the terms of this Official Notice of Bond Sale prior to the cut-off time for receiving bids, if the City elects to change the principal amounts or the redemption or other provisions. Any such modification will be provided to Parity and i-Deal Prospectus on or before June 3, 2014. In addition, the City may cancel or postpone the date and time for receiving bids for the Bonds at any time prior to the cut-off time for receiving bids. Notice of such cancellation or postponement will be provided to Parity and i-Deal Prospectus as soon as practicable following such cancellation or postponement. As an accommodation to bidders, telephone, facsimile, or electronic notice of any such modification, cancellation, or postponement will be given to any bidder requesting such notice from the City’s Financial Advisor at the address and phone number provided under “Contact Information” below. Failure of any bidder to receive such notice will not affect the legality of the sale.

Each bidder (and not the City) is responsible for the timely electronic delivery of its bid. The official time will be determined by the City and not by any bidder or Parity.

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(1) Preliminary, subject to change

## CONTACT INFORMATION

Debt Manager	Michael van Dyck, City of Seattle (206) 684-8347 <i>michael.vandyck@seattle.gov</i>
Financial Advisor	Rob Shelley, Piper Jaffray & Co./Seattle-Northwest Division Office phone: (206) 628-2879 Day of sale phone: (206) 601-2249 <i>robert.e.shelley@pjc.com</i>
Bond Counsel	Marc Greenough, Foster Pepper PLLC (206) 447-7888 <i>greem@foster.com</i>

## DESCRIPTION OF THE BONDS

### **Bond Details**

The Bonds will be dated the date of their initial issuance and delivery. Interest on the Bonds is payable semiannually on each May 1 and November 1, beginning November 1, 2014.

### **Registration and Book-Entry Transfer System**

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

### **Election of Maturities**

The successful bidder for the Bonds shall designate whether some or all of the principal amounts of the Bonds maturing on or after May 1, 2025, shall be retired as shown in the table below as serial bonds maturing in such year or as amortization installments of Term Bonds maturing in the years specified by the bidder. Term Bonds, if any, must consist of the total principal payments of two or more consecutive years and mature in the latest of those years.

<u>Years (May 1)</u>	<u>Serial Maturities or Amortization Installments<sup>(1)</sup></u>	<u>Years (May 1)</u>	<u>Serial Maturities or Amortization Installments<sup>(1)</sup></u>
2015	\$ 1,340,000	2028	\$ 6,290,000 <sup>(2)</sup>
2016	1,390,000	2029	6,575,000 <sup>(2)</sup>
2017	1,445,000	2030	2,400,000 <sup>(2)</sup>
2018	4,040,000	2031	2,510,000 <sup>(2)</sup>
2019	4,205,000	2032	2,625,000 <sup>(2)</sup>
2020	4,385,000	2033	2,745,000 <sup>(2)</sup>
2021	4,585,000	2034	2,870,000 <sup>(2)</sup>
2022	4,805,000	2035	3,005,000 <sup>(2)</sup>
2023	5,015,000	2036	3,145,000 <sup>(2)</sup>
2024	5,250,000	2037	3,290,000 <sup>(2)</sup>
2025	5,490,000 <sup>(2)</sup>	2038	3,440,000 <sup>(2)</sup>
2026	5,745,000 <sup>(2)</sup>	2039	3,595,000 <sup>(2)</sup>
2027	6,005,000 <sup>(2)</sup>		

(1) Preliminary, subject to change.

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

## Redemption

*Optional Redemption.* The Bonds maturing on or before May 1, 2024, are not subject to redemption prior to maturity. The City reserves the right and option to redeem Bonds maturing on or after May 1, 2025, prior to their stated maturity dates at any time on and after May 1, 2024, as a whole or in part (within one or more maturities to be selected by the City and randomly within a maturity in such manner as the Bond Registrar may determine) at a price of par plus accrued interest to the date fixed for redemption. See “Description of the Bonds—Redemption of the Bonds—Optional Redemption” in the Preliminary Official Statement.

*Mandatory Redemption.* As indicated on the schedules above, Bonds that are designated by the successful bidder as Term Bonds will be subject to mandatory sinking fund redemption. See “Description of the Bonds—Redemption of the Bonds—Mandatory Redemption” in the Preliminary Official Statement.

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

## Purpose

The Bonds are being issued to pay for part of the costs of various projects of the City’s Solid Waste System, to fund a reserve for the Parity Bonds, to refund certain outstanding obligations of the Solid Waste System, and to pay the costs of issuing the Bonds and administering the Refunding Plan.

## Security

The Bonds are special limited obligations of the City payable from and secured solely by the Net Revenue of the Solid Waste System and by money in the Bond Account. This pledge constitutes a lien and charge on Net Revenue on a parity with that of the Outstanding Parity Bonds and any Future Parity Bonds and prior and superior to any other lien or charge.

*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 lien or 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 ordinance 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 Solid Waste System, are pledged to the payment of the Bonds.*

## **BIDDING INFORMATION AND AWARD**

Bidders are invited to submit bids for the purchase of the Bonds fixing the interest rate or rates that the Bonds will bear. Interest rates included as part of a bid shall be in multiples of 1/8 or 1/20 of 1%, or both. Bidders must specify interest rates equal to or greater than 4.00% for each maturity of the Bonds maturing on or after May 1, 2025. No more than one rate of interest may be fixed for any one maturity of the Bonds.

No bid will be considered for the Bonds that is less than an amount equal to 104% of the par value of the Bonds or more than an amount equal to 117% of the par value of the Bonds.

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

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

### **Adjustment of Principal Amounts Before Bidding**

The City may increase or decrease the total principal amount or the amounts of individual maturities of Bonds stated in this Official Notice of Bond Sale, or both, through modifications provided by the City to Parity and i-Deal Prospectus on or before June 3, 2014, as described under “Modification, Cancellation, Postponement.”

### **Bidding Process**

Bids for the Bonds must be submitted via Parity.

By submitting an electronic bid for the Bonds, each bidder thereby agrees to the following terms and conditions:

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

### **Good Faith Deposit**

To be considered by the City Council, the successful bid must be backed by a good faith deposit in the amount of \$960,000. The good faith deposit for the Bonds must be paid by federal funds wire transfer within 90 minutes after notice from the City to the successful bidder. Wiring instructions will be provided to the successful bidder at the time of the notice from the City.

The good faith deposit for the Bonds shall be retained by the City as security for the performance of the successful bidder and shall be applied to the purchase price of the Bonds upon the delivery of the Bonds to the successful bidder. Pending delivery of the Bonds, the good faith deposit may be invested for the sole benefit of the City. If the Bonds are ready for delivery and the successful bidder fails or neglects to complete the purchase of the Bonds within

30 days following the acceptance of its bid, the good faith deposit shall be retained by the City as reasonable liquidated damages and not as a penalty.

### **Award**

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

The City reserves the right to reject any or all bids submitted and to waive any formality or irregularity in the bid or bidding process. If all bids for the Bonds are rejected, then the Bonds may be sold in the manner provided by law. Any bid presented after the cut-off time for receiving bids will not be accepted, and any bid not backed by the required good faith deposit will not be considered by the City Council. The successful bid for the Bonds shall remain in effect until 5:00 p.m., Pacific Time, on the date set for receiving bids.

### **Adjustment of Principal Amounts and Bid Price After Bidding**

The City reserves the right to increase or decrease the preliminary aggregate principal amount of the Bonds by an amount not to exceed 10% of the principal amount of the Bonds after the cut-off time for receiving bids. The City also reserves the right to increase or decrease the preliminary principal amount of any maturity shown on Parity by an amount not to exceed the greater of \$600,000 or 15% of the preliminary principal amount of that maturity.

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

### **Issue Price Information**

Upon award of the Bonds, the successful bidder for the Bonds shall advise the City and Bond Counsel of the initial reoffering prices to the public of each maturity of the Bonds (the "Initial Reoffering Prices"), for the City's inclusion in the final Official Statement for the Bonds. Prior to delivery of the Bonds, the successful bidder shall furnish to the City and Bond Counsel a certificate in form and substance acceptable to Bond Counsel:

- (i) confirming the Initial Reoffering Prices,
- (ii) certifying that a *bona fide* offering of the Bonds has been made to the public (excluding bond houses, brokers, and other intermediaries),
- (iii) stating the first price at which a substantial amount (at least 10%) of each maturity of the Bonds was sold to the public (excluding bond houses, brokers, and other intermediaries), and
- (iv) if the first price at which a substantial amount of any maturity of the Bonds does not conform to the Initial Reoffering Price of that maturity, providing an explanation of the facts and circumstances that resulted in that nonconformity.

A draft form of such certificate will be available prior to the sale date from the City's Financial Advisor. See "Contact Information" in this Official Notice of Bond Sale.

### **Insurance**

No bid for the Bonds may be conditioned upon obtaining insurance or any other credit enhancement, or upon the City's acceptance of any of the terms of insurance or other credit enhancement. Any purchase of municipal bond insurance or commitment therefor shall be at the sole option and expense of the bidder, and any increased costs of

issuance of the Bonds resulting by reason of such insurance, unless otherwise paid, shall be paid by such bidder, but shall not, in any event, be paid by the City. Any failure of the Bonds to be so insured or of any such policy of insurance to be issued shall not in any way relieve the successful bidder of its contractual obligations arising from the acceptance of its bid.

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

### **Ratings**

The Bonds have been rated “Aa3” and “AA” by Moody’s Investors Service and Standard & Poor’s Ratings Services, respectively. The City will pay the fees for these ratings; any other ratings are the responsibility of the successful bidder.

### **DELIVERY**

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

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

### **Legal Opinion**

The approving legal opinion of Foster Pepper PLLC, Seattle, Washington, Bond Counsel, with respect to the Bonds will be provided to the successful bidder for the Bonds at the time of the delivery of the Bonds. The form of Bond Counsel’s opinion is attached to the Preliminary Official Statement as Appendix B. A no-litigation certificate will be included in the closing documents for the Bonds.

### **CUSIP Numbers**

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

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

### **CONTINUING DISCLOSURE UNDERTAKING**

In order to assist bidders in complying with paragraph (b)(5) of United States Securities and Exchange Commission Rule 15c2-12 (“Rule 15c2-12”), the City will undertake to provide certain annual financial information and notices of the occurrence of certain events. A description of this undertaking is set forth in the Preliminary Official Statement under “Legal and Tax Information—Continuing Disclosure Undertaking” and also will be set forth in the final Official Statement.

## OFFICIAL STATEMENT

### Preliminary Official Statement

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

By submitting the successful bid for the Bonds, the successful bidder's designated senior representative agrees to:

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

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

### Official Statement

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

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

DATED at Seattle, Washington, this 23rd day of May, 2014.

/s/ Glen Lee

Glen Lee  
Director of Finance

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**PRELIMINARY OFFICIAL STATEMENT**  
**\$96,190,000<sup>(1)</sup>**  
**THE CITY OF SEATTLE, WASHINGTON**  
**SOLID WASTE REVENUE AND REFUNDING BONDS, 2014**

**INTRODUCTION**

The purpose of this Official Statement, which includes the cover, inside cover, and appendices, is to set forth certain information concerning The City of Seattle, Washington (the “City”), a municipal corporation duly organized and existing under and by virtue of the laws of the State of Washington (the “State”), in connection with the offering of \$96,190,000<sup>(1)</sup> aggregate principal amount of its Solid Waste Revenue and Refunding Bonds, 2014 (the “Bonds”), dated the date of their initial issuance and delivery. This Official Statement contains certain information related to such offering and sale concerning the City, the Bonds, Seattle Public Utilities (“SPU”), and the City’s solid waste system (the “Solid Waste System”).

Appendix A to this Official Statement is a copy of the ordinance authorizing the new money portion of the Bonds. Appendix B is the form of approving legal opinion of Foster Pepper PLLC of Seattle, Washington (“Bond Counsel”). Appendix C is the Solid Waste System’s audited 2013 financial statements. Appendix D 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. Appendix E provides demographic and economic information. Capitalized terms that are not defined herein have the meanings set forth in Section 1 of the ordinance attached as Appendix A and in the Resolution (defined below).

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

**DESCRIPTION OF THE BONDS**

**Authorization for the Bonds**

The Bonds are to be issued by the City pursuant to the State Constitution, chapter 35.92 of the Revised Code of Washington (“RCW”), the Seattle City Charter, and Ordinance 124046, passed by the City Council on November 19, 2012 (together with Ordinance 121940, as amended by Ordinance 122498, the “Ordinance”), and Resolution \_\_\_\_\_, adopted on \_\_\_\_\_ (the “Resolution,” and together with the Ordinance, the “Bond Legislation”).

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

The Bonds will be dated the date of their initial issuance and delivery, and will mature on the dates and in the amounts set forth on page i of this Official Statement. Interest on the Bonds is payable semiannually on each May 1 and November 1, beginning November 1, 2014, at the rates set forth on page i of this Official Statement. Interest on the Bonds will be computed on the basis of a 360-day year consisting of twelve 30-day months.

**Registration and Book-Entry Transfer System**

*Book-Entry Transfer System.* The Bonds will be issued initially as fully registered bonds and registered in the name of Cede & Co. as nominee for DTC. The Bonds will be held fully immobilized in book-entry form by DTC, which will act as the initial Securities Depository for the Bonds. Individual purchases and sales of the Bonds will be made in book-entry form only in denominations of \$5,000 or integral multiples thereof within a maturity of the Bonds (“Authorized Denominations”). Purchasers (“Beneficial Owners”) will not receive certificates representing their

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(1) Preliminary, subject to change.

interest in the Bonds. So long as the Bonds are held in book-entry form, the Securities Depository will be deemed to be the Registered Owner of the Bonds and all references herein to the Registered Owners will mean Cede & Co., as nominee of DTC, or its successor and will not mean the Beneficial Owners of the Bonds. For information about DTC and its book-entry system, see Appendix D—Book Entry Transfer System. The City makes no representation as to the accuracy or completeness of the information in Appendix D obtained from DTC. Purchasers of the Bonds should confirm this information with DTC or its participants.

*Termination of Book-Entry System.* If the Bonds are no longer held in book-entry only form by the Securities Depository, the City will execute, authenticate, and deliver, at no cost to the Beneficial Owners, Bonds in fully registered form, in Authorized Denominations. The principal of the Bonds will then be payable upon due presentment and surrender to the Bond Registrar, and interest on the Bonds will then be payable by electronic transfer on the interest payment date, or by check or draft of the Bond Registrar mailed on the interest payment date, to the Registered Owners, at the address appearing upon the registration books on the Record Date. The City is not required to make electronic transfers except pursuant to a request by a Registered Owner in writing received on or prior to the Record Date and at the sole expense of the Registered Owner.

*Bond Registrar.* The principal of and interest on the Bonds will be payable by the fiscal agent of the State (the “Bond Registrar”), currently The Bank of New York Mellon in New York, New York (or such other fiscal agent or agents as the State may from time to time designate). So long as Cede & Co. is the Registered Owner of the Bonds, principal of and interest on the Bonds will be payable by wire transfer by the Bond Registrar to DTC, which, in turn, is obligated to remit such principal and interest to its participants for subsequent disbursement to the Beneficial Owners of the Bonds, as further described in Appendix D—Book-Entry Transfer System.

*Transfer and Exchange; Record Date.* The Bond Registrar is not obligated to exchange any Bond or transfer registered ownership during the period between the applicable Record Date and the next upcoming interest payment or redemption date. Record Date means, in the case of each interest or principal payment or redemption date, the Bond Registrar’s close of business on the 15th day of the month preceding the interest or principal payment or redemption date. Registered ownership of any Bond registered in the name of the Securities Depository may not be transferred except (i) to any successor Securities Depository, (ii) to any substitute Securities Depository appointment by the City, or (iii) to any person if the Bond is no longer to be held in book-entry only form.

### **Payment of the Bonds**

The principal of and interest on the Bonds are payable by the 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, in turn, is obligated to remit such principal and interest to its participants for subsequent disbursement to the Beneficial Owners of the Bonds, as described herein under “Book-Entry Transfer System” and Appendix D.

In the event that all or a portion of the Bonds are no longer held in book-entry form (see “Registration and Book-Entry Transfer System”), interest on such Bonds is payable by electronic transfer on the interest payment date, or by check, draft, or warrant of the Bond Registrar mailed on the interest payment date to the Registered Owner at the address appearing on the Bond Register on the Record Date. However, the City is not required to make electronic transfers except pursuant to a request by a Registered Owner in writing received at least ten days prior to the Record Date and at the sole expense of the Registered Owner. Principal of each Bond not registered in the name of DTC is payable upon presentation and surrender of the Bond by the Registered Owner to the Bond Registrar.

### **Redemption of the Bonds**

*Optional Redemption.* The Bonds maturing on or before May 1, 2024, are not subject to redemption prior to maturity. The City reserves the right and option to redeem the Bonds maturing on or after May 1, 2025, prior to their stated maturity dates at any time on and after May 1, 2024, as a whole or in part, at a price of par plus accrued interest to the date fixed for redemption.

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

<u>TERM BONDS</u>		<u>TERM BONDS</u>		<u>TERM BONDS</u>	
<u>Years</u>	<u>Amounts</u>	<u>Years</u>	<u>Amounts</u>	<u>Years</u>	<u>Amounts</u>
(1)		(1)		(1)	

(1) 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 so redeemed, purchased, or defeased (irrespective of their actual redemption or purchase prices) will be credited at the par amount thereof against the remaining mandatory redemption requirements as determined by the Director of the Finance Division of the City’s Department of Finance and Administrative Services (the “Director of Finance”). If the Director of Finance does not make such a determination and there is no other direction from the Bond Legislation, credit will be allocated on a *pro rata* basis.

*Selection of Bonds for Redemption.* If fewer than all of the outstanding Bonds are to be redeemed at the option of the City, the Director of Finance will select the maturity or maturities to be redeemed. If fewer than all of the bonds of a single maturity are to be redeemed prior to maturity, then:

- (i) if such Bonds are in book-entry form at the time of such redemption, DTC will 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 in such manner as the Bond Registrar determines.

The portion of any Bond of an amount 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.* The City will cause notice of redemption to be given not less than 20 nor more than 60 days prior to the date fixed for redemption by first-class mail, postage prepaid, to the Registered Owner of any Bond to be redeemed at the address appearing on the Bond Register 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 a Bond is held in book-entry form, notices with respect to such Bond will be given in accordance with procedures established by DTC. See “Description of the Bonds—Registration and Book-Entry Transfer System” and Appendix D.

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

*Effect of Redemption.* Interest on Bonds called for redemption will cease to accrue on the date fixed for redemption unless 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 in the open market any of the Bonds at any time at any price acceptable to the City plus accrued interest to the date of purchase.

### **Refunding or Defeasance of Bonds**

The City may issue refunding obligations or use money available from any other lawful source to pay when due the principal of and premium, if any, and interest on any Bond or portion of Bond, to redeem and retire, release, refund, or defease such Bond (the “defeased Bonds”), and to pay the costs of refunding or defeasing the defeased Bonds. If money and/or Government Obligations (defined below) maturing at a time and in an amount sufficient, together with known earned income from the investment thereof, to redeem and retire, release, refund, or defease the defeased Bonds in accordance with their terms, are set aside in a special trust fund or escrow account irrevocably pledged to such redemption, retirement, or defeasance (the “trust account”), then all right and interest of the owners of the defeased Bonds in the covenants of the Bond Legislation and in the funds and accounts pledged to the payment of such defeased Bonds, other than the right to receive the funds so set aside and pledged, will cease and become void. Such owners thereafter have the right to receive payment of the principal of and interest or redemption price on the defeased Bonds from the trust account. After the trust account is established and fully funded, the defeased Bonds will be deemed as no longer outstanding and the Director of Finance may apply any money in any other fund or account established for the payment or redemption of the defeased Bonds to any lawful purposes. Notice of refunding or defeasance will be given, and selection of Bonds for any partial refunding or defeasance will be conducted, in the manner set forth in the Bond Legislation for the redemption of Bonds.

The term “Government Obligations” has the meaning given in RCW 39.53.010, currently: (i) direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, the United States of America, and bank certificates of deposit secured by such obligations; (ii) bonds, debentures, notes, participation certificates, or other obligations issued by the Banks for Cooperatives, the Federal Intermediate Credit Bank, the Federal Home Loan Bank system, the Export-Import Bank of the United States, Federal Land Banks, or the Federal National Mortgage Association; (iii) public housing bonds and project notes fully secured by contracts with the United States; and (iv) obligations of financial institutions insured by the Federal Deposit Insurance Corporation or the Federal Savings and Loan Insurance Corporation, to the extent insured or to the extent guaranteed as permitted under any other provision of State law.

### **Failure to Pay Bonds**

If the principal of any Bond is not paid when properly presented at its maturity or date fixed for redemption, as applicable, the City will be obligated to pay interest on that Bond at the same rate provided in the Bond from and after its maturity or date fixed for redemption until that Bond, both principal and interest, is paid in full or until sufficient money for its payment in full is on deposit in the Bond Fund, or in a trust account established to refund or defease the Bond, and the Bond has been called for payment by giving notice of that call to the Registered Owner thereof.

### **USE OF PROCEEDS**

The Bonds are being issued to pay for part of the costs of various projects of the City’s Solid Waste System, to fund a reserve for the Parity Bonds, to refund certain of the City’s outstanding obligations (described below under “Refunding Plan”), and to pay the costs of issuing the Bonds and administering the Refunding Plan.

## Sources and Uses of Funds

The proceeds of the Bonds are to be applied as follows:

SOURCES OF FUNDS	
Par Amount of Bonds	\$ -
Net Original Issue Premium (Discount)	-
Total Sources of Funds	\$ -
USES OF FUNDS	
Project Fund Deposit	\$ -
Reserve Subaccount Deposit	-
Refunding Escrow Deposit	
Costs of Issuance <sup>(1)</sup>	-
Total Uses of Funds	\$ -

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

## Refunding Plan

In the Ordinance, the City has authorized the refunding of all or a portion of its outstanding Solid Waste Revenue and Refunding Bonds, 2007 (the "Refunded Bond Candidates"). The Refunded Bond Candidates to be refunded with a portion of the proceeds of the Bonds (the "Refunded Bonds") are identified in the table below. The refunding is being undertaken to achieve debt service savings.

REFUNDED BONDS <sup>(1)</sup>						
Bond	Maturity Date	Par Amount	Coupon	Call Price	Call Date	CUSIP Number
<i>Solid Waste Revenue and Refunding Bonds, 2007</i>						
Serials	02/01/2018	\$ 2,550,000 <sup>(2)</sup>	5.00%	100%	02/01/2017	812702AL2
	02/01/2019	2,680,000 <sup>(2)</sup>	5.00%	100%	02/01/2017	812702AM0
	02/01/2020	2,815,000	5.00%	100%	02/01/2017	812702AN8
	02/01/2021	2,960,000	5.00%	100%	02/01/2017	812702AP3
	02/01/2022	3,115,000	5.00%	100%	02/01/2017	812702AQ1
	02/01/2023	3,270,000	5.00%	100%	02/01/2017	812702AR9
	02/01/2024	3,440,000	5.00%	100%	02/01/2017	812702AS7
	02/01/2025	3,615,000	5.00%	100%	02/01/2017	812702AT5
	02/01/2026	3,800,000	5.00%	100%	02/01/2017	812702AU2
Term 2029	02/01/2029	<u>12,610,000</u>	5.00%	100%	02/01/2017	812702AV0
Total		\$ 40,855,000				

(1) Preliminary, subject to change.

(2) Partial maturity.

The City will enter into a Refunding Trust Agreement with U.S. Bank National Association, as Refunding Trustee, upon the delivery of the Bonds, to provide for the refunding of the Refunded Bonds. The Refunding Trust Agreement creates an irrevocable trust fund to be held by the Refunding Trustee and to be applied solely to the payment of the Refunded Bonds. A portion of the proceeds of the Bonds will be deposited with the Refunding Trustee and will be invested in Government Obligations that will mature and bear interest at rates sufficient to pay the principal of and accrued interest coming due on the redemption date 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 Internal Revenue Code of 1986, as amended, 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 payable from and secured solely by the Net Revenue of the Solid Waste System and by money in the Bond Account, including the Reserve Subaccount. The Bond Account has been created in the Solid Waste Fund for the sole purpose of paying the principal of and premium, if any, and interest on the Parity Bonds, including the Bonds. The Bond Account consists of the Principal and Interest Subaccount, the Reserve Subaccount and any additional subaccounts deemed necessary by the City. The City has agreed to pay into the Principal and Interest Subaccount, on or prior to the respective dates on which principal of and interest on the Parity Bonds are payable, certain fixed amounts from the Net Revenue of the Solid Waste System sufficient to pay such principal and interest when due, as required by the Ordinance. This pledge constitutes a lien and charge on the Net Revenue prior and superior to any other lien or charge. See Appendix A—Section 13, Security for Parity Bonds and Section 14, Flow of Funds.

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

### **Reserve Subaccount**

The Reserve Subaccount has been created in the Bond Account to secure the payment of the principal of and interest on the Parity Bonds. The City has covenanted to maintain the Reserve Subaccount at the lesser of Maximum Annual Debt Service or the maximum amount permitted by the Internal Revenue Code of 1986, as amended (the “Code”), as a “reasonably required reserve or replacement fund” (the “Reserve Requirement”), so long as any Parity Bonds remain outstanding, except that the Reserve Requirement allocable to Future Parity Bonds may be funded over five years after their issuance. Under the Ordinance, the City may provide all or any portion of the Reserve Requirement with Qualified Insurance. “Qualified Insurance,” as of the time of issuance, must be rated in one of the two highest rating categories by Moody’s Investors Service Inc. (“Moody’s”) and Standard & Poor’s Ratings Services, a Division of The McGraw Hill Companies, Inc. (“S&P”) or their comparably recognized business successors, but does not cease to be considered “Qualified Insurance” due to any subsequent ratings downgrade. The City currently has Qualified Insurance in the amount of \$5,853,000 provided by MBIA Insurance Corporation (and reinsured by National Public Finance Guarantee Corporation, a wholly-owned subsidiary of MBIA Inc.) that expires on February 1, 2033. The City has \$4,878,175 on deposit in the Reserve Subaccount and will make an additional deposit to the Reserve Subaccount of \$\_\_\_\_\_ in cash from proceeds of the Bonds to satisfy the Reserve Requirement after the issuance of the Bonds. This deposit, along with the existing surety bond and cash on hand, will fully satisfy the Reserve Requirement for the Bonds and the Outstanding Parity Bonds. See “Use of Proceeds” and Appendix A—Section 1, Definitions and Section 13, Security for Parity Bonds.

### **Outstanding Parity Bonds**

The bonds shown in the table below are defined as the “Outstanding Parity Bonds” of the Solid Waste System. The Outstanding Parity Bonds, the Bonds, and any Future Parity Bonds are referred to collectively herein as the “Parity Bonds.”

## OUTSTANDING PARITY BONDS

Bond Description	Original Par Amount	Outstanding Principal on 12/31/2013
2007 Bonds	\$ 82,175,000	\$ 71,935,000 <sup>(1)</sup>
2011 Bonds	45,750,000	43,940,000
Total	\$ 127,925,000	\$ 115,875,000

(1) Includes the Refunded Bond Candidates. Preliminary, subject to change.

### Additional Obligations

*Future Parity Bonds.* Future Parity Bonds may be issued upon satisfaction of certain conditions set forth in the Ordinance. Among other conditions, at the time of the delivery of the Future Parity Bonds to the initial purchasers, the City must have on file a certificate of both the Director of Finance and the Director of SPU (the “Parity Certificate”) demonstrating that either (i) during any 12 consecutive months out of the immediately preceding 24 months Adjusted Net Revenue, taking into account certain revenue adjustments, was at least equal to 1.25 times the Annual Debt Service in that year (the “Coverage Requirement”) on all Parity Bonds plus the Future Parity Bonds proposed to be issued, or (ii) in the opinion of both the Director of Finance and the Director of SPU, the Adjusted Net Revenue will be at least equal to the Coverage Requirement for the five years next following the earlier of (a) the end of the period during which interest on the Future Parity Bonds to be issued is capitalized or, if no interest is capitalized, the fiscal year in which the Future Parity Bonds are issued or (b) the date on which all new facilities financed with those Future Parity Bonds are expected to commence operations. See Appendix A—Section 16, Issuance of Future Parity Bonds.

*Parity Payment Agreements.* The City may enter into one or more Parity Payment Agreements (such as interest rate swaps) secured by a pledge and lien on Net Revenue on a parity with the Bonds subject to the satisfaction of the requirements for the issuance of Future Parity Bonds. See Appendix A—Section 1, Definitions and Section 16, Issuance of Future Parity Bonds. The City has never entered into a Parity Payment Agreement and currently has no intention of doing so.

*Contract Resource Obligations.* The City may enter into one or more Contract Resource Obligations for the acquisition, from facilities to be constructed, of solid waste collection, transportation, treatment, or disposal or other commodity or service related to the Solid Waste System and may determine that all payments under the Contract Resource Obligation (including payments prior to the time such commodity or service is being provided, or during a suspension or after termination of supply or service) will be a Maintenance and Operation Expense, upon compliance with certain requirements of the Ordinance. See Appendix A—Section 19, Contract Resource Obligations. The City has never entered into a Contract Resource Obligation and currently has no intention of doing so.

*Future Subordinate Lien Bonds.* In the Ordinance, the City has reserved the right to issue revenue bonds or other obligations having a lien on Net Revenue subordinate to the lien of the Parity Bonds. The City has never issued any such obligations and currently has no intention of doing so.

### Rate Covenant

The City has covenanted to establish, maintain and collect rates and charges for solid waste services and facilities which will produce Adjusted Net Revenue in each fiscal year at least equal to the Coverage Requirement (in any fiscal year, the amount of Adjusted Net Revenue equal to at least 1.25 times Adjusted Annual Debt Service in that year on all Parity Bonds then Outstanding). See Appendix A—Section 15, Parity Bond Covenants.

### Other Covenants

In the Ordinance, the City has entered into other covenants, including with respect to (i) maintenance of the Solid Waste System, (ii) sale of the Solid Waste System and (iii) preservation of tax exemption for interest on the Bonds.

See Appendix A—Section 15, Parity Bond Covenants and Section 23, Preservation of Tax Exemption for Interest on Tax-Exempt Bonds.

### **Rate Stabilization Account**

The City may deposit Gross Revenue and other money into the Rate Stabilization Account and may withdraw money from that account for inclusion in Adjusted Gross Revenue for any fiscal year of the City. No deposit of Gross Revenue will be made into the Rate Stabilization Account to the extent that such deposit would prevent the City from meeting the Coverage Requirement. A deposit of \$5.2 million was made into the Rate Stabilization Account in 2013. An additional deposit of \$2.7 million is expected to be made in 2014. The City plans to use the funds in this account to mitigate the need for Solid Waste System rate increases in the future. See “Solid Waste System—Management Discussion and Analysis of Operating Results” and Appendix A—Section 17, Rate Stabilization Account.

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

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

### **Combined Utility Systems**

The City has reserved the right to combine the Solid Waste System with other City utility systems. The City currently has no intention of doing so.

### **Separate Utility Systems**

The City has reserved the right to create, acquire, construct, finance, own, and operate one or more additional systems for solid waste collection, transportation, treatment, or disposal, or other commodity or service related to the Solid Waste System. The revenue of that separate utility system will not be included in the Gross Revenue of the Solid Waste System and may be pledged to the payment of any revenue obligations issued with respect thereto. See Appendix A—Section 18, Separate Utility Systems. The City has never created any such separate utility system and currently has no intention of doing so.

### **Debt Service Requirements**

The following table shows the debt service scheduled to be paid from the Net Revenue of the Solid Waste System, after giving effect to the issuance of the Bonds.

**DEBT SERVICE REQUIREMENTS**

As of December 31, 2013

Year	Outstanding Parity Bonds <sup>(1)</sup>			The Bonds <sup>(2)</sup>			Total Debt Service
	Principal	Interest	Total	Principal	Interest	Total	
2014	\$ 3,495,000	\$ 5,549,244	\$ 9,044,244	\$ -	\$ 942,893	\$ 942,893	\$ 9,987,137
2015	3,665,000	5,371,494	9,036,494	1,255,000	2,423,200	3,678,200	12,714,694
2016	3,855,000	5,184,994	9,039,994	1,300,000	2,378,375	3,678,375	12,718,369
2017	4,045,000	4,988,869	9,033,869	1,355,000	2,325,275	3,680,275	12,714,144
2018	4,260,000	4,782,869	9,042,869	1,410,000	2,269,975	3,679,975	12,722,844
2019	4,470,000	4,566,244	9,036,244	1,465,000	2,212,475	3,677,475	12,713,719
2020	4,260,000	4,349,744	8,609,744	1,530,000	2,148,750	3,678,750	12,288,494
2021	4,475,000	4,133,119	8,608,119	1,600,000	2,078,325	3,678,325	12,286,444
2022	4,705,000	3,905,494	8,610,494	1,675,000	2,004,638	3,679,638	12,290,131
2023	4,940,000	3,666,369	8,606,369	1,750,000	1,927,575	3,677,575	12,283,944
2024	5,195,000	3,415,119	8,610,119	1,830,000	1,847,025	3,677,025	12,287,144
2025	5,460,000	3,150,994	8,610,994	1,915,000	1,762,763	3,677,763	12,288,756
2026	5,735,000	2,873,369	8,608,369	2,005,000	1,674,563	3,679,563	12,287,931
2027	6,025,000	2,581,744	8,606,744	2,095,000	1,582,313	3,677,313	12,284,056
2028	6,315,000	2,295,669	8,610,669	2,195,000	1,485,788	3,680,788	12,291,456
2029	6,620,000	1,990,406	8,610,406	2,295,000	1,384,763	3,679,763	12,290,169
2030	6,930,000	1,682,031	8,612,031	2,400,000	1,279,125	3,679,125	12,291,156
2031	7,240,000	1,371,194	8,611,194	2,510,000	1,168,650	3,678,650	12,289,844
2032	7,570,000	1,043,325	8,613,325	2,625,000	1,053,113	3,678,113	12,291,438
2033	7,925,000	685,000	8,610,000	2,745,000	932,288	3,677,288	12,287,288
2034	2,755,000	434,500	3,189,500	2,870,000	805,950	3,675,950	6,865,450
2035	2,895,000	296,750	3,191,750	3,005,000	673,763	3,678,763	6,870,513
2036	3,040,000	152,000	3,192,000	3,145,000	535,388	3,680,388	6,872,388
2037	-	-	-	3,290,000	390,600	3,680,600	3,680,600
2038	-	-	-	3,440,000	239,175	3,679,175	3,679,175
2039	-	-	-	3,595,000	80,887	3,675,887	3,675,887
<b>Total</b>	<b>\$ 115,875,000</b>	<b>\$ 68,470,538</b>	<b>\$ 184,345,538</b>	<b>\$ 55,300,000</b>	<b>\$ 37,607,630</b>	<b>\$ 92,907,630</b>	<b>\$ 277,253,168</b>

(1) Includes the Refunded Bond Candidates.

(2) New money portion only. Preliminary, subject to change. Assumes interest rates ranging from 3.00% to 4.50%.

## SEATTLE PUBLIC UTILITIES

### Administrative Structure

The City's water, drainage, wastewater, and solid waste utility services are consolidated administratively into a single entity known as Seattle Public Utilities. Within SPU, there are three separate funds: the Water Fund, the Drainage and Wastewater Fund, and the Solid Waste Fund. The City has reserved the right to combine the Solid Waste System, including the Solid Waste Fund, with other City utility systems, funds, and accounts. The City also has reserved the right to combine the Water System (including the Water Fund) and 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 seven Executive Branches: Corporate Strategies and Communications, Human Resources and Service Equity, Field Operations and Maintenance, Finance and Administration, Customer Service, Utilities Systems Management, and Project Delivery. 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. He has more than 20 years of increasingly responsible roles in public policy and management, 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. Prior to joining SPU, Mr. Baker served as Deputy Director, Habitat Program, with the Washington Department of Fish and Wildlife, Public Affairs Director of Regional Transit Authority (predecessor to Sound Transit), 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 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 and also formerly served the department in the roles of 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 Customer Programs and Contract Management Division Director for SPU, 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 Race and Social Justice Office for Seattle Department of Transportation, after serving more than five years as the Director of the Seattle Department of Transportation's Policy and Planning Division. 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 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 (the "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.

*Vladimir Khazak, Interim Deputy Director for Project Delivery.* Mr. Khazak was appointed to this position in 2013. In this role, he serves as the chief engineer for the utility and leads SPU's engineering, project, and construction management services for the capital improvement programs and other key technical services. He brings more than 40 years of experience managing, delivering, and implementing over \$40 billion of civil construction projects throughout the country and around the world. Prior to joining SPU, he served as an independent consultant on the \$1.3 billion SR99 Alaskan Way Tunnel in Seattle, vice president of HNTB Corporation, executive vice president for Earth Tech managing its design-build and construction management business in Europe, and senior vice president of URS, responsible for the Construction Management Division. He also worked for various public sector organizations in Washington State from 1977 to 1991. During that time, he managed a \$1.3 billion Wastewater Quality Program and a \$483 million Downtown Seattle Transit Project and served as Technical Services Department Director for the Municipality of Metropolitan Seattle. Mr. Khazak holds a master's degree in mechanical engineering from the St. Petersburg (Russia) State University of Architecture and Civil Engineering and a master's degree in sanitary engineering from the Institute for Pulp and Paper Technology, St. Petersburg (Russia).

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

Currently SPU has approximately 1,400 employees, approximately 70% of whom are represented under one of ten labor agreements with the Coalition of City Unions. SPU believes that labor relations are satisfactory. See "The City of Seattle—Labor Relations."

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

## SOLID WASTE SYSTEM

### General

In 1961, the City organized its solid waste operations as a separate utility within the Engineering Department, and its funding changed from general taxes to fees for utility services provided. The City's solid waste system has been administered by SPU since 1997. In 2006, SPU reorganized its business processes around the wastewater, drainage, water, and solid waste areas, each with a manager responsible for ensuring that assets within the business area perform adequately to meet defined customer service levels.

### Solid Waste Operations

*Collection.* The City has contracted with private companies for waste collection for almost a century. The City transferred commercial collection to State-regulated franchises during the period 1960-2000, and then returned the services to City contracts in 2001. Residential collection has been continuously contracted. With limited exceptions, City ordinance prohibits collection of non-recyclable waste within the City by companies that are not under contract with the City. The City currently contracts for collection services with Waste Management of Washington ("Waste Management"), a subsidiary of Waste Management, Inc. and Recology/Cleanscapes, Inc. ("Cleanscapes"). Each contract covers designated areas in the City and includes garbage, co-mingled recycling, and food and yard waste ("organics") collection from businesses and residents. SPU charges for garbage and organics collection based on volume and provides free co-mingled recycling pickup. The current collection contracts went into effect in 2009. The collection contract with Cleanscapes expires in 2017, with City options to extend the term to 2019 and 2021, and the collection contract with Waste Management expires in 2019, with a City option to extend the term to 2021. Independent private operations also provide commercial recycling collection in the City.

*Transfer.* The City has historically owned and operated two transfer stations, one in the south end of the City and one in the north end, that receive garbage and organics collected by the collection contractors or self-hauled by the public and small businesses. A new South Transfer Station was opened to the public in 2013 on a site adjacent to the old south-end transfer station. The old north-end transfer station was demolished in January 2014 and the new North Transfer Station is currently under construction. The old south-end transfer station is currently open for overflow traffic and is planned for demolition upon completion of the North Transfer Station in 2016. Each transfer station has a separate annual solid waste operating permit issued by Public Health—Seattle and King County. Both transfer stations are currently in compliance with the terms of their operating permits. The City also contracts with Waste Management to use its private transfer station for some collected garbage and organics tonnage. The City and Waste Management deliver sealed containers of compacted garbage from the transfer stations to the railhead operated by the City's disposal contractor, designated by ordinance as the receiving facility (the "Railhead"). Previously, SPU delivered organics to the City's local organics processing contractor; under new contracts that began in April 2014, the organics processing contractors pick up organics from SPU transfer stations. The City transfer stations also provide recycling drop-off services for self-haul customers. Household hazardous materials are collected at two facilities in the City for processing, disposal, or reuse. The County's Local Hazardous Waste Management Program provides reimbursement for any costs incurred by SPU in the collection, processing, and disposal of hazardous materials.

*Processing.* The City contracts with Rabanco Ltd. (a subsidiary of Republic Services) for processing of contractor-collected recyclables. The current processing contract with Rabanco Ltd expires in 2016, with an option for the City to extend to 2019. The City's contracts with Lenz Enterprises and PacificClean Environmental for processing of organics started in 2014 and are effective until 2020.

*Disposal.* The City contracts with Waste Management to haul the City's waste from the Railhead and to dispose of the waste at the Columbia Ridge landfill in Arlington, Oregon, owned by Waste Management Disposal Services of Oregon, Inc., a subsidiary of Waste Management, Inc. If Columbia Ridge were to close, Waste Management would be obligated to deliver the waste to an identified alternative landfill. The disposal contract expires in 2028, with City options to terminate in 2019 and 2021, depending on the termination date of Waste Management's collections contract.

The following table shows the amounts of solid waste disposed of and recycled in the last five years.

**TABLE 1**  
**SOLID WASTE TONNAGE**  
**2009-2013**

	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
Garbage-Tons Disposed					
Residential Collection	118,726	114,135	112,772	111,402	110,838
Self-Haul Garbage	81,565	79,293	71,033	70,474	74,019
Commercial Collection	151,398	142,180	135,536	134,089	132,401
Total Tons Disposed	351,689	335,608	319,341	315,965	317,258
Recycling					
Private Recycling <sup>(1)</sup>	189,793	208,711	220,878	218,784	220,500
Residential Curbside Recycling	58,786	57,131	57,234	55,317	55,023
Apartment Recycling	17,798	19,267	18,544	20,599	20,886
Residential Curbside Yard and Food Waste	74,230	79,952	79,813	83,666	82,390
Self-Haul Yard Waste	10,149	7,682	6,794	6,593	6,290
Self-Haul Wood Waste	1,375	808	739	569	626
Self-Haul Recycling	6,179	4,939	3,949	3,501	3,413
Composting <sup>(2)</sup>	10,800	10,800	10,800	10,800	10,800
Total Tons Recycled	369,110	389,290	398,751	399,828	399,928
Total Tons Generated	720,799	724,898	718,092	715,793	717,186
Garbage as Percent of Total Tons Generated	49%	46%	44%	44%	44%
Recycling as Percent of Total Tons Generated	51%	54%	55%	56%	56%

(1) Estimate for 2013.

(2) Estimates based on surveys conducted in 2010; include backyard food waste and yard waste composting.

Source: SPU Economic Services

## Revenues

There are three primary sources of Solid Waste System revenues: residential collection charges, commercial collection charges, and self-haul charges.

The following table lists the Solid Waste System’s ten largest customers, combined self-haul and commercial:

**TABLE 2  
TEN LARGEST CUSTOMERS**

	2013 Revenue	% of Total Revenue
Fred Meyer/QFC	\$ 831,481	0.50%
Starbucks	648,877	0.39%
Goodwill Industries	648,167	0.39%
Seattle Housing Authority	530,758	0.32%
Swedish Medical Center	453,369	0.28%
City of Seattle-Parks	420,547	0.26%
Pike Place Market	416,707	0.25%
Vigor Marine	394,559	0.24%
University of Washington	389,266	0.24%
Safeway	334,442	0.20%
Total-Ten Largest Customers	\$ 5,068,173	3.08%

Source: SPU Finance and Administration

*Residential Collection.* All residents of the City are required by City ordinance to subscribe to garbage collection service. Residential households are charged directly by the City for solid waste services. This charge is part of a combined utility bill that also includes charges for water and wastewater services. In 2013, residential collection charges generated approximately \$103.9 million, or 63% of total Solid Waste System revenue.

*Commercial Collection.* Commercial customers are charged by the haulers contracting with the City for commercial collection, which then remit those payments to the City. In 2013, commercial collection charges generated approximately \$47.8 million, or 29% of total Solid Waste System revenue.

*Disposal and Other.* The Disposal and Other category is comprised primarily of self-haul revenues. The City’s two public transfer stations accept garbage, yard waste, wood waste, and source-separated recyclable material from the general public and small businesses. These customers are assessed charges based on the type of waste, type of vehicle, and/or weight of the load. See “Rates.” In 2013, these charges generated approximately \$11.0 million, or 8% of total Solid Waste System revenue. The remainder of this category includes recycling and miscellaneous commodities revenues, commercial disposal charges, and miscellaneous billing fees and charges.

## Expenses

*Solid Waste Contract Expense.* Payments to the City’s collection, processing, and disposal contracts are the single largest expense of the Solid Waste Fund. In 2013, \$73.4 million, or 49% of total Solid Waste System expenses, went to Cleanscapes and Waste Management for garbage, recycling, and organics collection from residential and commercial customers.

Payments to Rabanco Ltd for recycling processing were \$2.4 million, or 1% of Solid Waste System expenses. Payments to Cedar Grove Inc. for processing of organics materials were \$2.7 million, or 2% of Solid Waste System expenses. The contract with Cedar Grove expired at the end of March 2014. Under new contracts effective in April 2014 (see “Solid Waste Operations—Transfer”), in addition to processing, contractors are responsible for transport of organics from SPU transfer stations. As a result, expenses under the new contracts are expected to rise to \$4 million per year. Payments to Waste Management Disposal Services of Oregon, Inc. for long-range hauling and disposal of garbage totaled \$13.5 million in 2013, or 9% of total Solid Waste System expenses. Payments to the County’s Local Hazardous Waste Management Program were \$3.5 million, or 2% of Solid Waste System expenses, which were reimbursed by the County.

*Other Operations and Maintenance.* Expenses in this category include operation of City-owned transfer stations, customer service, billing, planning, conservation programs, finance and administration, and general overhead. In

2013, other operations and maintenance totaled \$29 million, or 19% of Solid Waste System expenses. Operations expenses at transfer stations were \$9.2 million of this amount, or 6% of Solid Waste System expenses.

*Taxes.* An 11.5% City utility tax, less deductions for certain environmental programs, is applied to Solid Waste System revenues and paid to the City's General Fund. A total of \$13.4 million, or 8% of Solid Waste System expenses, was paid in City taxes in 2013. The City also levies a tonnage tax of \$11.69 per ton of non-recycled waste. The tonnage tax levied on SPU totaled \$3.4 million in 2013, or 2% of Solid Waste System expenses. By ordinance, this tax revenue is transferred back to the Solid Waste Fund. See "Clean Cities and Tonnage Tax" below. Under the City Charter, City taxes are payable after payment of debt service on Parity Bonds.

In addition to City taxes, the State of Washington levies a 1.8% business and occupation tax on gross revenues and a 3.6% State refuse tax with deductions allowed for certain environmental-related programs. In 2013, SPU paid \$3.0 million in business and occupation taxes, or 2% of Solid Waste System expenses. The 3.6% State refuse tax is deducted from revenue and is not recorded as an expense. SPU paid \$4.4 million in State refuse taxes in 2013.

*Clean Cities and Tonnage Tax.* The tonnage tax is levied on all non-recycled waste transferred within the City. It is paid by SPU and all other public and private parties who transfer waste within City limits. All tonnage tax revenues, including those paid by others, are transferred to the Solid Waste Fund. These proceeds fund the City's Clean Cities program, which provides litter, public trash, and graffiti cleanup services. For garbage tons transferred by others, SPU received \$1.7 million. Revenues and expenses for this program have been netted out under Nonoperating Revenue (Expenses) since 2011. Prior to 2011, they were treated as Operating Revenue and Operating Expenses. Revenues under this category include the portion paid by SPU, the expense of which is recorded under "City Taxes."

## **Operating Results**

Table 3—Operating Results shows historical revenues and expenses of the Solid Waste System derived from audited financial statements for the years 2009 through 2013, and projected revenues and expenses for 2014 through 2016.

*SPU does not as a matter of course make public projections as to future revenues, expenses, or other results. However, the management of SPU has prepared the prospective financial information set forth below to describe operating results and provide readers of this Official Statement information related to projected revenues and expenses of the Solid Waste 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 Solid Waste 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.*

*The financial statements of the Solid Waste System as of and for the fiscal year ended December 31, 2013, included herein as Appendix C, have been audited by Moss Adams LLP, independent accountants, as stated in its report appearing herein. SPU 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 3  
SOLID WASTE SYSTEM  
OPERATING RESULTS**

	Actual					Projected <sup>(8)</sup>		
	2009	2010	2011	2012	2013	2014	2015	2016
Operating Revenue								
Residential Collection Services <sup>(1)</sup>	\$ 71,638,049	\$ 86,158,616	\$ 91,472,741	\$ 97,622,413	\$ 103,943,059	\$ 107,068,738	\$ 111,779,266	\$ 117,012,073
Commercial Collection Services <sup>(1)</sup>	43,876,850	45,279,472	46,692,923	46,083,567	47,775,527	49,050,305	50,837,051	53,027,822
Disposal and Other <sup>(2)</sup>	20,126,261	19,467,843	16,034,403	13,220,794	13,269,452	9,704,853	9,709,150	10,628,951
Rate Stabilization Account	-	-	-	-	(5,246,536)	(2,687,691)	3,750,000	2,650,000
<b>Total Operating Revenue</b>	<b>\$ 135,641,160</b>	<b>\$ 150,905,931</b>	<b>\$ 154,200,067</b>	<b>\$ 156,926,774</b>	<b>\$ 159,741,502</b>	<b>\$ 163,136,205</b>	<b>\$ 176,075,467</b>	<b>\$ 183,318,846</b>
Operating Expenses								
Solid Waste Contract Expense	\$ 84,805,488	\$ 90,850,805	\$ 90,247,538	\$ 91,785,851	\$ 95,324,997	\$ 94,069,229	\$ 95,085,914	\$ 97,966,990
Other Operations and Maintenance	32,006,302	29,797,201	30,206,070	28,489,780	28,516,955	34,572,954	38,310,649	38,899,043
City Taxes	17,531,911	14,182,762	15,051,538	15,537,768	16,838,354	17,734,342	18,119,993	18,696,750
State Business and Occupation Tax	1,945,194	2,459,613	2,788,985	2,665,948	2,933,995	3,028,857	3,147,324	3,300,210
Depreciation and Amortization	7,789,093	6,915,931	8,763,978	9,017,615	8,657,977	10,063,812	10,540,725	8,426,255
<b>Total Operating Expenses</b>	<b>\$ 144,077,988</b>	<b>\$ 144,206,312</b>	<b>\$ 147,058,109</b>	<b>\$ 147,496,962</b>	<b>\$ 152,272,278</b>	<b>\$ 159,469,194</b>	<b>\$ 165,204,605</b>	<b>\$ 167,289,248</b>
<b>Net Operating Income (Loss)</b>	<b>\$ (8,436,828)</b>	<b>\$ 6,699,619</b>	<b>\$ 7,141,958</b>	<b>\$ 9,429,811</b>	<b>\$ 7,469,224</b>	<b>\$ 3,667,011</b>	<b>\$ 10,870,862</b>	<b>\$ 16,029,598</b>
Nonoperating Revenue (Expenses)								
Interest Expense	\$ (2,550,085)	\$ (2,400,011)	\$ (2,839,520)	\$ (2,657,684)	\$ (4,992,798)	\$ (6,248,125)	\$ (7,631,892)	\$ (9,508,583)
Amortization of Debt Issuance Expenses	(67,467)	(41,930)	(51,738)	-	-	-	-	-
Clean Cities and Tonnage Tax (Net) <sup>(3)</sup>	-	-	633,465	(216,696)	232,396	(250,520)	(31,866)	(45,693)
Other (Net)	1,513,124	945,784	309,979	363,463	(39,589)	2,581,633	379,262	113,203
<b>Total Nonoperating Revenue (Expenses)</b>	<b>\$ (1,104,428)</b>	<b>\$ (1,496,157)</b>	<b>\$ (1,947,814)</b>	<b>\$ (2,510,917)</b>	<b>\$ (4,799,991)</b>	<b>\$ (3,917,012)</b>	<b>\$ (7,284,496)</b>	<b>\$ (9,441,073)</b>
<b>Operating and Capital Fees, Contributions and Grants</b>	<b>981,660</b>	<b>782,406</b>	<b>741,262</b>	<b>754,146</b>	<b>592,409</b>	<b>350,000</b>	<b>350,000</b>	<b>350,000</b>
<b>Net Income<sup>(4)</sup></b>	<b>\$ (8,559,596)</b>	<b>\$ 5,985,868</b>	<b>\$ 5,935,406</b>	<b>\$ 7,673,040</b>	<b>\$ 3,261,643</b>	<b>\$ 99,999</b>	<b>\$ 3,936,366</b>	<b>\$ 6,938,525</b>
<b>Revenue Available for Debt Service<sup>(5)</sup></b>	<b>\$ 19,378,960</b>	<b>\$ 29,526,502</b>	<b>\$ 32,642,180</b>	<b>\$ 34,886,108</b>	<b>\$ 33,750,772</b>	<b>\$ 34,146,278</b>	<b>\$ 40,228,976</b>	<b>\$ 43,570,113</b>
<b>Debt Service<sup>(6)</sup></b>	<b>\$ 10,740,969</b>	<b>\$ 5,844,850</b>	<b>\$ 5,848,375</b>	<b>\$ 9,039,460</b>	<b>\$ 9,038,394</b>	<b>\$ 10,500,955</b>	<b>\$ 14,495,654</b>	<b>\$ 16,309,810</b>
<b>Debt Service Coverage</b>	<b>1.80</b>	<b>5.05</b>	<b>5.58</b>	<b>3.86</b>	<b>3.73</b>	<b>3.25</b>	<b>2.78</b>	<b>2.67</b>
<b>Debt Service Coverage Without Credit for Taxes or Grants<sup>(7)</sup></b>	<b>0.08</b>	<b>2.49</b>	<b>2.88</b>	<b>2.06</b>	<b>1.81</b>	<b>1.53</b>	<b>1.50</b>	<b>1.50</b>

**NOTES TO TABLE:**

- (1) Assumes rate increases shown in Table 4—Rate Increases.
- (2) Revenues from disposal are expected to decline in the period 2014 through 2016 due to the closure of the old north-end transfer station. See “Solid Waste Operations—Transfer.”
- (3) Clean Cities revenues and expenses have been netted out in Nonoperating Revenue (Expenses) since 2011. Prior to 2011, they were included as Operating Revenue and Operating Expenses.
- (4) Net Income includes Operating and Capital Fees, Contributions, and Grants.
- (5) Revenue Available for Debt Service = Net Income + City Taxes + Depreciation and Amortization + Interest Expense + Amortization of Debt Issuance Expenses + Accrued and Other Non-Cash Expense (which last component has not been experienced by the Solid Waste System in the last five years). Under the City Charter, City taxes are payable after payment of debt service.
- (6) Debt service in 2010 and 2011 was unusually low because the Parity Bonds issued in 1999 were refunded in 2009 and Parity Bonds to finance the new transfer stations had not yet been issued.
- (7) See “Financial Policies.”
- (8) Projections are representative of rates based on policies that have been adopted and include rate adjustments that will be proposed as part of the 2015 budget. See Table 4—Rate Increases.

*Source: 2009-2013: SPU Audited Financial Statements; 2014-2016: SPU Finance and Administration*

**Management Discussion and Analysis of Operating Results**

This section provides a brief discussion of operating results for the period 2009-2013 based on information in Table 3, and the Management’s Discussion and Analysis included in Appendix C—2013 Audited Financial Statements of the Solid Waste System.

The economic downturn began to negatively impact demand during the second half of 2008. In 2009, the recession reduced demand below forecast and new collections contracts significantly increased cost. A 27% rate increase in 2009 helped to alleviate some of this pressure, but nevertheless net income was negative. Subsequent rate increases have kept net income significantly positive.

The downward trend in demand for services continued until 2013, when certain sectors began to show signs of improvement. In 2013, demand for services among single-family and high volume commercial customers continued to decline, but these declines were offset by increased demand among multifamily and low volume commercial customers. Recycling tonnage as a whole was flat at 0.2% growth, reflecting decreasing single-family demand, but multifamily recycling tonnage increased by 11.1%. Organics tonnage increased 4.8%. Transfer station tonnage, which had declined every year since 2007, increased 5.0% in 2013.

The “Disposal and Other” category, which includes transfer stations, also includes recycling commodities revenues, a Landfill Closure fee (prior to 2010), and revenues associated with the City’s Clean Cities program (prior to 2011). The Landfill Closure fee, which generated \$4 million in 2009, was assessed to pay for landfill closure bonds, which were retired in 2010. In 2011, revenue associated with the Clean Cities program was moved to the “Nonoperating” category and netted out against the expenses associated with Clean Cities. Associated expenses were also moved, which netted out against inflation-related increases to result in flat Solid Waste contract expenses in 2010 and 2011. A significant contributor to the decline in revenues since 2011 has been the reduction in revenues associated with the selling of sorted recycled materials. High commodity prices in 2011 resulted in \$4.7 million in revenue, but since then, low prices for recycled materials, particularly paper, have reduced those revenues to \$1.4 million in 2013. SPU is not projecting any future increase in commodity price revenue.

Rate increases of 6.3% and 4.1% came into effect in April 2013 and 2014, respectively. These rate increases, along with lower than expected inflation, have improved net income.

Financial projections are based on demand and expense forecasts from SPU’s Recycling Potential Assessment (“RPA”) Model and long-term planning under SPU’s Solid Waste Comprehensive Plan and Strategic Business Plan. The RPA model projects tonnages using econometric forecasting equations which incorporate historical data, Puget Sound Regional Council forecasts of employment and household income, and assumptions about capture rates (the measurement of materials captured by recycling programs rather than going to the landfill) for current and planned programs based on the best data available. The RPA model includes sector-specific equations and also data on the composition of the waste stream from on-going composition studies done every four years for every sector.

Financial projections are based on inflation rates of 2.5% to 3.0% for collections contracts, compared to a 2.4% historic inflation rate on the current contracts, and a 4% inflation rate on SPU operation and maintenance costs.

Projections for 2014 through 2016 include a temporary 28% reduction of baseline self-haul tonnage due to the closure of the old north-end transfer station. This decline is expected to reduce revenues by \$3 million in 2014, \$2.9 million in 2015, and \$1.8 million in 2016. Revenues are expected to begin recovering in the second quarter of 2016 following the opening of the new North Transfer Station.

The Solid Waste Fund did not carry a balance in the Rate Stabilization Account prior to 2013. A \$5.2 million deposit was made into the account in 2013, and an additional \$2.7 million is expected to be deposited in 2014. These funds are expected to be withdrawn by 2016. See “Security for the Bonds—Rate Stabilization Account.” There are no plans to make deposits to or withdrawals from the Rate Stabilization Account after 2016.

## Rates

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

*Current Rates.* All City residents are required by ordinance to subscribe to garbage collection service. Both residential and commercial customers can choose the level of service. The rate structures encourage customers to recycle and minimize the amount of garbage collected.

The following table provides a summary of average rate increases for residential and commercial customers. Rates for self-haul customers have not increased since 2010.

**TABLE 4  
RATE INCREASES**

2008	6.7%
2009	27.0
2010	8.0
2011	6.0
2012	3.5
2013	6.3
2014 (April 1)	4.1
2015 (April 1)	4.3
2016 (April 1)	3.4
<b>Proposed<sup>(1)</sup></b>	
2015 (April 1)	5.7%
2016 (April 1)	5.8

(1) Substitute rate increases to be proposed as part of SPU’s 2015 budget proposal based on newly adopted financial policies. See “Financial Policies.”

*Source: SPU Finance and Administration*

The following tables show monthly rates for various levels of residential service, the number of residential customers subscribing to each level of service, representative solid waste bills for the City compared to other cities in the State, and City transfer station rates compared to the County’s rates.

**TABLE 5  
2014 MONTHLY RESIDENTIAL RATE SCHEDULE**

<b>Service Units</b>	<b>Rate <sup>(1)</sup></b>
No Can (minimum rate)	\$6.85
12-Gallon	19.45
20-Gallon	23.85
32-Gallon	31.05
64-Gallon	62.10
96-Gallon	93.15
Recycling	No charge
Additional Cans (per-can rate)	31.05
Non-Compacted Dumpster (one cubic yard, once/week, one container) <sup>(2)</sup>	229.52
Compacted Dumpster (three cubic yards, once/week, one container) <sup>(2)</sup>	663.81
Yard Waste Mini-Can	5.15
Yard Waste 32-Gallon Can	7.75
Yard Waste 96-Gallon Can	9.90

(1) Rates listed are for curb/alley service. Backyard service rates are approximately 40% higher.

(2) Dumpster rates vary with size and number of containers as well as frequency of collection. Dumpster rates shown include a \$33.15 monthly account fee.

*Source: Solid Waste Rates Ordinance and SPU Finance and Administration*

**TABLE 6  
NUMBER OF CUSTOMERS BY CLASS**

<b>Customer Class</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
Variable Cans					
No Can/Vacancy	2,433	2,577	2,611	2,443	2,385
12-Gallon Can	13,414	14,667	16,761	17,974	18,613
20-Gallon Can	42,139	41,778	43,830	44,395	44,738
32-Gallon Can	109,012	98,742	94,393	91,783	90,499
64-Gallon Can	n/a	6,446	6,525	6,568	6,627
96-Gallon Can	n/a	1,331	1,461	1,606	1,677
Total Variable Cans	166,998	165,541	165,581	164,769	164,539
Residential Dumpster Accounts	5,450	5,303	5,245	5,206	5,185
Commercial Accounts	8,470	8,264	8,198	8,173	8,183

*Source: SPU Finance and Administration*

**TABLE 7**  
**REGIONAL COMPARISONS OF AVERAGE MONTHLY BILLS**  
**(Rates in Effect as of April 1, 2014)**

<b>City</b>	<b>State</b>	<b>Residential<sup>(1)</sup></b>	<b>Commercial<sup>(2)</sup></b>
Bellevue	Washington	\$ 20.78	\$ 209.32
Kirkland	Washington	22.25	181.17
Seattle	Washington	40.95	394.03
Shoreline	Washington	27.52	275.57

- (1) Residential service assumes a 32-gallon garbage can picked up every week, a 96-gallon yard waste cart, and recycling service. Some yard waste or recycling service frequencies vary by jurisdiction.
- (2) Commercial service assumes a three-cubic-yard uncompacted container picked up one time per week or equivalent. Amounts shown include taxes.

*Source: SPU Finance and Administration*

**TABLE 8**  
**REGIONAL COMPARISON OF TRANSFER STATION RATES**

<b>Garbage</b>	<b>Seattle</b>	<b>King County</b>
Per Ton	\$145.00	\$129.40
Minimum Charge	30.00	22.00

*Source: SPU Finance and Administration*

*Billing.* SPU accounts are billed bimonthly for residential and small commercial customers and monthly for larger accounts. Residential customers 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 residential 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 credited to the Drainage and Wastewater Fund and then, if funds are available, to the Water Fund. If an account is 33 days past due, customers receive a water shut-off notice. Under State law, water may be shut off when an account is delinquent. Delinquent charges bear interest at the rate of 12% *per annum*.

Commercial customers are billed directly by the companies under contract with the City to collect commercial solid waste. Customers who self-haul garbage, yard waste, and wood waste to the City’s two transfer stations either pay with cash or by credit card at the time they deliver their waste, or are billed directly by SPU on a monthly basis. If a credit customer fails to pay its bill on a timely basis, SPU terminates that customer’s line of credit at the City-owned transfer stations, sends repeated notices to the customer demanding payment, and, if these measures fail to produce payment, transmits the matter to the City’s Law Department for collection.

The City’s 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. SPU and SCL bill and reimburse each other for these services.

**Financial Policies**

The City Council has established financial policies by resolution for SPU, including the Solid Waste System. In accordance with these policies, solid waste rates are set to achieve generally positive net income, cash balances of 20 days of contract payments, a minimum \$3.2 million (in 2014 dollars) cash contribution to capital spending, and a minimum debt service coverage ratio of 1.70 times annual debt service.

The debt service coverage policy provides credit for taxes paid to the City. Under the City Charter, City taxes are payable after payment of debt service. The City Council adopted a new financial policy in 2014 that establishes an additional minimum debt service coverage ratio that does not provide credit for taxes paid to the City or revenue earned from grants. The ratio under this new policy is 1.50 times annual debt service.

## **Interfund Loans**

The City's Director of Finance is authorized to provide additional liquidity to the Solid Waste Fund through the use of interfund loans from the City common investment portfolio (the "Investment Pool"). See "The City of Seattle—Financial Management—Interfund Loans." The Solid Waste Fund does not have any outstanding interfund loans.

## **Future Capital Improvements**

Development of the facilities needed for the rehabilitation, enhancement, and expansion of the Solid Waste System are guided by the Solid Waste Comprehensive Plan and the multi-year capital improvement plan ("CIP"), which is developed within the framework of the Solid Waste Comprehensive Plan and included in the multi-year capital improvement plan of the City as a whole. The City's capital improvement plan is reviewed, revised, and adopted annually by the Mayor and City Council as part of the City's budget process.

The Solid Waste System's two largest CIP projects through 2018 will require higher than historic levels of CIP funding. These projects are the replacement of the City's transfer stations, which were built in 1966, and the redevelopment of the City's historic landfill site in the South Park neighborhood. Transfer station improvements started in 2011 and are expected to be completed in 2017. These improvements are being made in three phases to allow continuity of operations. The new South Transfer Station opened in 2013. Demolition of the old south-end transfer station and replacement with recycling facilities is scheduled for 2016-2017. The new North Transfer Station is currently under construction on the site of the demolished old north-end transfer station and is expected to open in 2016.

SPU expects to finance the CIP with a combination of bond proceeds and current revenues. In addition to the Bonds, the City expects to issue approximately \$47 million in long-term debt to fund a portion of the approximately \$143 million of CIP spending from 2014 to 2019. Annual debt service on Parity Bonds is expected to increase from \$9.0 million in 2013 to \$19.9 million in 2018.

The CIP is organized into four program areas designed to reflect current CIP priorities and promote better fiscal management: (i) New Facilities (including the replacement of the two City-owned transfer stations), (ii) Rehabilitation and Heavy Equipment, (iii) Shared Cost Projects, and (iv) Technology, as shown in the table below.

**TABLE 9**  
**2014-2019 CAPITAL IMPROVEMENT PROGRAM**  
**(\$000)**

<b>Program Area</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>Total</b>
New Facilities	\$ 26,971	\$ 49,868	\$ 18,108	\$ 24,515	\$ 4,641	\$ -	\$ 124,103
Rehabilitation and Heavy Equipment	45	25	431	25	25	424	975
Shared Cost Projects	1,199	1,905	1,555	1,892	1,834	2,170	10,555
Technology	5,467	6,472	5,350	2,756	2,354	1,479	23,878
Subtotal	\$ 33,682	\$ 58,270	\$ 25,444	\$ 29,188	\$ 8,854	\$ 4,073	\$ 159,511
Adjustment for Accomplishments	(3,368)	(5,827)	(2,544)	(2,919)	(885)	(407)	(15,950)
Total	\$ 30,314	\$ 52,443	\$ 22,900	\$ 26,269	\$ 7,969	\$ 3,666	\$ 143,561
<b>Funding Sources</b>							
Debt Financing							
The Bonds	\$ 35,062	\$ 23,599	\$ -	\$ -	\$ -	\$ -	\$ 58,661
Future Parity Bonds	-	23,599	5,491	17,777	-	-	46,867
Total Debt Financing	\$ 35,062	\$ 47,198	\$ 5,491	\$ 17,777	\$ -	\$ -	\$ 105,528
Reimbursement for Prior Expenses	(8,000)	-	-	-	-	-	(8,000)
Internally Generated Funds	3,251	5,244	17,408	8,492	7,969	3,666	46,030
Total	\$ 30,313	\$ 52,442	\$ 22,899	\$ 26,269	\$ 7,969	\$ 3,666	\$ 143,558

Note: Totals may not add due to rounding.

Source: SPU Finance and Administration

### Flow Control

Pursuant to contract and ordinance, the City controls the delivery of solid waste to particular facilities (“flow control”). In recent years, flow control has been challenged as an impermissible restriction on interstate commerce under the U.S. constitution. In *C&A Carbone v. Clarkstown*, the U.S. Supreme Court held that a municipal ordinance requiring the delivery of all solid waste generated within a town to a designated privately-owned transfer station was invalid economic protectionism under the dormant commerce clause. Since *Carbone*, municipal flow control requirements created by contract have been challenged under the commerce clause and have been upheld. See, e.g., *Village of Rockville Centre v. Town of Hempstead*. In April 2007, the U.S. Supreme Court limited the scope of *Carbone* by upholding a local government regulation that required delivery of solid waste to a government-owned facility. In *United Haulers Association v. Oneida-Herkimer*, the Court held that an ordinance that treats all private haulers equally in requiring their use of a government-owned disposal facility does not violate the dormant commerce clause of the U.S. Constitution.

All commercial and residential solid waste collected under the City’s current collection contracts is required, by the contract terms, to be delivered to either of two City-owned and -operated transfer stations or to two privately-owned and -operated transfer stations. In addition, under the current commercial collection contracts, the City reserves the right to direct construction and demolition waste to designated disposal sites. In 2008, the Washington Supreme Court in *Ventenbergs v. City of Seattle* rejected a challenge to the City’s contracts which allowed only the two commercial haulers under contract with the City to pick up and transport construction and demolition waste. In upholding those contracts, the Supreme Court relied in part on a prior 1994 decision, *Weyerhaeuser v. Pierce County*, and expressly reiterated the principle that, although a city may contract with a private company, the municipality ultimately remains responsible for collection and disposal of solid waste.

To the extent that the City’s ordinance directs solid waste to privately-owned facilities, it is possible that it could be subject to constitutional challenge. However, the City believes that, if it were to lose such a challenge, there would be no adverse effect on the ability of the City to pay principal of and interest on the Bonds when due.

## **Solid Waste Comprehensive Plan**

The City's Solid Waste Comprehensive Plan was updated and approved in 1998 and amended in 2004 (the "1998 Plan"). In February 2013, the City Council adopted a 2011 Plan Revision, which received final approval by the Washington State Department of Ecology ("DOE") in June 2013. One of the City's principal goals, first established in 1988 and included in the 1998 Plan, has been to achieve a 60% recycling rate. The 2004 amendment to the 1998 Plan established 2008 as the year for achieving the 60% recycling rate; however, progress toward the recycling goal has been slower than expected. In 2011, the City Council adopted a resolution establishing revised goals for the City's recycling rate: 60% by 2015 and 70% by 2022. In 2012, the City achieved a 55.7% recycling rate.

The 2011 Plan Revision incorporates improved, augmented, and new programs to achieve the City's waste reduction and recycling goals. The City is placing greater emphasis on waste reduction and its long-term benefits, while maintaining continuous recycling program improvements and maximizing the efficiency and cost-effectiveness of collection and transfer services.

## **Risk Management and Quality Assurance**

The Risk and Quality Assurance Program ("RQA") was first established in 2004 and became a separate division in January 2011. While housed in the City's Finance and Administration Branch, the program reports to a Risk and Quality Assurance Board, which consists of the SPU Director, the Executive Team, and a representative from the City Attorney's Office. The program's goals are to:

- (i) Provide strategic advice to SPU's Executive team and guide the development of policies that enable the organization to be more efficient and effective in meeting customer's expectations;
- (ii) Assess ongoing practices and procedures and recommend measures to ensure sufficient protections are in place to reduce risks to SPU employees, customers, and assets;
- (iii) Investigate, advise, and respond to legal requests and filings on behalf of SPU; and
- (iv) Conduct internal investigations, assessments, and audits to ensure SPU is complying with regulations, policies, and procedures.

In 2014, the RQA team is focused on helping the Fleet Management group develop improved policies and procedures, providing the Customer Service Branch with advice and review for its internal control redesign efforts, helping to craft changes in record management practices, assessing and recommending changes to cash reconciliation practices, and evaluating field operations business practices. In addition to these special assignments, the RQA team continues to manage the ongoing functions of investigating claims, responding to public disclosure requests, coordinating the development of policies and procedures, coordinating external audits, and conducting investigations into the loss, or suspected loss, of assets.

See "The City of Seattle—Risk Management."

## **Environmental Liability**

*Midway and Kent Highlands Landfills.* The City operated the Midway and Kent Highlands landfills, located in the City of Kent, from the 1960s through the 1980s. Both landfills were designated by the United States Environmental Protection Agency ("EPA") as Superfund sites under the Comprehensive Environmental Response, Compensation, and Liability Act of 1980 ("CERCLA"). In the early to mid-1990s, both landfills were closed and the post-closure maintenance and environmental monitoring period began. These two sites are State Lead sites, which means the DOE is the lead regulatory agency with EPA oversight. Both Midway and Kent Highlands are re-evaluated every five years as required under CERCLA. During the five-year reviews, changes in monitoring frequency are formally approved. Interim changes in monitoring are also possible between the five-year reviews, and are to be included in the next five-year review. Between 1995 and 2008, groundwater monitoring requirements at both sites were reduced from quarterly to semi-annually, and in the 2010 Midway five-year review, the frequency was reduced to annually. Reporting requirements at Kent Highlands have also been reduced to a single annual report. Monitoring and maintenance of the landfill closure components is expected to continue for at least another 20 years.

*South Park Landfill.* The City, the County, and a private developer, as successor owner to the County, are potentially liable parties as operator, or current or former owners, of portions of the historic South Park Landfill site under the State Model Toxics Control Act. The City operated the landfill on the property, a portion of which was owned by the City and a portion of which was owned by the County and leased to the City. As part of the purchase price paid by the developer to acquire its property from the County, the developer assumed cleanup responsibilities, but assigned to the County its cost recovery rights. The City and the developer are under an Agreed Order with DOE to perform a Remedial Investigation and Feasibility Study and to draft a Cleanup Action Plan for the site. The City and the developer submitted a draft Remedial Investigation and Feasibility Study Report in April 2012 and are negotiating with DOE to finalize the report and move forward to draft a Cleanup Action Plan. DOE has approved an interim cleanup action by the developer on its portion of site property to take place in 2014. In 2012, the City executed an agreement regarding the developer's interim action that settles City liabilities for the interim cleanup costs, but not City liabilities for the permanent cleanup. The County may also be a party to future negotiation and/or settlement of cleanup costs.

*South Park Bus Barn.* The South Park Bus Barn, located near the South Park Landfill, was entered into the DOE's Voluntary Cleanup Program. This parcel of property was purchased by the Solid Waste Fund in 2008 and currently no potentially responsible parties other than SPU have been named. The remedial action was substantially completed in 2010. The site is currently being monitored to verify the effectiveness of the remediation.

Additionally, there are other, less active, historic landfills within the City that may pose an environmental liability for the City. The Solid Waste Fund has implemented GASB 49 to account for environmental liabilities. See Appendix C—2013 Audited Financial Statements of the Solid Waste System—Notes 10 and 11.

### **Emergency Operations Plan**

The City maintains an integrated emergency management system in which all hazards are considered in a central planning structure. See "The City of Seattle—Emergency Management and Preparedness." In addition, SPU has both a Disaster Debris Management Plan, submitted to the Federal Emergency Management Agency ("FEMA") for approval, and a disaster debris removal contract that complies with FEMA procurement regulations. Together, these position the Solid Waste Fund for maximum financial support from FEMA in the event of a disaster.

## **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 "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, and seven Municipal Court judges are all elected to four-year terms. Until 2013, City Council members served four-year terms. Pursuant to a charter amendment approved by voters in November 2013 that created seven City Council districts and two at-large positions, all nine City Council positions will be up for election in 2015. The City Council members elected by district will serve a four-year term and the at-large City Council members elected in 2015 will serve a two-year term. In 2017, the at-large positions will be up for election again, and thereafter, all City Council positions will be for staggered four-year terms.

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

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

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

## **Financial Management**

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

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

*Auditing.* The State Auditor is required to examine the affairs of all local governments at least once every three years; the City is audited annually. The examination must include, among other things, the financial condition and resources of the City, compliance with the 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 may be obtained from the Department of Finance and Administrative Services and is available at <http://www.seattle.gov/cafrs/default.htm>.

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 span of control, City-wide collections, special events permitting, and specific departmental activities.

*Municipal Budget.* City operations are guided by a budget prepared under the direction of the Mayor by the City Budget Office pursuant to State statute (chapter 35.32A RCW) and based in part on General Fund revenue forecasts prepared by the City's Department of Finance and Administrative Services. The proposed budget is submitted to the City Council by the Mayor each year not later than 90 days prior to the beginning of the next fiscal year. Currently the fiscal year of the City is January 1 through December 31. The City Council considers the proposed budget, holds public hearings on its contents, and may alter and revise the budget at its discretion, subject to the State requirement that budgeted revenues must at least equal expenditures. The City Council is required to adopt a balanced budget at least 30 days before the beginning of the next fiscal year, which may be amended or supplemented from time to time by ordinance. The mayor may choose to approve the City Council's budget, veto it, or permit it to become law without the mayor's signature. The mayor does not have line-item veto power. The 2014 budget was adopted on November 25, 2013.

As part of its budgeting and management process, the City updates its projections for major revenue sources three times per year. This process is conducted utilizing a dedicated team of four economists with the assistance of regularly updated third-party national and local data and economic forecasts.

## **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 above under "Authorized Investments."

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

As of December 31, 2013, the combined investment portfolios of the City, not including pensions, totaled \$1,438 million at par 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. As of December 31, 2013, the annualized yield on the City's investment portfolio was 0.75%. As of December 31, 2013, the average maturity of the portfolio was 921 days. Approximately 21.5%, or \$309.5 million, was invested in securities with maturities of three months or less. The City held no securities with maturities longer than 15 years.

Investments were allocated as follows:

U.S. Government-Sponsored Enterprises	46.3%
U.S. Treasuries	15.7
Mortgage-Backed Securities	13.2
Taxable Municipal Bonds	10.9
Commercial Paper	10.7
Repurchase Agreements	3.1

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

*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 of the City's hydroelectric dams. The City also purchases all risk property insurance, including earthquake and flood perils, that provides up to \$500 million in limits subject to a schedule of deductibles and sublimits. 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: Seattle City Employees' Retirement System ("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 and are reported as pension trust funds as part of the City's reporting entity. The State administers LEOFF through the Washington State Department of Retirement Systems ("DRS").

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

Nearly all permanent non-uniformed City employees, and certain grandfathered employees of the County (and a predecessor agency of the County) are eligible for membership in SCERS. Current uniformed police and fire personnel are eligible for membership in LEOFF.

In June 2012, GASB approved Statements 67 and 68 that modify the accounting and financial reporting of pensions by state and local governments and pension plans. Statement No. 67, Financial Reporting for Pension Plans, addresses financial reporting for state and local government pension plans. Statement No. 68, Accounting and Financial Reporting for Pensions, establishes new accounting and financial reporting requirements for governments that provide their employees with pensions. The guidance contained in these statements will change how governments calculate and report the costs and obligations associated with pensions. SCERS and LEOFF will be subject to GASB 67; the City will be subject to GASB 68. GASB 67 is effective for Fiscal Year 2014; GASB 68 is effective for Fiscal Year 2015.

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

SCERS provides retirement, death, and disability benefits. Retirement benefits vest after five years of credited service, while death and disability benefits vest after ten years of service. Retirement benefits are calculated as 2% multiplied by years of creditable service, multiplied by average salary, based on the highest 24 consecutive months. The benefit is actuarially reduced for early retirement. As of January 1, 2013, there were 5,742 retirees and beneficiaries receiving benefits, and 8,465 active members of SCERS. There are an additional 1,973 terminated employees entitled to future benefits. From January 1, 2012, to January 1, 2013, the net number of active members increased by 0.4%, the net number of retirees receiving benefits increased by 2.9%, and the net number of vested terminated members decreased by 3.7%.

Certain demographic data as of the January 1, 2013, Actuarial Valuation (the "2012 Actuarial Valuation") is shown below:

**TABLE 10  
PLAN MEMBER DEMOGRAPHIC INFORMATION**

<b>Age Range</b>	<b>Retirees and Beneficiaries Receiving Benefits</b>		<b>Active Employees</b>	
	<b>Number</b>	<b>Percent</b>	<b>Number</b>	<b>Percent</b>
<24	-	0.0%	86	1.0%
25-39	-	0.0%	1,747	20.6%
40-49	11 <sup>(1)</sup>	0.2% <sup>(1)</sup>	2,196	25.9%
50-59	348	6.2%	2,865	33.8%
60-69	2,243	39.6%	1,486	17.6%
70+	3,056	54.0%	85	1.0%

(1) Includes everyone under the age of 50.

Source: 2012 Actuarial Valuation

FINANCIAL CONDITION AND ACTUARIAL VALUATIONS. As a department of the City, SCERS is subject to the City's internal control structure and is required by SMC 4.36.140.D to transmit a report to the City Council annually, regarding the financial condition of SCERS. The most recent such audited report is for calendar year 2012; it was transmitted on June 10, 2013, by CliftonLarsonAllen LLP. In addition, Milliman Consultants and Actuaries, as consulting actuary, evaluates the funding status of SCERS annually; the most recent actuarial report is the 2012 Actuarial Valuation, dated as of January 1, 2013. A valuation for calendar year 2013 (as of January 1, 2014) is expected to be completed by mid-2014. Historically, the City prepared actuarial valuations biennially, but in 2011 the City began preparing them annually.

As of January 1, 2013, the actuarial value of net assets available for benefits was \$1.920 billion and the actuarial accrued liability was \$3.025 billion. The 2013 valuation reflects the following assumptions:

Investment return	7.75%
Price inflation	3.50%
Expected annual average membership growth	1.00%
Wage inflation	4.00%
Interest on member contributions made prior to January 1, 2012 <sup>(1)</sup>	5.75%

(1) Contributions made on or after January 1, 2012, are assumed to accrue interest at 5.00%.

The unfunded actuarial accrued liability (“UAAL”) increased from \$905.0 million as of January 1, 2012, to \$1,105.2 million as of January 1, 2013. The funded ratio fell from 68.3% as of January 1, 2012, to 63.5% as of January 1, 2013, which decrease is attributed to recognition of asset losses in 2011 and 2008, somewhat offset by the recognition of asset gains from 2009, 2010, and 2012. Unlike most public pension systems, prior to January 1, 2011, all valuations were reported on a mark-to-market basis. Consequently, the full impact of annual asset gains or losses occurring in recent years was reflected in each actuarial valuation. To improve its ability to manage short-term market volatility, the City adopted a five-year asset smoothing methodology in 2011 that recognizes the asset gain or loss occurring in each year evenly over a five-year period.

Table 11 provides historical plan funding information:

**TABLE 11**  
**HISTORICAL SCERS ACTUARIAL VALUATION INFORMATION<sup>(1)</sup>**

<b>Actuarial Valuation Date (January 1)<sup>(2)</sup></b>	<b>Actuarial Value of Assets (AVA)</b>	<b>Actuarial Accrued Liability (AAL)<sup>(3)</sup></b>	<b>Unfunded AAL (UAAL)</b>	<b>Funded Ratio</b>	<b>Covered Payroll<sup>(4)</sup></b>	<b>UAAL as % of Covered Payroll</b>
2004	\$ 1,527.5	\$ 1,778.9	\$ (251.4)	85.9%	\$ 424.7	59.2
2006	1,791.8	2,017.5	(225.7)	88.8	447.0	50.5
2008	2,119.4	2,294.6	(175.2)	92.4	501.9	34.9
2010	1,645.3	2,653.8	(1,008.5)	62.0	580.9	173.6
2011 <sup>(5)</sup>	2,013.7	2,709.0	(695.3)	74.3	563.2	123.5
2012 <sup>(5)</sup>	1,954.3	2,859.3	(905.0)	68.3	557.0	162.5
2013 <sup>(5)</sup>	1,920.1	3,025.3	(1,105.2)	63.5	567.8	194.6

(1) Dollar amounts shown in millions.

(2) Actuarial valuations were performed biennially until 2010, after which the City began performing an actuarial valuation annually.

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

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

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

*Source: 2012 Actuarial Valuation*

SCERS CONTRIBUTION RATES. Member and employer contribution rates are established by Chapter 4.36 of the SMC, which provides that the City contribution must match the normal contributions of members and does not permit the employer rate to drop below the employee rate. The SMC also requires that the City contribute, in excess of the matching contributions, the amount determined by the most recent actuarial valuation that is required to fully fund the plan. Contribution rates are recommended annually by the Board, based on the system’s actuarial valuation. Benefit and contribution rates are set by the City Council.

The actuarially required contribution (“ARC”) rate is based on amortizing the required contribution over 30 years, meaning that the total contribution rate must be sufficient to pay for the costs of benefits earned during the current year, as well as the annual cost of amortizing the plan’s UAAL over 30 years. The 2012

Actuarial Valuation was prepared using the Entry Age Actuarial Cost Method. Under this method, the actuarial present value of the projected benefits of each individual included in the valuation is allocated as a level percent of the individual's projected compensation between entry age and assumed exit age.

Current and historical contribution rates, based on a percentage of employee compensation (exclusive of overtime), are shown in Table 12.

**TABLE 12  
CURRENT AND HISTORICAL EMPLOYER AND EMPLOYEE CONTRIBUTION RATES**

Calendar Years (beginning January 1)	Employer Rate	Employee Rate	Total Contribution Rate	ARC <sup>(1)</sup>	% of ARC Contributed <sup>(2)</sup>
2010	8.03 %	8.03 %	16.06 %	25.03 %	64 %
2011	9.03	9.03	18.06	21.30	85
2012	11.01	10.03	21.04	21.04	100
2013	12.89	10.03	22.92	22.92	100
2014	14.31	10.03	24.34	24.34	100

(1) Reflects total annual required contribution (i.e., employer plus employee contribution rates).

(2) Reflects total of employer and employee contribution rates, as percentage of total ARC.

*Source: Seattle Municipal Code; 2013 Budget; Actuarial Valuations*

In 2010 and 2011, the City failed to increase contribution rates sufficiently to fund the ARC. During 2010 and 2011, the City limited its contribution to matching the employee contribution (which was capped pursuant to certain collective bargaining agreements described in the following paragraph), without regard to any amortization of UAAL. This resulted in an increase in unfunded liability, underfunded the pension obligations, and deferred pension funding. On November 21, 2011, the City Council passed Resolution 31334 affirming the City's intent to fully fund the annual ARC each year with its budget. The City's adopted 2013 and 2014 budgets fully fund the respective ARC by increasing the employer contribution rate to match the ARC determined by the 2011 and 2012 Actuarial Valuations.

The City's contracts with all labor unions that represent SCERS members describe how contribution rates would be changed in the event that higher contributions are needed to improve the funding status of the system. Under these contracts, the City and employees will share in any contribution rate increase equally, up to a maximum increase of 2% in the employee contribution. The 2% employee contribution rate increase has already been implemented, via 1% increases in 2011 and 2012. This contractual restriction shifts the risk of future increases to the City's employer contribution. Most of the City's existing collective bargaining contracts expired as of the end of 2013 and the City is actively negotiating renewals. See "Labor Relations." The negotiations include exploring options for managing the system more cost-effectively in the long term.

Projected total actuarially required contribution rates reported in the 2012 Actuarial Valuation are shown in Table 13.

**TABLE 13**  
**PROJECTED ACTUARIALY REQUIRED TOTAL CONTRIBUTION RATES**  
**BY EMPLOYER AND EMPLOYEE**

<b>Contribution Year<sup>(1)</sup></b>	<b>Assuming 7.75% Returns</b>	<b>Range (90% Confidence Interval)</b>
2014	24.34%	24.34%-24.34%
2015	23.91	23.18-24.56
2016	23.69	22.08-25.22
2017	23.60	20.96-26.20
2018	23.26	19.50-26.90
2019	23.08	18.16-27.83

(1) Contribution year lags valuation year by one. For example, contribution year 2013 is based on the 2012 valuation results, amortized over 30 years, beginning in 2012 if the increase takes place in 2013.

*Source: 2012 Actuarial Valuation*

Employer contributions were \$79.2 million in 2013, of which approximately \$2.0 million was from the Solid Waste Fund. In 2014, employer contributions are expected to be \$89.6 million, of which approximately 2.5% will be from the Solid Waste Fund. The employer share for employees of the utility funds is allocated to and paid out of those funds.

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

SCERS' net assets increased by \$198 million (11.3%) during 2012, including member and employer contributions of \$119.6 million and revenue from investment activity totaling \$230.7 million. Expenses increased by \$8.2 million in 2012, primarily attributed to a \$10.1 million increase in retiree benefit payments offset by a \$1.8 million reduction in contribution refunds.

Table 14 shows the historical market value of SCERS' net assets (as of each December 31). Table 15 shows the revenue or loss from investment activity for the last nine years.

**TABLE 14**  
**MARKET VALUE OF ASSETS**

<b>Year (As of December 31)</b>	<b>Market Value of Assets (MVA)<sup>(1)</sup></b>
2004	\$ 1,684.5
2005	1,791.8
2006	2,011.2
2007	2,119.4
2008	1,477.4
2009	1,645.3
2010	1,812.8
2011	1,753.5
2012	1,951.4

(1) In millions.

*Source: SCERS Annual Reports*

**TABLE 15**  
**SCERS INVESTMENT RETURNS**

Year (As of December 31)	Net Investment Income (Loss)	
	Amount <sup>(1)</sup>	% <sup>(2)</sup>
2004	\$ 171.3	11.5 %
2005	129.6	8.1
2006	242.7	13.9
2007	138.8	7.3
2008	(619.7)	(26.8)
2009	194.7	10.8
2010	208.5	13.2
2011	(15.8)	0.0
2012	230.7	14.0

(1) In millions.

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

Source: SCERS Annual Reports

The preliminary SCERS investment return for 2013 is 15.5%.

Table 16 shows the historical distribution of SCERS investments over the last five years:

**TABLE 16**  
**HISTORICAL SCERS DISTRIBUTION OF INVESTMENTS BY CLASS**

Investment Categories (January 1)	2013	2012	2011	2010	2009
Fixed Income <sup>(1)</sup>	19.1 %	22.8 %	22.0 %	15.5 %	17.7 %
Domestic Stocks	30.7	30.8	30.0	41.9	38.9
International Stocks	29.3	25.5	24.8	20.4	18.8
Real Estate	11.4	12.7	12.3	10.6	11.3
Alternative Investments <sup>(2)</sup>	9.5	8.1	10.8	11.6	13.3
Total	100.0	100.0	100.0 %	100.0 %	100.0 %

(1) Includes investments in U.S. government obligations, corporate bonds, mortgage-backed securities, and other government-related investments. Prior to 2011, SCERS tracked some of these categories separately.

(2) Includes investments in the “mezzanine debt” category prior to 2011. Prior to 2011, SCERS tracked investments in a category called “mezzanine debt,” which investments were reassigned to the “alternative investments” and a minor portion were assigned to the “real estate” category, as appropriate for each investment. For purposes of Table 16, all pre-2011 mezzanine debt investments have been assigned to the “alternative investments” category.

Source: SCERS Actuarial Valuations

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

Under RCW 41.28.005 and SMC 4.36.130, the Board’s investment policies define eligible investments to include securities lending transactions. Through a custodial agent, SCERS participates in a securities lending program whereby securities are lent from the system’s investment portfolio on a collateralized basis to third parties (primarily financial institutions) for the purpose of generating additional income to the system. The market value of the required collateral must meet or exceed 102% of the market value of the securities lent. Lending is limited to a volume of less than \$75 million.

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

All City law enforcement officers and firefighters serving before March 1, 1970, are participants in these plans and may be eligible for a supplemental retirement benefit plus disability benefits under these plans. Some disability benefits may be available to such persons hired between March 1, 1970, and September 30, 1977. Since the effective date of LEOFF in 1970, no payroll for employees was covered under these City plans, and the primary liability for pension benefits for these City plans shifted from the City to the State LEOFF plan described below. The City remains liable for all benefits of employees in service at that time plus certain future benefits in excess of LEOFF benefits. Generally, benefits under the LEOFF system are greater than or equal to the benefits under the old City plan. However, because LEOFF benefits increase with the consumer price index (CPI-Seattle) while some City benefits increase with wages of current active members, the City's projected liabilities vary according to differences between wage and CPI increase assumptions.

These pension plans provide retirement benefits, death benefits, and certain medical benefits for eligible active and retired employees. Retirement benefits are determined under chapters 41.18 and 41.26 RCW for the Firefighters' Pension Fund, and under chapters 41.20 and 41.26 RCW for the Police Relief and Pension Fund. As of the most recent actuarial valuation, dated as of January 1, 2013, there were 884 fire employees (30 of whom are active employees) and 798 police (25 of whom are active employees) who met eligibility requirements. See "Other Post-Employment Benefits" below for a discussion of medical benefits paid to retirees.

These pension plans do not issue separate financial reports. The most recent actuarial valuation uses the Entry Age Actuarial Cost Method, values plan assets at fair value, and uses the following actuarial assumptions: inflation rate (CPI), 2.50%; investment rate of return, 3.75%; and projected salary increases, 3.25%. Postretirement benefit increases are projected based on salary increase assumptions for benefits that increase based on salary, and based on CPI assumptions for benefits based on CPI.

Since both pension plans were closed to new members effective October 1, 1977, the City is not required to adopt a plan to fund the actuarial accrued liability of these plans. In 1994, the City established an actuarial fund for the Firefighter's Pension Fund and adopted a policy of fully funding the actuarial accrued liability ("AAL") by the year 2018 (which was subsequently extended to 2023). For 2013, the City funded 100% of the ARC but only a portion of the projected payment necessary to fully fund the AAL by 2023. The City's 2014 budget also anticipates fully funding the ARC and making partial payments toward the full funding of the AAL. As of January 1, 2013, the actuarial value of net assets available for benefits in the Firefighter's Pension Fund was \$12.9 million, and the AAL was \$106.4 million. As a result, the UAAL was \$93.5 million and the funded ratio was 12.0%. The City's employer contribution to the fund in 2012 was \$10.3 million, representing 140% of the ARC; there were no current member contributions. Under State law, partial funding of the Firefighters' Pension Fund may be provided by an annual property tax levy of up to \$0.225 per \$1,000 of assessed value within the City. The City does not currently levy this additional property tax, but makes contributions out of the General Fund levy. The fund also receives a share of the State tax on fire insurance premiums.

The City funds the Police Relief and Pension Fund as benefits become due. As of January 1, 2013, the actuarial valuation for the Police Relief and Pension Fund was \$4.6 million, and the AAL was \$104.7 million. As a result, the UAAL was \$100.1 million and the funded ratio was 4.0%. The City's employer contribution to the fund in 2013 was \$9.2 million, representing 143% of the ARC; there were no current member contributions. The fund also receives police auction proceeds of unclaimed property.

*Law Enforcement Officers' and Firefighters' Retirement System.* Substantially all of the City's current uniformed firefighters and police officers are enrolled in LEOFF. LEOFF is a defined benefit plan administered by the DRS. Contributions by employees, employers, and the State are based on gross wages. LEOFF participants who joined the system by September 30, 1977, are Plan 1 members. LEOFF participants who joined on or after October 1, 1977, are Plan 2 members. For all of the City's employees who are covered under LEOFF, the City contributed \$12.5 million in 2012 and \$11.7 million in 2011. Table 17 outlines the contribution rates of employees and employers under LEOFF.

**TABLE 17**  
**LEOFF CONTRIBUTION RATES EXPRESSED AS A PERCENTAGE OF COVERED PAYROLL**  
**(As of December 31, 2013)**

	<b>Plan 1</b>	<b>Plan 2</b>
Employer	0.18% <sup>(1)</sup>	5.23% <sup>(2)</sup>
Employee	0.00	8.62%
State	N/A	3.38%

(1) Includes a 0.18% (as of September 1, 2013) DRS administrative expense rate.

(2) Includes State contribution of 3.36%, effective July 1, 2013.

*Source: Washington State Department of Retirement Systems*

While the City’s current contributions represent its full current liability under the retirement systems, any unfunded pension benefit obligations could be reflected in future years as higher contribution rates. The State Actuary’s website includes information regarding the values and funding levels of LEOFF. For additional information, see Note 11 to the City’s 2012 Comprehensive Annual Financial Report,

According to the Office of the State Actuary, as of January 1, 2013, LEOFF had no UAAL. LEOFF Plan 1 had a funded ratio of 135% and LEOFF Plan 2 had a funded ratio of 119%. The assumptions used by the State Actuary in calculating the accrued actuarial assets and liabilities are a 7.9% annual rate of investment return, 3.75% general salary increases, and 3.0% consumer price index increase. Liabilities were valued using the “Projected Unit Credit” cost method and assets were valued using the actuarial value of assets, which defers a portion of the annual investment gains or losses over a period of up to eight years.

**Other 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.

The City commissions a biennial valuation report on its OPEB liabilities associated with the implicit rate subsidy for health insurance covering employees retiring under the SCERS or LEOFF plan. The last report was as of January 1, 2012, and showed the UAAL for the implicit rate subsidy was \$74.7 million; the City’s estimated contribution in 2012 was \$2.4 million. The valuation of the OPEB liability associated with the City’s Firefighter’s Pension Fund and Police Relief and Pension Fund is updated annually. As of January 1, 2013, the UAAL for OPEB in the City’s Firefighter’s Pension Fund was \$266.5 million; the estimated annual contribution in 2013 was \$10.9 million. As of January 1, 2013, the UAAL for OPEB in the Police Relief and Pension Fund was \$296.0 million; the estimated annual contribution in 2013 was \$12.5 million.

For additional information regarding the City’s OPEB liability, see Note 11 to the City’s 2012 Comprehensive Annual Financial Report.

**Labor Relations**

As of February 2014, the City had 31 separate departments and offices with approximately 12,370 regular and temporary employees. Twenty-seven different unions and 50 bargaining units represent approximately 76% of the City’s regular employees. The agreement with the Seattle Police Management Association expired at the end of 2011. The City’s agreements with the Coalition of City Unions (representing most of the non-uniformed employees) expired at the end of 2013, along with agreements with eight additional union groups. The City is

currently negotiating with the labor unions whose agreements expired as of December 31, 2013. Negotiations with Local 77 (electrical workers) are ongoing, and the City is working on deferring negotiations with Local 79/289 (machinists) and the Coalition of City Unions. Currently there is no expected date by which an agreement will be reached, and the unions continue to operate under the expired contracts.

### **Emergency Management and Preparedness**

The City's Office of Emergency Management ("OEM") is responsible for managing and coordinating the City's resources and responsibilities in dealing with emergencies. The OEM prepares for emergencies, trains City staff in emergency response, provides education to the community about emergency preparedness, plans for emergency recovery, and works to mitigate known hazards. It has identified and assessed many types of hazards that may impact the City, including geophysical hazards (*e.g.*, earthquakes, landslides, tsunamis, seismic seiches, volcanic eruptions, and lahars), infectious disease outbreaks, intentional hazards (*e.g.*, terrorism, breaches in cybersecurity, and civil disorder), transportation incidents, fires, hazardous materials, and unusual weather conditions (*e.g.*, floods, snow, water shortages, and wind storms). However, the City cannot anticipate all potential hazards and their effects, including any potential impact on the economy of the City or the region.

## **INITIATIVE AND REFERENDUM**

### **State-wide Measures**

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

## **FEDERAL SEQUESTRATION**

On March 1, 2013, the sequestration provisions of the Budget Control Act of 2011, as amended ("Sequestration"), went into effect. Sequestration has had both indirect and direct effects on the City. Indirect effects include reduced federal spending that negatively affects the economy in general, including City revenue sources that are dependent on economic activity such as retail sales and use tax. Direct effects on the City could include a reduction in federal funds, including grant funds that come directly or indirectly from federal sources.

Sequestration has also resulted in and will continue to result in a reduction in the amount the City expects to receive from the federal government in connection with the interest payments due on certain of its outstanding bonds, none of which are Parity Bonds.

Sequestration was originally in effect through federal fiscal year 2021 and has subsequently been extended through federal fiscal year 2024.

## **LEGAL AND TAX INFORMATION**

### **No Litigation Relating to the Bonds**

There is no litigation pending with process properly served on the City questioning the validity of the Bonds or the power and authority of the City to issue the Bonds.

### **Other Litigation**

In addition to the matters described in “Solid Waste Management—Environmental Liability” and Appendix C—2013 Audited Financial Statements of the Solid Waste System—Notes 10 and 11, various lawsuits and claims are pending against the City involving claims for money damages. See Appendix C—2013 Audited Financial Statements of the Solid Waste System—Note 7. Based on its past experience, the City has concluded that its ability to pay principal of and interest on the Bonds on a timely basis will not be impaired by the aggregate amount of uninsured liabilities of the City and the timing of any anticipated payments of judgments that might result from suits and claims.

### **Approval of Counsel**

Legal matters incident to the authorization, issuance, and sale of the Bonds by the City are subject to the approving legal opinion of Foster Pepper PLLC, Seattle, Washington, Bond Counsel. The form of the opinion of Bond Counsel with respect to the Bonds is attached hereto as Appendix B. The opinion of Bond Counsel is given based on factual representations made to Bond Counsel and under existing law as of the date of initial delivery of the Bonds. Bond Counsel assumes no obligation to revise or supplement its opinion to reflect any facts or circumstances that may thereafter come to its attention or any changes in law that may thereafter occur. An opinion of Bond Counsel is an expression of its professional judgment on the matters expressly addressed in its opinion and does not constitute a guarantee of result. Bond Counsel will be compensated only upon the issuance and sale of the Bonds.

### **Limitations on Remedies and Municipal Bankruptcies**

Any remedies available to the owners of the Bonds 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 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 the exercise of judicial discretion in appropriate cases.

A municipality such as the City must be specifically authorized under State law in order to seek relief under Chapter 9 of the U.S. Bankruptcy Code (the “Bankruptcy Code”). Washington State law permits any “taxing district” (defined to include cities) to voluntarily petition for relief under the Bankruptcy Code. A creditor cannot bring an involuntary bankruptcy proceeding under the Bankruptcy Code against a municipality, including the City. The federal bankruptcy courts have broad discretionary powers under the Bankruptcy Code.

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, reorganization, insolvency, fraudulent conveyance, moratorium,

and other similar laws relating to or affecting creditors' rights. A copy of the proposed form of opinion of Bond Counsel is set forth in Appendix B.

### **Tax Exemption**

*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.

*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.

### **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.* Current and future legislative proposals, if enacted into law, may directly or indirectly cause interest on the Bonds to be subject in whole or in part to federal income taxation, prevent the beneficial owners of the Bonds from realizing the full benefits of the current federal tax status of interest on the Bonds, or affect, perhaps significantly, the market value or marketability of the Bonds. Prospective purchasers of the Bonds should consult with their own tax advisors regarding the potential impact of any pending or proposed legislation or regulations.

### **Continuing Disclosure Undertaking**

*Basic Undertaking to Provide Annual Financial Information and Notice of Listed Events.* To meet the requirements of paragraph (b)(5) of United States Securities and Exchange Commission (“SEC”) Rule 15c2-12 (“Rule 15c2-12”), as applicable to a participating underwriter for the Bonds, the City will undertake in the Bond Legislation (the “Undertaking”) for the benefit of holders of the Bonds, as follows.

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

- (i) Annual financial information and operating data of the type included in this Official Statement as generally described below under “Type of Annual 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 listed events with respect to the Bonds:
  - (a) principal and interest payment delinquencies;
  - (b) non-payment related defaults, if material;
  - (c) unscheduled draws on debt service reserves reflecting financial difficulties;
  - (d) unscheduled draws on credit enhancements reflecting financial difficulties;
  - (e) substitution of credit or liquidity providers, or their failure to perform;

- (f) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notice of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds;
- (g) modifications to rights of holders of the Bonds, if material;
- (h) Bond calls (other than scheduled mandatory redemptions of Term Bonds), if material, and tender offers;
- (i) defeasances;
- (j) release, substitution, or sale of property securing repayment of the Bonds, if material;
- (k) rating changes;
- (l) bankruptcy, insolvency, receivership, or similar event of the City, as such “Bankruptcy Events” are defined in Rule 15c2-12;
- (m) the consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of the assets of the City, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and
- (n) appointment of a successor or additional trustee or the change of name of a trustee, if material.

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

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

- (i) annual financial statements of the Solid Waste 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 bonded debt secured by Net Revenue of the Solid Waste System;
- (iii) debt service coverage ratios;
- (iv) summary operating statistics for the Solid Waste System, including data of the type herein in the tables entitled “Solid Waste Tonnage,” “Regional Comparison of Transfer Station Rates,” and “Number of Customers by Class”; and
- (v) current 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 required or permitted by State law, commencing with the City’s fiscal year ending December 31, 2014. The annual financial information may be provided in a single or multiple documents, and may be incorporated by specific reference to documents available to the public on the Internet website of the MSRB or filed with the SEC.

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

The City will give notice to the MSRB of the substance (or provide a copy) of any amendment to the Undertaking and a brief statement of the reasons for the amendment. If the amendment changes the type of annual financial

information to be provided, the annual financial information containing the amended information will include a narrative explanation of the effect of that change on the type of information to be provided.

*Termination of Undertaking.* The City's obligations under the Undertaking will terminate upon the legal defeasance, prior repayment, or payment in full of all of the 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 in respect of the Bonds. The sole remedy of any holder of a Bond will be to take such actions as that holder deems necessary, including seeking an order of specific performance from an appropriate court, to compel the City or other obligated person to comply with the Undertaking.

*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 has not failed to comply, in any material respect, with all such undertakings during the past five years.

## **OTHER BOND INFORMATION**

### **Ratings**

The Bonds have been rated "Aa3" and "AA" by Moody's and S&P, 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.

### **Underwriting**

The Bonds are being purchased by \_\_\_\_\_ (the "Underwriter") at a price of \$\_\_\_\_\_, and will be reoffered at a price of \$\_\_\_\_\_. The Underwriter may offer and sell the Bonds to certain dealers (including dealers depositing Bonds into investment trusts) and others at prices lower than the initial offering prices set forth on page i hereof, and such initial offering prices may be changed from time to time by the Underwriter. After the initial public offering, the public offering prices may be varied from time to time.

### **Conflicts of Interest**

Some of the fees of the Financial Advisor and Bond Counsel are contingent upon the sale of the Bonds. From time to time Bond Counsel serves as counsel to the Financial Advisor and the Underwriter in matters unrelated to the Bonds. None of the members of the City Council or other officers of the City have any conflict of interest in the issuance of the Bonds that is prohibited by applicable law.

**Official Statement**

This Official Statement is not to be construed as a contract with the owners of any of the Bonds. The execution and delivery of this Official Statement have been duly authorized by the City.

The City of Seattle

By: \_\_\_\_\_  
Glen Lee  
Director of Finance

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**APPENDIX A**

**ORDINANCE**

Ordinance 124046, passed by the City Council on November 19, 2012, which is set forth in this appendix, authorized the issuance of the new money portion of the Bonds. Ordinance 121940, as amended by Ordinance 122498, authorized the refunding of the Refunded Bonds and is substantially similar to Ordinance 124046.

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**CITY OF SEATTLE**  
**ORDINANCE** 124046  
**COUNCIL BILL** 117638

AN ORDINANCE relating to financing the solid waste system of The City of Seattle, Washington; adopting a system or plan of additions and betterments to and extensions of the solid waste system; authorizing the issuance and sale of solid waste 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 a bond reserve and paying the costs of issuing and selling the bonds; authorizing the execution of certain agreements relating thereto; 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, Washington (the "City") owns, maintains and operates a solid waste collection and disposal system as part of Seattle Public Utilities (the "Solid Waste System"), which Solid Waste 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 Solid Waste 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 solid waste 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 Solid Waste 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 solid waste 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, the following words and phrases shall have the meanings set forth below.

"Accreted Value" means with respect to any Capital Appreciation Bonds (a) as of any Valuation Date, the amount set forth for such date in any Parity Bond Ordinance authorizing



1 such Capital Appreciation Bonds and (b) as of any date other than a Valuation Date, the sum of  
2 (i) the Accreted Value on the preceding Valuation Date and (ii) the product of (A) a fraction,  
3 the numerator of which is the number of days having elapsed from the preceding Valuation  
4 Date and the denominator of which is the number of days from such preceding Valuation Date  
5 to the next succeeding Valuation Date, calculated based on the assumption that Accreted Value  
6 accrues during any semiannual period in equal daily amounts on the basis of a year of twelve  
7 30-day months, times (B) the difference between the Accreted Values for such Valuation  
8 Dates.

9 **“Adjusted Annual Debt Service”** for any fiscal year means Annual Debt Service  
10 minus (1) an amount equal to earnings from investments in the Reserve Subaccount and  
11 (2) Annual Debt Service provided for by Parity Bond proceeds.

12 **“Adjusted Gross Revenue”** for any period means Gross Revenue plus withdrawals  
13 from the Rate Stabilization Account made during that period, and minus (1) earnings from  
14 investments in the Reserve Subaccount and (2) deposits into the Rate Stabilization Account  
15 made during that period.

16 **“Adjusted Net Revenue”** means Adjusted Gross Revenue less Maintenance and  
17 Operation Expenses.

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

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

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

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

25 For purposes of this definition, the principal and interest portions of the Accreted Value  
26 of Capital Appreciation Bonds becoming due at maturity or by virtue of a Sinking Fund  
27 Requirement shall be included in the calculations of accrued and unpaid and accruing interest  
28



1 or principal in such manner and during such period of time as is specified in any Parity Bond  
2 Ordinance authorizing such Capital Appreciation Bonds.

3 For purposes of calculating and determining compliance with the Reserve Requirement,  
4 the Coverage Requirement and conditions for the issuance of Future Parity Bonds and/or  
5 entering into Parity Payment Agreements:

6 (i) Generally. Except as otherwise provided by subparagraph (ii) with respect to  
7 Variable Interest Rate Bonds and by subparagraph (iii) below with respect to Parity Bonds with  
8 respect to which a Payment Agreement is in force, interest on any issue of Parity Bonds shall  
9 be calculated based on the actual amount of accrued, accreted or otherwise accumulated interest  
10 that is payable in respect of that issue taken as a whole, at the rate or rates set forth in the  
11 applicable Parity Bond Ordinance;

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

16 (iii) Interest on Parity Bonds With Respect to Which a Payment Agreement is in  
17 Force. Debt service on Parity Bonds with respect to which a Payment Agreement is in force  
18 shall be based on the net economic effect on the City expected to be produced by the terms of  
19 the Parity Bonds and the terms of the Payment Agreement, including but not limited to the  
20 effects produced by the following: (A) Parity Bonds that would, but for a Payment Agreement,  
21 be treated as obligations bearing interest at a Variable Interest Rate instead shall be treated as  
22 obligations bearing interest at a fixed interest rate, and (B) Parity Bonds that would, but for a  
23 Payment Agreement, be treated as obligations bearing interest at a fixed interest rate instead  
24 shall be treated as obligations bearing interest at a Variable Interest Rate. Accordingly, the  
25 amount of interest deemed to be payable on any Parity Bonds with respect to which a Payment  
26 Agreement is in force shall be an amount equal to the amount of interest that would be payable  
27 at the rate or rates stated in those Parity Bonds plus Payment Agreement Payments minus  
28



1 Payment Agreement Receipts. For the purposes of calculating as nearly as practicable Payment  
2 Agreement Receipts and Payment Agreement Payments under a Payment Agreement that  
3 includes a variable rate component determined by reference to a pricing mechanism or index  
4 that is not the same as the pricing mechanism or index used to determine the variable rate  
5 interest component on the Parity Bonds to which the Payment Agreement is related, it shall be  
6 assumed that the fixed rate used in calculating Payment Agreement Payments will be equal to  
7 105% of the fixed rate specified by the Payment Agreement and that the pricing mechanism or  
8 index specified by the Payment Agreement is the same as the pricing mechanism or index  
9 specified by the Parity Bonds. Notwithstanding the other provisions of this subparagraph (iii),  
10 the City shall not be required to (but may in its discretion) take into account in determining  
11 Annual Debt Service the effects of any Payment Agreement that has a term of ten years or less;

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

20 (A) City Obligated To Make Payments Based On Fixed Rate. If the City is  
21 obligated to make Payment Agreement Payments based on a fixed rate and the Qualified  
22 Counterparty is obligated to make payments based on a variable rate index, that payments by  
23 the City will be based on the assumed fixed payor rate, and that payments by the Qualified  
24 Counterparty will be based on a rate equal to the average rate determined by the variable rate  
25 index specified by the Parity Payment Agreement during the four calendar quarters preceding  
26 the quarter in which the calculation is made, and  
27  
28



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

8 “**Authorized Denomination**” means \$5,000 or any integral multiple thereof within a  
9 maturity.

10 “**Beneficial Owner**” means the owner of any beneficial interests in the Bonds.

11 “**Bond Account**” means that special account known as the Solid Waste System  
12 Revenue Bond Account, created in the Solid Waste Fund by Ordinance 118975 for the payment  
13 of the principal of and interest on the Parity Bonds.

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

17 “**Bond Register**” means the books or records maintained by the Bond Registrar for the  
18 purpose of identifying ownership of the Bonds.

19 “**Bond Registrar**” or “**Registrar**” means, unless provided otherwise in the Bond  
20 Resolution, the Fiscal Agent of the State of Washington, or any successor bond registrar  
21 selected by the City, whose duties include the registration and authentication of the Bonds,  
22 maintenance of the Bond Register, effecting transfer of ownership of the Bonds, and paying the  
23 principal of and premium, if any, and interest on the Bonds.

24 “**Bond Resolution**” means the resolution or resolutions of the City Council adopted  
25 pursuant to this ordinance to specify certain additional provisions of each series of the Bonds  
26 and their sale.



1           **“Bonds”** means the bonds issued in one or more series from time to time pursuant to,  
2 under the authority of and for the purposes provided in this ordinance.

3           **“Capital Appreciation Bonds”** means any Parity Bonds as to which interest is payable  
4 only at the maturity or prior redemption of such Parity Bonds. For the purpose of (a) receiving  
5 payment of the redemption premium, if any, of a Capital Appreciation Bond that is redeemed  
6 prior to maturity, or (b) computing the principal amount of Parity Bonds held by the owner of a  
7 Capital Appreciation Bond in giving to the City or the paying agent for those bonds any notice,  
8 consent, request, or demand pursuant to this ordinance or for any purpose whatsoever, the  
9 principal amount of a Capital Appreciation Bond shall be deemed to be its Accreted Value.

10           **“CIP”** means the portion or portions relating to the Solid Waste System of the “2012-  
11 2017 Capital Improvement Program” of the City as adopted by the City in Ordinance 123758,  
12 together with any previously adopted Capital Improvement Program of the City, as the CIP  
13 may be amended, updated, supplemented or replaced from time to time by ordinance.

14           **“City”** means The City of Seattle, Washington, a municipal corporation duly organized  
15 and existing under the laws of the Sate of Washington.

16           **“City Clerk”** means the City Clerk of the City, or any other officer who succeeds to  
17 substantially all of the responsibilities of that office specified in this ordinance.

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

20           **“Closing Date”** means the date on which a series of Bonds is delivered to the initial  
21 purchaser or purchasers thereof upon payment in full therefor.

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

24           **“Construction Account”** means the “Solid Waste Construction Account 2013” created  
25 in the Solid Waste Fund by this ordinance.

26           **“Contract Resource Obligation”** means an obligation of the City, designated as a  
27 Contract Resource Obligation and entered into pursuant to Section 19, to make payments for  
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1 collection, transportation, treatment and disposal of solid waste, or other commodity or service  
2 related to the Solid Waste System, to another person or entity (including without limitation a  
3 separate utility system created pursuant to Section 18).

4 **“Coverage Requirement”** in any fiscal year means the amount of Adjusted Net  
5 Revenue equal to at least 1.25 times Adjusted Annual Debt Service in that year on all Parity  
6 Bonds then Outstanding.

7 **“Director of Finance”** means the Director of the Finance Division of the Department  
8 of Finance and Administrative Services of the City or any other officer who succeeds to  
9 substantially all of the responsibilities of that office.

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

11 **“Event of Default”** means an Event of Default as defined in Section 22.

12 **“Future Parity Bonds”** means any fixed or variable rate revenue bonds of the City  
13 (other than the Bonds) issued hereafter having a charge or lien upon the Net Revenue for  
14 payment of the principal thereof and interest thereon equal in priority to the charge or lien upon  
15 the Net Revenue for the payment of the principal of and interest on the Outstanding Parity  
16 Bonds and the Bonds. Future Parity Bonds may include Parity Payment Agreements and any  
17 other obligations issued in compliance with Section 16.

18 **“Government Obligations”** means those government obligations defined by RCW  
19 39.53.010(9) as it now reads or hereafter may be amended or replaced.

20 **“Gross Revenue”** means (a) all income, revenues, receipts and profits derived by the  
21 City through the ownership and operation of the Solid Waste System; (b) Payment Agreement  
22 Receipts, to the extent that such receipts are not offset by Payment Agreement Payments; and  
23 (c) the investment income earned on money held in any fund or account of the City, including  
24 any bond redemption funds and the accounts therein, in connection with the ownership and  
25 operation of the Solid Waste System. Gross Revenue does not include: (A) income derived  
26 from investments irrevocably pledged to the payment of any defeased bonds payable from  
27 Gross Revenue; (B) investment income earned on money in any fund or account created or  
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1 maintained solely for the purpose of complying with the arbitrage rebate provisions of the  
2 Code; (C) any gifts, grants, donations or other funds received by the City from any State or  
3 federal agency or other person if such gifts, grants, donations or other funds are the subject of  
4 any limitation or reservation imposed by the donor or grantor or imposed by law or  
5 administrative regulation to which the donor or grantor is subject, limiting the application of  
6 such funds in a manner inconsistent with the application of Gross Revenue hereunder; (D) the  
7 proceeds of any borrowing for capital improvements (or the refinancing thereof); (E) the  
8 earnings of any separate utility system acquired or constructed by the City pursuant to Section  
9 18; and (F) the proceeds of any liability or other insurance, including but not limited to  
10 insurance proceeds compensating the City for the loss of a capital asset, but excluding business  
11 interruption insurance or other insurance of like nature insuring against the loss of revenues.

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

15 **“Maintenance and Operation Expenses”** means all expenses incurred by the City in  
16 causing the Solid Waste System to be operated and maintained in good repair, working order  
17 and conditions, including without limitation: deposits, premiums, assessments or other  
18 payments for insurance (other than payments out of proceeds of Parity Bonds), if any, on the  
19 Solid Waste System; payments into pension funds; State-imposed taxes; amounts due under  
20 Contract Resource Obligations (but only at the times described in Section 19); payments made  
21 to any other person or entity for the collection, transportation, treatment or disposal of solid  
22 waste or other commodity or service related to the Solid Waste System; and payments with  
23 respect to any other expenses of the Solid Waste System that are properly treated as operation  
24 and maintenance expenses under generally accepted accounting principles. Maintenance and  
25 Operation Expenses does not include any depreciation, amortization, or taxes levied or imposed  
26 by the City or payments to the City in lieu of taxes, or capital additions or capital replacement.  
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1           **“Maximum Annual Debt Service”** means, at the time of calculation, the maximum  
2 amount of Annual Debt Service that will become due in any calendar year on all then-  
3 outstanding Parity Bonds.

4           **“Mayor”** means the Mayor of the City.

5           **“Moody’s”** means Moody’s Investors Service, Inc.

6           **“Net Revenue”** means Gross Revenue less Maintenance and Operation Expenses.

7           **“Outstanding Parity Bonds”** means the then-outstanding 2007 Bonds and 2011  
8 Bonds, as described in Exhibit A.

9           **“Parity Bond Ordinance”** means any ordinance or resolution duly enacted by the City  
10 providing for the issuance of Parity Bonds, and any other ordinance or resolution amending or  
11 supplementing the provisions of any Parity Bond Ordinance as originally enacted or as  
12 theretofore amended or supplemented.

13           **“Parity Bonds”** means the Outstanding Parity Bonds, the Bonds and any Future Parity  
14 Bonds.

15           **“Parity Payment Agreement”** means a Payment Agreement, under which the City’s  
16 obligations are expressly stated to constitute a charge and lien on the Net Revenue equal in rank  
17 with the charge and lien upon such Net Revenue required to be paid into the Bond Account to  
18 pay and secure the payment of the principal of and interest on Parity Bonds.

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

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

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

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

9 **“Plan of Additions”** means the CIP, as it may be modified hereafter as described  
10 herein.

11 **“Principal and Interest Subaccount”** means the subaccount of that name created in  
12 the Bond Account by Ordinance 118975.

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

17 **“Qualified Counterparty”** means a party (other than the City or a person related to the  
18 City) who is the other party to a Payment Agreement and who is qualified to act as the other  
19 party to a Payment Agreement under any applicable laws of the State.

20 **“Qualified Insurance”** means any municipal bond insurance policy or surety bond  
21 issued by any insurance company licensed to conduct an insurance business in any state of the  
22 United States (or by a service corporation acting on behalf of one or more such insurance  
23 companies) which insurance company or companies, as of the time of issuance of such policy  
24 or surety bond, are rated in one of the two highest rating categories by Moody’s and S&P or  
25 their comparably recognized business successors.

26 **“Qualified Letter of Credit”** means any letter of credit issued by a financial institution  
27 for the account of the City on behalf of the owners of Parity Bonds, which institution maintains  
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1 an office, agency or branch in the United States and as of the time of issuance of such letter of  
2 credit is rated in one of the two highest rating categories by Moody's and S&P or their  
3 comparably recognized business successors.

4 **"Rate Stabilization Account"** means the account of that name created in the Solid  
5 Waste Fund pursuant to Ordinance 118975.

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

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

12 **"Record Date"** means, in the case of each interest or principal payment or redemption  
13 date, the Bond Registrar's close of business on the 15<sup>th</sup> day of the month preceding the interest  
14 or principal payment or redemption date.

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

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

20 **"Reserve Requirement"** means, at any time, the lesser of (a) Maximum Annual Debt  
21 Service; or (b) the maximum amount permitted by the Code as a "reasonably required reserve  
22 or replacement fund."

23 **"Reserve Subaccount"** means the subaccount of that name created in the Bond  
24 Account by Ordinance 118975.

25 **"S&P"** means Standard & Poor's Ratings Services, a Division of The McGraw-Hill  
26 Companies, Inc.



1           **“Securities Depository”** means DTC, any successor thereof, any substitute securities  
2 depository selected by the City, or the nominee of any of the foregoing. Any successor or  
3 substitute Securities Depository must be qualified under applicable laws and regulations to  
4 provide the services proposed to be provided by it.

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

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

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

13           **“Solid Waste Fund”** means the special fund of the City of that name heretofore created  
14 and established by the City Council.

15           **“Solid Waste System”** means the entire solid waste collection, transportation and  
16 disposal system of the City, created by Ordinance 90379, as amended, together with all  
17 additions thereto and betterments and extensions thereof at any time made, acquired or  
18 constructed, together with any other utility systems of the City hereafter combined with the  
19 Solid Waste System. The Solid Waste System shall not include any separate utility system  
20 acquired or constructed by the City pursuant to Section 18.

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

22           **“Tax Credit Subsidy”** means the tax credit payable by the United States Treasury in  
23 respect of a Tax Credit Subsidy Bond.

24           **“Tax Credit Subsidy Bond”** means any Parity Bond that is designated by the City as a  
25 “build America bond” or other tax credit bond, pursuant to the Code, and which is further  
26 designated as a “qualified bond” under Section 6431 of the Code, and with respect to which the  
27 City is eligible to receive a tax credit payable by the United States Treasury.

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

3           **“Term Bonds”** means any Parity Bonds identified as such in the Parity Bond  
4 Ordinance authorizing the issuance thereof, which Parity Bond Ordinance requires that such  
5 bonds be purchased, redeemed or paid prior to maturity in a schedule established thereby.

6           **“Undertaking”** means the City’s undertaking in the Bond Resolution, to the extent  
7 applicable, to provide certain disclosure as provided by Section 24.

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

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

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



1           **Section 2.     Adoption of Plan of Additions.** The CIP constitutes a system or plan of  
2 additions and betterments to and extensions of the Solid Waste System (the “Plan of  
3 Additions”). To the extent not previously specified, adopted and ordered to be carried out by  
4 ordinance of the City, the City specifies, adopts and orders to be carried out the Plan of  
5 Additions as generally provided for in the CIP. The estimated cost of the Plan of Additions, as  
6 nearly as may be determined, is declared to be \$161.2 million, of which approximately \$43  
7 million is expected to be financed from the proceeds of the Bonds.

8           The Plan of Additions shall include any amendments, updates, supplements or  
9 replacements to the CIP, all of which automatically shall constitute amendments to the Plan of  
10 Additions. The Plan of Additions also may be modified, without amending the CIP, to include  
11 other improvements if the City determines by ordinance that those amendments or other  
12 improvements constitute a system or plan of additions to or betterments or extensions of the  
13 Solid Waste System.

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

19           **Section 3.     Authorization and Description of Bonds.** The City shall issue and sell  
20 the Bonds in the aggregate principal amount of not to exceed \$50 million for the purposes of  
21 paying all or part of the cost of (i) carrying out the Plan of Additions, (ii) providing a bond  
22 reserve and (iii) issuing and selling the Bonds. The Bonds may be issued in one or more series.  
23 Each series of the Bonds shall be issued as Parity Bonds and may be combined with other  
24 Parity Bonds authorized separately.

25           The Bonds shall be dated and have such title, year and series or other designation as  
26 determined by the Director of Finance or as specified by the Bond Resolution; shall be in  
27 Authorized Denominations or such other denomination specified in the Bond Resolution; and  
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1 shall be numbered separately, in the manner and with any additional designation as the Bond  
2 Registrar deems necessary for the purpose of identification. The Bonds shall mature on the  
3 dates and in the amounts and bear interest payable on the dates and at the rates specified in the  
4 Bond Resolution, except that the net interest cost shall not exceed a weighted average rate of  
5 ten percent per annum. The final maturity of any series of Bonds shall not exceed 40 years  
6 from the issue date for that series.

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

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

18 For each series of Bonds, the Bond Resolution may provide for Qualified Insurance or a  
19 Qualified Letter of Credit, and conditions or covenants relating thereto, including additional  
20 terms, conditions and covenants relating to the Bonds that are required by the bond insurer or  
21 letter of credit provider and are consistent with the provisions of this ordinance, including but  
22 not limited to restrictions on investments and requirements of notice to and consent of the bond  
23 insurer or letter of credit provider.

24 For each series of Bonds, the Bond Resolution may approve and authorize the execution  
25 and delivery on behalf of the City of any contracts consistent with the provisions of this  
26 ordinance for which the City's approval is necessary or to which the City is a party and that are  
27 related or incidental to the initial issuance and sale of the Bonds, the establishment of the  
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1 interest rate or rates on the Bonds and any redemption of the Bonds, including but not limited  
2 to Payment Agreements and similar contracts for such purposes.

3 The Bond Resolution may specify that one or more series of Bonds are Tax Credit  
4 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  
8 Bond Resolution, the Director of Finance may make such determination and specification.

9 Section 5. **Bond Registrar; Registration and Transfer of Bonds.**

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

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

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

21 The Bond Registrar shall be responsible for its representations contained in the Bond  
22 Registrar's Certificate of Authentication on the Bonds. The Bond Registrar may become either  
23 a Registered or Beneficial Owner of Bonds with the same rights it would have if it were not the  
24 Bond Registrar and, to the extent permitted by law, may act as depository for and permit any of  
25 its officers or directors to act as members of, or in any other capacity with respect to, any  
26 committee formed to protect the rights of Beneficial Owners.



1 Bonds surrendered to the Bond Registrar may be exchanged for Bonds in any  
2 Authorized Denomination of an equal aggregate principal amount and of the same interest rate  
3 and maturity. Bonds may be transferred only if endorsed in the manner provided thereon and  
4 surrendered to the Bond Registrar. Any exchange or transfer shall be without cost to the owner  
5 or transferee. The Bond Registrar shall not be obligated to exchange or transfer any Bond  
6 during the 15 days preceding any principal payment or redemption date.

7 (c) Securities Depository; Book-Entry Form. The Bonds initially shall be registered  
8 in the name of Cede & Co., as the nominee of the Securities Depository. The Bonds so  
9 registered shall be held fully immobilized in book-entry form by the Securities Depository in  
10 accordance with the provisions of the Letter of Representations. Neither the City nor the Bond  
11 Registrar shall have any responsibility or obligation to participants of the Securities Depository  
12 or the persons for whom they act as nominees with respect to the Bonds regarding accuracy of  
13 any records maintained by the Securities Depository or its participants of any amount in respect  
14 of principal of or interest on the Bonds, or any notice which is permitted or required to be given  
15 to bond owners hereunder (except such notice as is required to be given by the Bond Registrar  
16 to the Securities Depository).

17 For as long as any Bonds are held in book-entry form, the Securities Depository shall be  
18 deemed to be the Registered Owner for all purposes hereunder and all references to registered  
19 owners, bondowners, bondholders or the like shall mean the Securities Depository and, except  
20 for purposes of the City's undertaking to provide continuing disclosure, shall not mean the  
21 Beneficial Owners. Registered ownership of such Bonds, or any portions thereof, may not  
22 thereafter be transferred except: (i) to any successor Securities Depository; (ii) to any  
23 substitute Securities Depository appointed by the City or such substitute Securities  
24 Depository's successor; or (iii) to any person if the Bonds are no longer held in book-entry  
25 form.

26 Upon the resignation of the Securities Depository from its functions as depository, or  
27 upon a determination by the City Council that continuation of the services of the Securities  
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1 Depository is not in the best interests of the City, the City may appoint a substitute Securities  
2 Depository. If (i) the Securities Depository resigns from its functions as depository, and no  
3 substitute Securities Depository can be obtained, or (ii) the City determines that the Bonds are  
4 to be in certificated form, the ownership of Bonds may be transferred to any person as provided  
5 herein and the Bonds no longer shall be held in book-entry form.

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

21 **Section 7. Payment of Bond Principal and Interest.** Principal of, premium, if  
22 any, and interest on the Bonds shall be payable in lawful money of the United States of  
23 America. Interest on the Bonds shall be paid by checks or drafts mailed by the Bond Registrar  
24 on the interest payment date to the Registered Owners at the addresses appearing on the Bond  
25 Register on the Record Date or, at the request of the Registered Owner of \$1,000,000 or more  
26 in aggregate principal amount of Bonds, by wire transfer to an account in the United States  
27 designated in writing by such Registered Owner prior to the Record Date. Principal of and  
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1 premium, if any, on the Bonds shall be payable upon presentation and surrender of the Bonds to  
2 the Bond Registrar. Notwithstanding the foregoing, payment of any Bonds registered in the  
3 name of DTC or its nominee, shall be made in accordance with the Letter of Representations.

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

6 **Section 8. Redemption and Open Market Purchase of Bonds.**

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

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

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

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

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

10 (d) Open Market Purchase. The City reserves the right and option to purchase any  
11 or all of the Bonds in the open market at any time at any price acceptable to the City plus  
12 accrued interest to the date of purchase.

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

15 **Section 9. Notice of Redemption.** The City shall cause notice of any intended  
16 redemption of Bonds to be given not less than 20 nor more than 60 days prior to the date fixed  
17 for redemption by first-class mail, postage prepaid, to the Registered Owner of any Bond to be  
18 redeemed at the address appearing on the Bond Register at the time the Bond Registrar  
19 prepares the notice, and the requirements of this sentence shall be deemed to have been fulfilled  
20 when notice has been mailed as so provided, whether or not it is actually received by the  
21 Registered Owner of any Bond. Interest on Bonds called for redemption shall cease to accrue  
22 on the date fixed for redemption unless the Bond or Bonds called are not redeemed when  
23 presented pursuant to the call. In addition, the redemption notice shall be mailed by the Bond  
24 Registrar within the same period, postage prepaid, to the Rating Agencies at their offices in  
25 New York, New York, or their successors, to any bond insurer for the Bonds, and to such other  
26 persons and with such additional information as the Director of Finance shall determine or as  
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1 specified in the Bond Resolution, but these additional mailings shall not be a condition  
2 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  
13 in full is on deposit in the 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 and Director of  
18 Finance, either or both of whose signatures may be manual or in facsimile, and the seal of the  
19 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  
23 to the benefits of this ordinance:  
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1 operation and maintenance of the Solid Waste System and to any portion of the Gross Revenue  
2 pledged for the payment of any bonds, warrants or other indebtedness.

3 **Section 13. Security for Parity Bonds.**

4 (a) Pledge of Net Revenue. The Bonds shall be special limited obligations of the  
5 City payable from and secured solely by the Net Revenue and by money in the Bond Account,  
6 including the Reserve Subaccount. The Net Revenue is pledged to make the payments into the  
7 Bond Account and the Reserve Subaccount required by paragraphs (b) and (c) of this Section,  
8 which pledge shall constitute a lien and charge upon such Net Revenue prior and superior to all  
9 other liens and charges whatsoever.

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

14 (b) Bond Account; Principal and Interest Subaccount. A special account of the City  
15 known as the "Bond Account" has been created and shall be maintained as a separate account  
16 within the Solid Waste Fund, for the sole purpose of paying the principal of and premium, if  
17 any, and interest on the Parity Bonds as the same shall become due. The Bond Account  
18 consists of the Principal and Interest Subaccount and the Reserve Subaccount and such  
19 additional subaccounts as the Director of Finance may deem necessary. The Parity Bonds shall  
20 be payable, principal, premium, if any, and interest, out of the Bond Account.

21 From and after the issuance of the Bonds, and so long thereafter as any Parity Bonds are  
22 outstanding against the Bond Account (including any Payment Agreement Payments required  
23 to be made under any Parity Payment Agreements), the Director of Finance shall set aside and  
24 pay into the Principal and Interest Subaccount on or prior to the respective dates on which the  
25 interest on or principal of and interest on the Parity Bonds shall become due and payable  
26 certain fixed amounts out of the Net Revenue sufficient to pay such interest or principal and  
27 interest as the same shall become due.  
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1 Money in the Principal and Interest Subaccount shall, to the fullest extent practicable  
2 and reasonable, be invested and reinvested at the direction of the Director of Finance solely in,  
3 and obligations deposited in such accounts shall consist of, Permitted Investments. Earnings on  
4 money and investments in the Principal and Interest Subaccount shall be deposited in and used  
5 for the purposes of that subaccount.

6 (c) Reserve Subaccount.

7 (i) Investment. The Reserve Subaccount previously has been created and  
8 maintained as a subaccount within the Bond Account for the purpose of securing the payment  
9 of the principal of and interest on all Parity Bonds outstanding (including amounts due under  
10 any Parity Payment Agreements if required under such agreement).

11 Money held in the Reserve Subaccount shall, to the fullest extent practicable and  
12 reasonable, be invested and reinvested at the direction of the Director of Finance solely in, and  
13 obligations deposited in such accounts shall consist of, Permitted Investments. Earnings on  
14 money and investments in the Reserve Subaccount shall be deposited in that fund and credited  
15 against amounts required to be deposited therein until the Reserve Subaccount is fully funded,  
16 and thereafter such earnings shall be deposited in the Principal and Interest Subaccount.

17 (ii) Funding of Reserve Requirement.

18 (A) The City shall provide in the Bond Resolution with respect to the  
19 Bonds or in the Parity Bond Ordinance or resolution authorizing the issuance of any Future  
20 Parity Bonds for the deposit into the Reserve Subaccount out of the Net Revenue (or out of any  
21 other funds of the City on hand and legally available therefor, including proceeds of the Bonds  
22 or of the Future Parity Bonds being issued or any other Future Parity Bonds) of periodic  
23 payments so that by five years from the date of such Future Parity Bonds there will have been  
24 paid into the Reserve Subaccount an amount which, together with the money already on deposit  
25 therein, will be at least equal to the Reserve Requirement for all Parity Bonds outstanding at the  
26 end of that five-year period.



1 (B) Notwithstanding the foregoing, the Bond Resolution or any  
2 Parity Bond Ordinance may provide for the City to obtain Qualified Insurance or a Qualified  
3 Letter of Credit for specific amounts required to be paid into the Reserve Subaccount. The  
4 amount available to be drawn upon under such Qualified Insurance or Qualified Letter of  
5 Credit shall be credited against the amounts required to be maintained in the Reserve  
6 Subaccount by Section 13(c)(ii)(A).

7 (C) Such Qualified Letter of Credit or Qualified Insurance shall not  
8 be cancelable on less than three years' notice. If the City receives any such notice of  
9 cancellation, the City shall substitute Qualified Insurance or a Qualified Letter of Credit in the  
10 amount required pursuant to Section 13(c)(ii)(B) or in the alternative shall create a special  
11 account in the Solid Waste Fund and deposit therein, on or before the 25th day of each of the  
12 36 succeeding calendar months, 1/36th of the amount sufficient, together with other money and  
13 investments on deposit in the Reserve Subaccount, to equal the Reserve Requirement on the  
14 date any such cancellation shall become effective. Such amounts shall be transferred from  
15 money in the Solid Waste Fund (after making provision for payment of Maintenance and  
16 Operation Expenses and for the required payments into the Principal and Interest Subaccount).  
17 Amounts on deposit in such special account shall not be available to pay debt service on Parity  
18 Bonds or for any other purpose of the City, and shall be transferred to the Reserve Subaccount  
19 on the effective date of any cancellation of a Qualified Letter of Credit or Qualified Insurance  
20 to make up the deficiency caused thereby.

21 (D) If the amount in the Reserve Subaccount shall be less than the  
22 Reserve Requirement (taking into account the five year period referred to in  
23 Section 13(c)(ii)(A), the City shall transfer to the Reserve Subaccount money in an amount  
24 sufficient to restore the Reserve Subaccount to the Reserve Requirement within 12 months after  
25 the date of such deficiency. The City shall transfer such amounts from money in the Solid  
26 Waste Fund (after making provision for payment of Maintenance and Operation Expenses and  
27 for the required payments into the Principal and Interest Subaccount). If the amount in the  
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1 Reserve Subaccount shall be greater than the Reserve Requirement, then and only then may the  
2 City withdraw such excess from the Reserve Subaccount and deposit such excess in the Solid  
3 Waste Fund to be used for any lawful purpose.

4 (iii) Use of Reserve Subaccount for Refunding Bonds. If any Parity Bonds  
5 are refunded, the money set aside in the Reserve Subaccount to secure the payment of such  
6 Parity Bonds may be used to retire such Parity Bonds or may be transferred to any Reserve  
7 Subaccount or account which may be created to secure the payment of any bonds issued to  
8 refund such Parity Bonds, as long as the money left remaining in the Reserve Subaccount is at  
9 least equal, together with any Qualified Insurance or Qualified Letters of Credit, to the Reserve  
10 Subaccount Requirement.

11 (iv) Use of Reserve Subaccount for Payment of Debt Service. If the money  
12 in the Principal and Interest Subaccount is insufficient to meet maturing installments of either  
13 interest on or principal of and interest on the Parity Bonds payable out of the Bond Account  
14 (including amounts payable under any Parity Payment Agreement), such deficiency shall be  
15 made up from the Reserve Subaccount by the withdrawal of money or proceeds of Qualified  
16 Insurance or Qualified Letters of Credit therefrom, as the case may be. Any deficiency created  
17 in the Reserve Subaccount by reason of any such withdrawal or claim against Qualified  
18 Insurance or a Qualified Letter of Credit shall then be made up out of the Net Revenue, after  
19 making necessary provision for the payments required to be made for debt service on any  
20 outstanding Parity Bonds consistent with Section 14.

21 (v) Withdrawals From Reserve Subaccount. Money in the Reserve  
22 Subaccount may be withdrawn by the City for any lawful purpose as long as the aggregate of  
23 any money, Qualified Insurance and Qualified Letters of Credit left remaining on deposit in the  
24 Reserve Subaccount is at least equal to the Reserve Requirement for the Parity Bonds then  
25 outstanding.



1           The City reserves the right to substitute Qualified Insurance or a Qualified Letter of  
2 Credit for money previously deposited in the Reserve Subaccount and to withdraw such money  
3 to the extent described in the preceding paragraph.

4           Any withdrawals from subaccounts within the Reserve Subaccount shall be made on a  
5 pro rata basis except when the provider of a Qualified Letter of Credit or Qualified Insurance  
6 requires all cash and investments in the Reserve Subaccount to be withdrawn before draws on  
7 the Qualified Letter of Credit or Qualified Insurance, or unless the City receives an opinion of  
8 Bond Counsel to the effect that such pro rata withdrawal is not required to maintain the  
9 exclusion of interest on the Parity Bonds then outstanding from gross income for federal  
10 income tax purposes.

11           **Section 14. Flow of Funds.** The Gross Revenue of the Solid Waste System shall be  
12 used for the following purposes only and shall be applied in the following order of priority:

- 13           (a) To pay Maintenance and Operations Expenses;
- 14           (b) To pay interest on Parity Bonds and Payment Agreement Payments when due;
- 15           (c) To pay the principal of Parity Bonds as it comes due at maturity or as the  
16 principal is required to be paid pursuant to mandatory redemption requirements applicable to  
17 Term Bonds;
- 18           (d) To make all payments required to be made into the Reserve Subaccount;
- 19           (e) To make all payments required to be made into any revenue bond, note, warrant  
20 or other revenue obligation redemption fund, debt service account or reserve account created to  
21 pay or secure the payment of the principal of and interest on any revenue bonds, notes, warrants  
22 or other obligations of the City having a lien upon the Net Revenue junior and inferior to the  
23 lien thereon for the payment of the principal of and interest on the Parity Bonds; and
- 24           (f) To retire by redemption or purchase any outstanding revenue bonds or other  
25 revenue obligations of the Solid Waste System, to make necessary additional betterments,  
26 improvements and repairs to or extensions and replacements of Solid Waste System, to make



1 deposits into the Rate Stabilization Account, or for any other lawful purposes of the Solid  
2 Waste System.

3 The City may transfer any money from any funds or accounts of the Solid Waste  
4 System legally available therefor, except bond redemption funds, refunding escrow funds or  
5 defeasance funds, to meet the required payments to be made into the Bond Account.

6 **Section 15. Parity Bond Covenants.**

7 (a) Establishment and Collection of Rates and Charges. The City will establish,  
8 maintain and collect rates and charges for services and facilities provided by the Solid Waste  
9 System and will adjust those rates and charges from time to time so that:

10 (i) Gross Revenue will be sufficient to (A) pay all Maintenance and  
11 Operation Expenses, (B) pay when due all amounts that the City is obligated to pay into the  
12 Bond Account and the subaccounts therein, and (C) pay all taxes, assessments or other  
13 governmental charges lawfully imposed on the Solid Waste System or the revenue therefrom or  
14 payments in lieu thereof and any and all other amounts which the City may now or hereafter  
15 become obligated to pay from the Gross Revenue by law or contract; and

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

18 (iii) Except to aid the poor or infirm, it will not furnish or supply or permit  
19 the furnishing or supplying of any service or facility in connection with the operation of the  
20 Solid Waste System free of charge to any person, firm or corporation, public or private.

21 The failure of the City to comply with subparagraphs (i) and (ii) of this subsection shall  
22 not be an Event of Default under this ordinance if the City promptly retains a Professional  
23 Utility Consultant to recommend to the City Council adjustments in the rates of the Solid  
24 Waste System necessary to meet the requirements of those subparagraphs and if the City  
25 Council adopts the recommended modifications within 180 days of the date the failure became  
26 known to the City Council.



1           (b) Maintenance and Operation of the Solid Waste System. The City will operate  
2 the properties of the Solid Waste System in an efficient manner and at a reasonable cost, and  
3 will maintain, preserve and keep, or cause to be maintained, preserved and kept, the properties  
4 of the Solid Waste System in good repair, working order and condition; and from time to time  
5 will make or cause to be made all necessary and proper repairs, renewals and replacements  
6 thereto so that at all times the business carried on in connection therewith will be properly and  
7 advantageously conducted.

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

16           (d) Books and Accounts. The City will keep proper books, records and accounts  
17 with respect to the operations, income and expenditures of the Solid Waste System in  
18 accordance with generally accepted accounting practices applicable to governmental utilities  
19 and any applicable rules and regulations prescribed by the State. The City will prepare or cause  
20 to be prepared annual financial and operating statements as soon as practicable after the close  
21 of each fiscal year showing in reasonable detail the financial condition of the Solid Waste  
22 System as of the close of the previous year, and the income and expenses for such year,  
23 including the amounts paid into the Bond Account and into any and all special funds or  
24 accounts created pursuant to the provisions of this ordinance, the status of all funds and  
25 accounts as of the end of such year, and the amounts expended for maintenance, renewals,  
26 replacements and capital additions to the Solid Waste System. A copy of such annual financial  
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1 statements shall be sent to any owner of Parity Bonds upon written request therefor being made  
2 to the City. The City may charge a reasonable cost for providing such financial statements.

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

6 (f) Maintenance of Insurance. The City at all times will carry fire and extended  
7 coverage, public liability and property damage and such other forms of insurance with  
8 responsible insurers and with policies payable to the City on such of the buildings, equipment,  
9 works, plants, facilities and properties of the Solid Waste System as are ordinarily carried by  
10 municipal or privately owned utilities engaged in the operation of the like systems, and against  
11 such claims for damages as are ordinarily carried by municipal or privately owned utilities  
12 engaged in the operation of like systems, or, in the City's sole discretion, it will self-insure or  
13 will participate in an insurance pool or pools with reserves adequate, in the reasonable  
14 judgment of the City, to protect the Solid Waste System against loss.

15 (g) Condemnation Awards and Insurance Proceeds. If the City receives any  
16 condemnation awards or proceeds of an insurance policy in connection with any loss of or  
17 damage to any property of the Solid Waste System, the City shall apply the condemnation  
18 award or insurance proceeds, in the City's sole discretion, either (i) to the cost of replacing or  
19 repairing the lost or damaged properties, (ii) to the payment, purchase or redemption of Parity  
20 Bonds, or (iii) to the cost of improvements to the Solid Waste System.

21 (h) Sale of System. The City will sell, transfer or otherwise dispose of all or any  
22 part of the works, plant, properties, facilities or other component of the Solid Waste System or  
23 any real or personal property comprising a part of the Solid Waste System only consistent with  
24 one or more of the following:

25 (i) The City in its discretion may carry out such a sale, transfer or  
26 disposition (each, as used in this paragraph (h), a "transfer") if the facilities or property  
27 transferred are not material to the operation of the Solid Waste System, or shall have become  
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1 unserviceable, inadequate, obsolete or unfit to be used in the operation of the Solid Waste  
2 System or are no longer necessary, material or useful to the operation of the Solid Waste  
3 System; or

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

7 (iii) The City in its discretion may carry out such a transfer if the proceeds  
8 from such transfer are used to acquire new useful operating facilities or properties of the Solid  
9 Waste System, or are used to retire outstanding Parity Bonds or other revenue obligations of the  
10 Solid Waste System, if, at the time of such transfer, there is on file with the City Clerk a  
11 certificate of the Director of Finance and the Director of Seattle Public Utilities demonstrating  
12 that in his or her professional opinion, upon such transfer and the use of proceeds of the transfer  
13 as proposed by the City, the remaining facilities of the Solid Waste System will retain their  
14 operational integrity and, based on the financial statements for the most recent fiscal year  
15 available, the proposed transfer would not prevent the Solid Waste System from complying  
16 with the rate covenants contained in Section 15(a) during the five fiscal years following the  
17 fiscal year in which the transfer is to occur. The Director of Finance and the Director of Seattle  
18 Public Utilities shall take into account (A) the reduction in revenue and expenses, if any,  
19 resulting from the transfer, (B) the use of any proceeds of the transfer for the redemption of  
20 Parity Bonds, (C) the Director of Finance and the Director of Seattle Public Utilities' estimate  
21 of revenue from customers anticipated to be served by any additions to and betterments and  
22 extensions of the Solid Waste System financed in part by the proposed portion of the proceeds  
23 of the transfer and (D) any other adjustment permitted in the preparation of a certificate under  
24 Section 16(a)(ii) of this ordinance. Before such a transfer, the City also must obtain  
25 confirmation from each of the Rating Agencies to the effect that the rating then in effect will  
26 not be reduced or withdrawn upon such transfer.



1           **Section 16.   Issuance of Future Parity Bonds.**

2           (a)   General.   Except as provided in Section 16(b) for the issuance of refunding  
3 Parity Bonds, Future Parity Bonds may be issued (and Parity Payment Agreements may be  
4 entered into), from time to time in one or more series for any lawful purpose of the Solid Waste  
5 System, only if at the time of the delivery of each series of Future Parity Bonds to the initial  
6 purchasers thereof (or on the effective date of the Parity Payment Agreement):

7                   (i)   There is no deficiency in the Bond Account or in any of the accounts  
8 therein and provision has been made to meet the Reserve Requirement for all Parity Bonds then  
9 outstanding plus such proposed series of Future Parity Bonds; and

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

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

17                               (B)   a certificate of both the Director of Finance and the Director of  
18 Seattle Public Utilities (or any officer who succeeds to substantially all of the responsibilities of  
19 either office) that in their opinion the Adjusted Net Revenue for the five fiscal years next  
20 following the earlier of (i) the end of the period during which interest on those Future Parity  
21 Bonds is to be capitalized or, if no interest is capitalized, the fiscal year in which the Future  
22 Parity Bonds are issued, or (ii) the date on which the substantially all new facilities financed  
23 with those Future Parity Bonds are expected to commence operations, such Adjusted Net  
24 Revenue further adjusted as provided in paragraphs (I) through (IV) below, will be at least  
25 equal to the Coverage Requirement. That certificate may take into account the following  
26 adjustments.



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

4 (II) Net revenue from customers of the Solid Waste System  
5 who have become customers during the 12 consecutive month period or thereafter, and their  
6 estimate of net revenue from any customers to be connected to the Solid Waste System who  
7 have paid the required connection charges, adjusted to reflect one year's net revenue from those  
8 customers;

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

12 (IV) Net revenue from any person, firm, corporation or  
13 municipal corporation under any executed contract for solid waste disposal or other utility  
14 service, which revenue was not included in the historical Net Revenue of the Solid Waste  
15 System.

16 (b) Issuance of Refunding Parity Bonds.

17 (i) Without complying with the provisions of Section 16(a), the City may at  
18 any time and from time to time issue one or more series of refunding Parity Bonds, but only if  
19 there shall have been filed with the City a certificate of the Director of Finance stating that  
20 immediately after the issuance of such refunding Parity Bonds the Annual Debt Service in any  
21 calendar year that Parity Bonds (other than such refunding Parity Bonds) are then outstanding  
22 shall not be increased by more than \$5,000 by reason of the issuance of such refunding Parity  
23 Bonds.

24 (ii) Parity Bonds of any one or more series or one or more maturities within  
25 a series may be refunded by a single series of refunding Parity Bonds, which Parity Bonds to be  
26 refunded shall be specified in the Parity Bond Ordinance providing for the issuance of the  
27 refunding Parity Bonds, and the principal amount of such refunding Parity Bonds may include  
28



1 amounts necessary to pay the principal of the Parity Bonds to be refunded, interest thereon to  
2 the date of payment or redemption thereof, any premium payable thereon upon such payment  
3 or redemption, the costs of issuance of such refunding Parity Bonds and an amount, if any,  
4 required to fund the Reserve Requirement. The proceeds of the refunding Parity Bonds shall be  
5 held and applied in such manner as is provided in the Parity Bond Ordinance providing for the  
6 issuance of such refunding Parity Bonds, so that upon the delivery of such refunding Parity  
7 Bonds the Parity Bonds to be refunded thereby shall be deemed to be no longer outstanding in  
8 accordance with the provisions of the Parity Bond Ordinance providing for the issuance of  
9 those bonds.

10 (iii) Refunding Parity Bonds may also be issued upon compliance with the  
11 provisions of Section 16(a).

12 (iv) Nothing contained in this ordinance shall prohibit or prevent, or be  
13 deemed or construed to prohibit or prevent, the City from issuing refunding Parity Bonds to  
14 fund or refund maturing Parity Bonds of the City for the payment of which money is not  
15 otherwise available without complying with this Section 16.

16 (c) No Limitation on Junior Lien Bonds. Nothing in this ordinance shall prevent the  
17 City from issuing revenue bonds or other obligations having a lien and charge on the Net  
18 Revenue subordinate to the lien and charge of the Parity Bonds.

19 **Section 17. Rate Stabilization Account.** There has been created in the Solid Waste  
20 Fund a separate account known as the Rate Stabilization Account. The City may at any time,  
21 as determined by the City and as consistent with Section 14, deposit in the Rate Stabilization  
22 Account Gross Revenue and any other money received by the Solid Waste System and  
23 available to be used therefor. The City may withdraw any or all of the money from the Rate  
24 Stabilization Account for inclusion in the Adjusted Gross Revenue for any fiscal year of the  
25 City. Such deposits or withdrawals may be made up to and including the date 90 days after the  
26 end of the fiscal year for which the deposit or withdrawal will be included as Adjusted Gross  
27 Revenue.  
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1 No deposit of Gross Revenue shall be made into the Rate Stabilization Account to the  
2 extent that such deposit would prevent the City from meeting the Coverage Requirement in the  
3 relevant fiscal year.

4 **Section 18. Separate Utility Systems.** The City may create, acquire, construct,  
5 finance, own and operate one or more additional systems for solid waste collection,  
6 transportation, treatment or disposal, or other commodity or service related to the Solid Waste  
7 System. The revenue of that separate utility system shall not be included in the Gross Revenue  
8 of the Solid Waste System and may be pledged to the payment of revenue obligations issued to  
9 purchase, construct, condemn or otherwise acquire or expand the separate utility system.  
10 Neither the Gross Revenue nor the Net Revenue of the Solid Waste System shall be pledged by  
11 the City to the payment of any obligations of a separate utility system except (1) as a Contract  
12 Resource Obligation upon compliance with Section 19 and/or (2), with respect to the Net  
13 Revenue, on a basis subordinate to the lien of the Parity Bonds on that Net Revenue.

14 **Section 19. Contract Resource Obligations.** The City may at any time enter into  
15 one or more Contract Resource Obligations for the acquisition, from facilities to be  
16 constructed, of solid waste collection, transportation, treatment or disposal, or other commodity  
17 or service relating to the Solid Waste System. The City may determine that, and may agree  
18 under a Contract Resource Obligation to provide that, all payments under that Contract  
19 Resource Obligation (including payments prior to the time that the solid waste collection,  
20 transportation, treatment or disposal or other commodity or service is being provided, or during  
21 a suspension or after termination of commodity or service) shall be Maintenance and Operation  
22 Expenses if the following requirements are met at the time such a Contract Resource Obligation  
23 is entered into:

24 (a) No event of default under a Parity Bond Ordinance has occurred  
25 and is continuing.

26 (b) There shall be on file a certificate of a Professional Utility  
27 Consultant stating that (i) the payments to be made by the City in connection with  
28 the Contract Resource Obligation are reasonable for the commodities provided or  
services rendered; (ii) the source of any new commodities or services, and any



1 facilities to be constructed to provide the commodities or services, are sound from  
2 a solid waste collection, transportation, treatment and disposal, or other  
3 commodity or service planning standpoint, are technically and economically  
4 feasible in accordance with prudent utility practice, and are likely to provide  
5 commodities or services no later than a date set forth in the Professional Utility  
6 Consultant's certification; and (iii) the Adjusted Net Revenue (further adjusted by  
7 the Professional Utility Consultant's estimate of the payments to be made in  
8 accordance with the Contract Resource Obligation) for the five fiscal years  
9 following the year in which the Contract Resource Obligation is incurred, as such  
10 Adjusted Net Revenue is estimated by the Professional Utility Consultant in  
11 accordance with the provisions of and adjustments permitted in Section 16(a)(ii),  
12 will be at least equal to the Coverage Requirement.

13 Payments required to be made under Contract Resource Obligations shall not be subject  
14 to acceleration. Nothing in this Section shall be deemed to prevent the City from entering into  
15 other agreements for the acquisition of solid waste collection, transportation, treatment or  
16 disposal, or other commodity or service, from existing facilities and from treating those  
17 payments as Maintenance and Operation Expenses. Nothing in this Section shall be deemed to  
18 prevent the City from entering into other agreements for the acquisition of solid waste  
19 collection, transportation, treatment or disposal, or other commodity or service, from facilities  
20 to be constructed and from agreeing to make payments with respect thereto, such payments  
21 constituting a lien and charge on Net Revenue subordinate to that of Parity Bonds.

22 **Section 20. Refunding or Defeasance of Bonds.** The Bonds are hereby designated  
23 "Refundable Bonds" for purposes of Ordinance 121940. The City may issue refunding bonds  
24 pursuant to the laws of the State or use money available from any other lawful source to pay  
25 when due the principal of and premium, if any, and interest on the Bonds, or any portion  
26 thereof included in a refunding or defeasance plan, and to redeem and retire, release, refund or  
27 defease those Bonds (the "defeased Bonds") and to pay the costs of such refunding or  
28 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  
defeas the defeased Bonds in accordance with their terms, are set aside in a special trust fund  
or escrow account irrevocably pledged to that redemption, retirement or defeasance (the "trust



1 account”), then all right and interest of the Registered Owners of the defeased Bonds in the  
2 covenants of this ordinance and in the Net Revenue and the funds and accounts pledged to the  
3 payment of the defeased Bonds, other than the right to receive the funds so set aside and  
4 pledged, thereafter shall cease and become void. Such Registered Owners thereafter shall have  
5 the right to receive payment of the principal of and interest or redemption price on the defeased  
6 Bonds from the trust account. The City shall include in the refunding or defeasance plan such  
7 provisions as the City deems necessary for the random selection of any defeased Bonds that  
8 constitute less than all of a particular maturity of the Bonds, for notice of the defeasance to be  
9 given to the Registered Owners of the defeased Bonds and to such other persons as the City  
10 shall determine, and for any required replacement of Bond certificates for defeased Bonds.

11 After the establishing and full funding of such a trust account, the defeased Bonds shall  
12 be deemed no longer outstanding, and the City may then apply any money in any other fund or  
13 account established for the payment or redemption of the defeased Bonds to any lawful  
14 purposes as it shall determine, subject only to the rights of the owners of any other Parity  
15 Bonds.

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

25 **Section 21. Amendments.**

26 (a) Amendments Without Parity Bond Owners’ Consent. The City Council from  
27 time to time and at any time may pass a resolution or resolutions, or ordinance or ordinances,  
28



1 supplemental hereto, which resolution or resolutions, ordinance or ordinances thereafter shall  
2 become a part of this ordinance, for any one or more of the following purposes:

3 (i) To add to the covenants and agreements of the City contained in this  
4 ordinance other covenants and agreements thereafter to be observed which shall not adversely  
5 affect the interests of the owners of any Parity Bonds then outstanding, or to surrender any right  
6 or power herein reserved to or conferred upon the City.

7 (ii) To make such provisions for the purpose of curing any ambiguities or of  
8 curing, correcting or supplementing any defective provision contained in this ordinance in  
9 regard to matters or questions arising under this ordinance as the City Council may deem  
10 necessary or desirable and not inconsistent with this ordinance and which shall not adversely  
11 affect the interests of owners of any Parity Bonds then outstanding in any material respect.

12 (iii) To make such changes as are necessary to permit the Bonds to be held in  
13 registered certificate form or in fully immobilized form by a Securities Depository other than  
14 DTC.

15 Any such supplemental resolution or ordinance of the City may be passed without the  
16 consent of the owners of any Parity Bonds at any time outstanding, notwithstanding any of the  
17 provisions of Section 21(b), but only upon receipt by the City of an opinion of Bond Counsel to  
18 the effect that the amendment is permitted by the terms of this ordinance. The City shall  
19 deliver a copy of any such supplemental resolution or ordinance to the Rating Agencies prior to  
20 its passage by the City.

21 (b) Amendments With Parity Bond Owners' Consent. The City Council may, with  
22 the consent of the registered owners of not less than 60% in aggregate principal amount of the  
23 Parity Bonds then outstanding, pass a resolution or resolutions or ordinance or ordinances  
24 supplemental hereto for the purpose of adding any provisions to or changing in any manner or  
25 eliminating any of the provisions of this ordinance or of any supplemental resolution or  
26 ordinance, except no such supplemental resolution or ordinance shall:



1 (i) Extend the fixed maturity of any Parity Bonds, or reduce the rate of  
2 interest thereon, or extend the times of payment of interest from their respective due dates, or  
3 reduce the amount of the principal thereof, or reduce any premium payable on the redemption  
4 thereof, without the consent of the registered owner of each Parity Bond so affected; or

5 (ii) Reduce the aforesaid percentage of registered owners required to  
6 approve any such supplemental resolution or ordinance, without the consent of the registered  
7 owners of all of the Parity Bonds then outstanding.

8 For purposes of determining whether the registered owners of the requisite percentage  
9 of principal amount of Parity Bonds have consented to any amendment to this ordinance, the  
10 Accreted Value of Capital Appreciation Bonds shall be deemed to be the principal amount  
11 thereof.

12 It shall not be necessary for the consent of registered owners under this paragraph (b) to  
13 approve the particular form of any proposed supplemental ordinance or resolution, but it shall  
14 be sufficient if such consent shall approve the substance thereof.

15 (c) Effect of Amendment. Upon the passage of any supplemental resolution or  
16 ordinance pursuant to the provisions of this Section, this ordinance shall be deemed to be  
17 modified and amended in accordance therewith, and the respective rights, duties and  
18 obligations of the City under this ordinance shall thereafter be determined, exercised and  
19 enforced thereunder, subject in all respects to such modification and amendments, and all the  
20 terms and conditions of any such supplemental resolution or ordinance shall be deemed to be a  
21 part of the terms and conditions of this ordinance for any and all purposes.

22 (d) Notation on Bonds. Parity Bonds executed and delivered after the execution of  
23 any supplemental resolution or ordinance passed pursuant to the provisions of this Section may  
24 have a notation as to any matter provided for in such supplemental resolution or ordinance, and  
25 if such supplemental resolution or ordinance shall so provide, new bonds modified to conform,  
26 in the opinion of the Director of Finance, to any modification of this ordinance contained in any  
27 such supplemental resolution or ordinance may be prepared by the City and delivered without  
28



1 cost to the owners of any affected Parity Bonds then outstanding, upon surrender for  
2 cancellation of such bonds in equal aggregate principal amounts.

3 (e) Amendments Relating to Tax Credit Subsidy Bonds. The Registered Owners  
4 from time to time of the outstanding Bonds, by taking and holding the same, shall be deemed to  
5 have consented to the adoption by the City of any supplemental resolution or ordinance passed  
6 pursuant to the provisions of this Section for any one or more of the following purposes:

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

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

13 **Section 22. Defaults and Remedies.**

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

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

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

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

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

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



1           (c) Suits at Law or in Equity. Upon the happening of an Event of Default and  
2 during the continuance thereof, the Bond Owners' 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  
6 Parity Bonds, to collect any amounts due and owing to or from the City, or to obtain other  
7 appropriate relief, and may enforce the specific performance of any covenant, agreement or  
8 condition contained in this ordinance or in any of the Parity Bonds.

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

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

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

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

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

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

26 (e) Duties and Obligations of Bond Owners' Trustee. The Bond Owners' Trustee  
27 shall not be liable except for the performance of such duties as are specifically set forth herein.  
28



1 During an Event of Default, the Bond Owners' Trustee shall exercise such of the rights and  
2 powers vested in it hereby, and shall use the same degree of care and skill in its exercise, as a  
3 prudent person would exercise or use under the circumstances in the conduct of his or her own  
4 affairs. The Bond Owners' Trustee shall have no liability for any act or omission to act  
5 hereunder except for the Bond Owners' Trustee's own negligent action, its own negligent  
6 failure to act or its own willful misconduct. The duties and obligations of the Bond Owners'  
7 Trustee shall be determined solely by the express provisions of this ordinance, and no implied  
8 powers, duties or obligations of the Bond Owners' Trustee shall be read into this ordinance.

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

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

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

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

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

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

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

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

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

16 (g) Failure to Comply With Undertaking. Notwithstanding anything in this Section  
17 to the contrary, the failure of the City or any obligated person to comply with any Undertaking  
18 adopted by the Bond Resolution pursuant to Section 24 shall not constitute an Event of Default  
19 hereunder, and the sole remedy of any holder of a Bond shall be to seek an order of specific  
20 performance from an appropriate court to compel the City to comply with the Undertaking.

21 **Section 23. Preservation of Tax Exemption for Interest on Tax-Exempt Bonds.**

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

3 **Section 24. Continuing Disclosure.** The City shall undertake to provide for the  
4 benefit of holders of the Bonds, to the extent applicable, disclosure of certain financial  
5 information and operating data of the type included in the final official statement for the Bonds,  
6 as well as disclosure of certain events respecting the Bonds, in the manner and to the extent  
7 required by United States Securities and Exchange Commission Rule 15c2-12(b)(5). The  
8 particular terms of the Undertaking shall be set forth in the Bond Resolution.

9 **Section 25. Construction Account; Deposit of Proceeds.** An account to be known  
10 as the Solid Waste Construction Account, 2012 (the "Construction Account") is created in the  
11 Solid Waste Fund. The principal proceeds of the sale of the Bonds remaining after the deposit  
12 of accrued interest on the Bonds, if any, into the Principal and Interest Subaccount and the  
13 deposit of any proceeds as determined by the Bond Resolution into the Reserve Subaccount,  
14 shall be deposited into the Construction Account, unless otherwise specified in the Bond  
15 Resolution or directed by the Director of Finance, to be used for the purpose of paying part of  
16 the costs of carrying out the Plan of Additions and to pay for the costs of issuance of the Bonds.  
17 Until needed to pay such costs, the City may invest principal proceeds and interest thereon  
18 temporarily in any legal investment, and the investment earnings may, as determined by the  
19 Director of Finance, be retained in the Construction Account and be spent for the purposes of  
20 that fund or deposited in the Parity Bond Account.

21 **Section 26. Sale of Bonds.** The Director of Finance may provide for the sale of each  
22 series of Bonds (or any portion thereof) by public sale or by a negotiated sale with an  
23 underwriter or other financial institution chosen through a selection process acceptable to the  
24 Director of Finance. The Director of Finance is authorized to specify a date and time of sale of  
25 the Bonds, to give notice of that sale, to determine any bid requirements and criteria for  
26 determining the award of the bid, to provide for the use of an electronic bidding mechanism,  
27 and to specify other matters in his or her determination necessary, appropriate, or desirable to  
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1 carry out the sale of the Bonds. The terms of that sale shall be consistent with this ordinance  
2 and the Bond Resolution and shall be confirmed by the Bond Resolution. The Bonds shall be  
3 delivered to the purchasers as provided in the Bond Resolution immediately upon payment to  
4 the City of the purchase price plus accrued interest, if any, to the Closing Date in immediately  
5 available federal funds in Seattle, Washington, at the City's expense or at another time or place  
6 upon which the Director of Finance and the purchaser may mutually agree at the purchaser's  
7 expense.

8 If one or more series of Bonds are sold and issued as Tax Credit Subsidy Bonds, the  
9 Director of Finance is hereby authorized on behalf of the City to take such actions and enter  
10 into such agreements as are necessary or appropriate for the City to receive from the United  
11 States Treasury the applicable Tax Credit Subsidies.

12 CUSIP numbers will be printed on the Bonds if requested by the purchasers, but neither  
13 failure to print CUSIP numbers on any Bond nor error with respect thereto shall constitute  
14 cause for a failure or refusal by the purchasers to accept delivery of and pay for the Bonds in  
15 accordance with the purchase offer. All expenses in relation to the printing of CUSIP numbers  
16 on the Bonds shall be paid by the City, but the fee of the CUSIP Service Bureau for the  
17 assignment of those numbers shall be the responsibility of and shall be paid by the purchasers.

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

21 **Section 27. General Authorization.** The Mayor and the Director of Finance of the  
22 City and each of the other appropriate officers of the City are each authorized and directed to  
23 do everything as in their judgment may be necessary, appropriate or desirable in order to carry  
24 out the terms and provisions of, and complete the transactions contemplated by, this ordinance.  
25 In particular, and without limitation, the Director of Finance may, in his or her discretion and  
26 without further action by the City Council, (i) issue requests for proposals for underwriting or  
27 financing facilities and execute engagement letters with underwriters, bond insurers or other  
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1 financial institutions based on responses to such requests, (ii) deem final and approve the  
2 distribution of any preliminary official statement or official statement relating to the Bonds,  
3 (iii) comply with any continuing disclosure requirements applicable to the Bonds and (iv)  
4 change the Bond Registrar or any securities depository appointed for the Bonds.

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

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

17 **Section 30. Headings.** The section headings in this ordinance are used for  
18 convenience 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 after its approval by the Mayor, but if not approved and returned by the Mayor within ten days  
21 after presentation, it shall take effect as provided by Municipal Code Section 1.04.020.

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Passed by the City Council the 19<sup>th</sup> day of November 2012, and signed by me in open session in authentication of its passage this 19<sup>th</sup> day of Nov., 2012.

  
\_\_\_\_\_  
President \_\_\_\_\_ of the City Council

Approved by me this 20 day of Nov., 2012.

  
\_\_\_\_\_  
Michael McGinn, Mayor

Filed by me this 27<sup>th</sup> day of Nov., 2012.

  
\_\_\_\_\_  
Monica Martinez Simmons, City Clerk

(SEAL)

Exhibit A: CITY OF SEATTLE Outstanding Solid Waste Parity Bonds



**EXHIBIT A**

**CITY OF SEATTLE**

***Outstanding Solid Waste Parity Bonds***

<b>Issue Name</b>	<b>Dated Date</b>	<b>Original Par Amount</b>	<b>Outstanding Balance 12/31/2011</b>	<b>Bond Legislation</b>
Solid Waste Revenue and Refunding Bonds, 2007	12/12/2007	\$82,175,000	\$76,415,000	Ordinance 121940, Ordinance 122498, and Resolution 31032
Solid Waste Revenue Bonds, 2011	6/22/2011	\$45,750,000	\$45,750,000	Ordinance 123576 and Resolution 31301

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

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[FORM OF BOND COUNSEL OPINION]

[Date]

The City of Seattle, Washington

Re: The City of Seattle, Washington  
\$ \_\_\_\_\_ Solid Waste Revenue and Refunding Bonds, 2014

We have served as bond counsel to The City of Seattle, Washington (the “City”), in connection with the issuance of the above referenced bonds (the “Bonds”), and in that capacity have examined such law and such certified proceedings and other documents as we have deemed necessary to render this opinion. As to matters of fact material to this opinion 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 by the City pursuant to the laws of the State of Washington and pursuant to Ordinance 121940, as amended by Ordinance 122498, Ordinance 124046 and Resolution \_\_\_\_\_ (the “Bond Legislation”) to (i) provide the funds to pay the cost of various projects of the City’s Solid Waste System, (ii) fund a portion of the reserve requirement, (iii) advance refund certain of the City’s Solid Waste Revenue and Refunding Bonds, 2007, and (iv) pay the costs of issuance of the Bonds and administering the Refunding Plan, all as set forth in the Bond Legislation.

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

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

Based upon the foregoing, 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 and binding obligations of the City payable solely out of the Net Revenue of the Solid Waste System and money in the 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.

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.

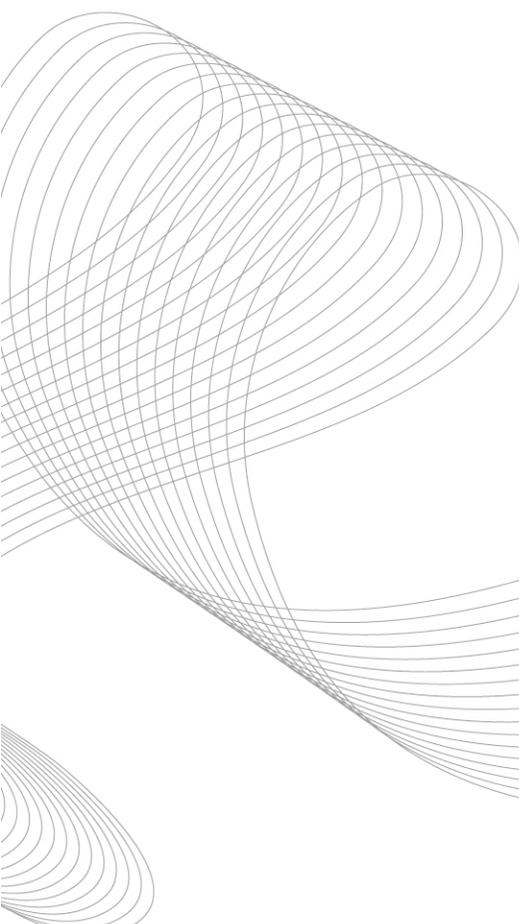
We bring to your attention the fact that the foregoing opinions are expressions of our professional judgment on the matters expressly addressed and do not constitute guarantees of result.

Respectfully submitted,

**APPENDIX C**

**2013 AUDITED FINANCIAL STATEMENTS OF THE SOLID WASTE SYSTEM**

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Report of Independent Auditors  
and Financial Statements with  
Supplemental Information for

**Seattle Public Utilities -  
Solid Waste Fund**  
(An Enterprise Fund of the City of Seattle)

December 31, 2013 and 2012

**MOSS-ADAMS** LLP

Certified Public Accountants | Business Consultants

*Acumen. Agility. Answers.*

## **CONTENTS**

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	PAGE
REPORT OF INDEPENDENT AUDITORS	1-2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3-12
FINANCIAL STATEMENTS	
Statements of net position	13-14
Statements of revenues, expenses, and changes in net position	15
Statements of cash flows	16-17
Notes to financial statements	18-39
SUPPLEMENTAL INFORMATION	
Solid waste customers by class	40
Solid waste tonnage	41
Solid waste rate schedule and transfer station fees	42

## REPORT OF INDEPENDENT AUDITORS

To the Director of Seattle Public Utilities  
Solid Waste Fund  
Seattle, Washington

### **Report on Financial Statements**

We have audited the accompanying financial statements of Seattle Public Utilities - Solid Waste Fund (the "Fund"), which comprise the statements of net position as of December 31, 2013 and 2012, and the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

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

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

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

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Seattle Public Utilities - Solid Waste Fund as of December 31, 2013 and 2012, and the results of its operations and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

***Emphasis of Matter***

As discussed in Note 12 to the financial statements, the Fund adopted the accounting requirements of Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which resulted in the restatement of previously reported amounts for the year ended December 31, 2012. Our opinion is not modified with respect to this matter.

***Other Matters***

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

Our audit was conducted for the purpose of forming an opinion on the 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 28, 2014

# SEATTLE PUBLIC UTILITIES - SOLID WASTE FUND

## (An Enterprise Fund of the City of Seattle)

### MANAGEMENT'S DISCUSSION AND ANALYSIS

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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 Solid Waste Fund (the "Fund") for the fiscal years ended December 31, 2013 and 2012. The revenues, expenses, assets, deferred outflows of resources, liabilities, and deferred inflows of resources of the City of Seattle's solid waste system are recorded in the Solid Waste Fund, the functions of which are primarily supported by user fees and charges charged to customers. The financial situation of other aspects of Seattle City government, including other utility services and general government operations, are reported elsewhere.

#### OVERVIEW OF THE FINANCIAL STATEMENTS

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

**Basic Financial Statements** - The basic financial statements of the Fund report information similar to the presentation used by private sector companies. These statements offer short-term and long-term financial information about its activities. The basic financial statements begin on page 13 of this report and are comprised of three components: (1) statements of net position, (2) statements of revenues, expenses, and changes in net position, and (3) statements of cash flows.

The Statement of Net Position presents information, as of December 31, 2013 and 2012, on all of the Fund's assets, deferred outflows of resources, liabilities and deferred inflows of resources. The difference between assets combined with deferred outflows of resources and liabilities combined with deferred inflows of resources is reported as net position. They also provide information about the nature and amounts of investments in resources (assets and deferred outflows of resources), obligations to the Fund's creditors (liabilities and deferred inflows of resources), and provide the basis for assessing the liquidity and financial flexibility of the Fund.

The Statements of Revenues, Expenses, and Changes in Net Position present changes in the Fund's net position for the years ended December 31, 2013 and 2012. All changes in net position are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. These statements reflect the results of the Fund's operations for the years identified to provide information about the Fund's credit worthiness and its ability to successfully recover all its costs through service fees and other charges.

The Statements of Cash Flows are required to provide information about the Fund's cash receipts and cash payments during the years ended December 31, 2013 and 2012. 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.

**SEATTLE PUBLIC UTILITIES - SOLID WASTE FUND**  
**(An Enterprise Fund of the City of Seattle)**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

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**OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)**

The Fund adopted GASB Statement No. 65 during fiscal year 2013. With the implementation of this statement, the Fund's 2012 financial statements have been restated to conform with the new reporting and accounting requirements. The statement established accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities, and recognize, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

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

**FINANCIAL ANALYSIS**

Increases or decreases in net position may serve over time as a useful indicator of whether the Fund's financial position is improving or deteriorating. At December 31, 2013, the Fund had a surplus in total net position of \$32.3 million compared to a surplus of \$29.0 million in 2012. During the year ended December 31, 2013, the Fund's overall position improved, with an increase in net position of \$3.3 million (11.2%), compared to a \$7.7 million (35.9%) increase in 2012. The following summary statement of net position presents the assets and deferred outflows of resources of the Fund and shows the mix of liabilities and deferred inflows of resources and net position used to acquire these assets.

**Summary Statement of Net Position**

	<u>2013</u>	<u>2012</u> (As Restated)	<u>2011</u> (As Restated)
ASSETS			
Current assets	\$ 35,707,827	\$ 35,271,768	\$ 31,941,982
Capital assets, net	133,408,920	129,075,810	117,881,371
Other	<u>32,250,621</u>	<u>33,775,231</u>	<u>49,028,226</u>
Total assets	201,367,368	198,122,809	198,851,579
DEFERRED OUTFLOWS OF RESOURCES	<u>139,393</u>	<u>162,625</u>	<u>185,857</u>
Total assets and deferred outflows of resources	<u>\$ 201,506,761</u>	<u>\$ 198,285,434</u>	<u>\$ 199,037,436</u>

**SEATTLE PUBLIC UTILITIES - SOLID WASTE FUND**  
**(An Enterprise Fund of the City of Seattle)**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

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**FINANCIAL ANALYSIS (CONTINUED)**

	2013	2012 (As Restated)	2011 (As Restated)
<b>LIABILITIES</b>			
Current liabilities	\$ 24,729,801	\$ 25,254,791	\$ 28,582,874
Revenue bonds	117,805,270	121,556,375	125,142,479
Other	21,432,459	22,443,217	23,954,072
Total liabilities	163,967,530	169,254,383	177,679,425
<b>DEFERRED INFLOWS OF RESOURCES</b>	5,246,536	-	-
<b>NET POSITION</b>			
Net investment in capital assets	18,079,526	15,152,680	15,119,281
Restricted	147,149	254,409	620,863
Unrestricted	14,066,020	13,623,962	5,617,867
Total net position	32,292,695	29,031,051	21,358,011
Total net position, liabilities and deferred inflows of resources	\$ 201,506,761	\$ 198,285,434	\$ 199,037,436

**2013 Compared to 2012**

**Assets** - Current assets increased slightly by 1.2% from the prior year. Restricted cash and equity in pooled investments increased \$1.4 million (12.7%) from the prior year mostly attributable to the \$5.2 million transfer of operating cash to a rate stabilization account and the payment of construction costs related to the design phase of the North Transfer Station rebuild project and to the South Transfer Station project, which was completed in April 2013. These payments resulted in a \$3.9 million reduction in the construction cash account bringing the account balance to zero.

Capital assets increased \$4.3 million (3.4%) over the prior year. Utility plant increased \$4.7 million due the transfer of construction costs related to the South Transfer Station from Construction in Progress. Construction in Progress increased \$4.9 million mainly due to costs incurred for the South Transfer Station as it was completed in early 2013 and the North Transfer Station rebuild project. Offsetting these additions to capital assets was \$5.2 million in related depreciation expense.

Other noncurrent assets decreased \$2.9 million mainly as a result of amortization of Landfill Closure/Post Closure Costs and Environmental Costs. Assets, in total, increased \$3.2 million (1.6%) over the prior year.

**Liabilities** - Current liabilities decreased \$0.5 million (2.1%) from the prior year. This is mostly attributed to the unearned revenue and other credits balances decreasing \$1.4 million (25.2%). Furthermore, there was a \$0.9 million decrease related to environmental liabilities and landfill closure/postclosure costs. These decreases were offset by increases of \$1.8 million related to the accrual of 2013 expenses.

# **SEATTLE PUBLIC UTILITIES - SOLID WASTE FUND**

## **(An Enterprise Fund of the City of Seattle)**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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#### **FINANCIAL ANALYSIS (CONTINUED)**

Noncurrent and other liabilities decreased \$4.8 million (3.3%) from 2012. The most significant factor affecting this change was a \$3.8 million decrease in revenue bond related liabilities, primarily due to principal payments made during 2013. In addition, the noncurrent portion of the accrued landfill closure/postclosure costs and environmental liabilities, net of current portion decreased \$1.3 million.

**Net Position** - A portion of the Fund's net position (\$18.1 million) 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. During 2013, net position invested in capital assets increased \$2.9 million due to an increases in capital assets placed in service, net of depreciation offset by related debt.

The Fund's restricted net position represent resources that are subject to restrictions on how they may be used. This portion of net position decreased \$107,260 due to reductions in other charges balances.

The remaining portion of the Fund's net position (\$14.1 million) represents resources that are unrestricted. The unrestricted portion of net position increased \$0.4 million from the prior year primarily due to increased residential collection revenues.

#### **2012 Compared to 2011**

**Assets** - Current assets increased \$3.3 million (10.4%) over the prior year primarily related to an increase in operating cash of \$2.7 million, which was due to the timing of payments for 2012 construction costs for the South Transfer Station. In addition, the allowance for doubtful accounts, attributed to accounts held with the current commercial contractors and transfer station, decreased by \$0.5 million.

Restricted cash and equity in pooled investments decreased \$11.8 million (51.7%) from the prior year mostly attributable to payment for construction costs related to the South Transfer Station as it neared completion at the end of 2012. This resulted in a \$12.2 million decrease in the construction cash account. Additionally, there was a \$0.4 million increase in vendor deposits which were related to the retainage held from the contractor responsible for the South Transfer Station construction. Construction in Progress decreased \$64.2 million as the construction costs for the South Transfer Station were transferred to Capital Assets.

Other noncurrent assets decreased \$3.4 million mainly as a result of amortization of Landfill Closure/Post Closure Costs and Environmental Costs. Assets, in total, experienced a slight decline of \$0.7 million (0.4%).

**SEATTLE PUBLIC UTILITIES - SOLID WASTE FUND**  
**(An Enterprise Fund of the City of Seattle)**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

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**FINANCIAL ANALYSIS (CONTINUED)**

**Liabilities** - Current liabilities decreased \$3.3 million (11.6%) from the prior year. This is mostly attributed to unearned revenue and other credits balances decreasing \$2.1 million (26.6%). Furthermore, there was a \$2.3 million decrease to accounts payable related to the accrual of 2012 expenses. These decreases were offset by increases of \$0.4 million and \$1.4 million in revenue bonds due within one year and current environmental liability, respectively.

Noncurrent and other liabilities decreased \$5.1 million (3.4%) from 2011. The most significant factor affecting this change was a \$3.0 million decrease in revenue bonds payable, which is a result of principal payments made during 2012. In addition, the noncurrent portion of the accrued landfill closure/postclosure costs, net of current portion decreased \$1.1 million and noncurrent environmental liabilities decreased \$0.8 million.

**Net Position** - A portion of the Fund's net position (\$15.2 million) 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. During 2012, net position invested in capital assets decreased \$0.1 million due to increases in debt; however, the impact of additional debt was offset by an \$11.2 million increase in capital assets.

The Fund's restricted net position represent resources that are subject to restrictions on how they may be used. This portion of net position decreased \$0.3 million due to reductions in other charges balances.

The remaining portion of the Fund's net position (\$13.6 million) represents resources that are unrestricted. The unrestricted portion of net position increased \$8.0 million from the prior year primarily due to increased residential collection revenues.

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

**Summary Statements of Revenues, Expenses, and Changes in Net Position**

	<u>2013</u>	<u>2012</u> (As Restated)	<u>2011</u> (As Restated)
Operating revenues	\$ 159,741,503	\$ 156,926,774	\$ 154,200,068
Operating expenses	<u>(152,272,278)</u>	<u>(147,496,962)</u>	<u>(147,109,848)</u>
Net operating income	7,469,225	9,429,812	7,090,220
Other expenses, net of other revenues	(4,799,990)	(2,510,918)	(1,896,075)
Fees, contributions, and grants	<u>592,409</u>	<u>754,146</u>	<u>741,263</u>
Change in net position	<u>\$ 3,261,644</u>	<u>\$ 7,673,040</u>	<u>\$ 5,935,408</u>

**SEATTLE PUBLIC UTILITIES - SOLID WASTE FUND**  
**(An Enterprise Fund of the City of Seattle)**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

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**FINANCIAL ANALYSIS (CONTINUED)**

**2013 Compared to 2012**

Current year operating revenues increased \$2.8 million, or 1.8%, compared to the prior year. The key factor affecting this change was an approximate 6.4% rate increase for residential and commercial garbage, and composting services. This rate change was effective April 1, 2013. Residential solid waste collection service experienced the largest portion of revenue gains with a \$6.4 million increase in revenues including \$4.7 million in residential garbage collection and \$1.7 million in increased yard waste collection revenue. There were no rate increases related to solid waste disposal services in 2013 and as a result revenue generated at the transfer stations was flat compared to 2012.

Seattle City Council enacted legislation in 2012 instructing the Fund to make contributions to a Rate Stabilization Account if the balance of operating cash on hand at year-end met certain targets. The legislation dictates that Seattle Public Utilities shall deposit cash into the Solid Waste Fund's Rate Stabilization Account and defer revenues equal to the amount that the Fund's operating cash balances at the end of each fiscal year exceed the following balances: \$21.0 million in 2013; \$21.8 million in 2014; \$17.8 million in 2015; and \$15.9 million in 2016. The deposits will be limited to cash and revenues that are not required to meet financial policy targets for the Fund with respect to debt service coverage, net income, or cash-financed capital expense. The fund may withdraw revenues from the Fund's Rate Stabilization Account provided that: such a withdrawal will allow the Fund to meet one or more financial policy targets that it would not have otherwise met in the absence of such a withdrawal; or to reduce the size of any adjustment to 2015 or 2016 solid waste rates, if such a reduction to the rates would not jeopardize the Fund's ability to meet operating cash balances specified in the legislation and the financial policy targets for debt service coverage, net income, and cash-financed capital projects. The \$21.0 million operating cash target was exceeded in 2013 and \$5.2 million of revenue was deferred and deposited into the Rate Stabilization Account.

2013 operating expenses increased \$4.8 million (3.2%) compared to 2012. The largest operating expense increase was related to contractual solid waste collection costs, which increased \$3.5 million (3.9%) due to inflation adjustments specified in the contracts. Taxes paid to the City rose \$1.3 million due to higher tax rates. While branch related operational expenses remained relatively flat overall in 2013 there were substantial increases and decreases in expenses within the branch categories. Utility Systems Management expenses decreased \$0.8 million while the general and administrative branch increased \$1.0 million. These shifts in expenses were mostly attributable to reorganizations of work groups within the branches and realignment of the project and delivery and customer service branch to the corporate asset management division.

**SEATTLE PUBLIC UTILITIES - SOLID WASTE FUND**  
**(An Enterprise Fund of the City of Seattle)**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

---

**FINANCIAL ANALYSIS (CONTINUED)**

Nonoperating expenses increased \$2.5 million (140%). The interest expense adjustment for capitalized interest relating to construction costs was reduced by \$2.5 million as the South Transfer Station construction was completed and the North Transfer Station construction had been delayed and was still in the design phase. In 2013, the Clean Cities Program revenues collected through tonnage taxes exceeded the Clean Cities Program expenses by \$0.2 million.

**2012 Compared to 2011**

Current year operating revenues increased \$2.7 million, or 1.8%, compared to the prior year. The key factor affecting this change was an approximate 6.5% rate increase for residential garbage services and an 8% rate increase for residential food and yard waste services. This rate change was effective January 1, 2012. Residential solid waste collection service experienced the largest portion of revenue gains with a \$6.1 million increase in revenues including \$4.9 million in residential garbage collection and \$1.3 million in increased yard waste collection revenue. These revenue gains were offset by a \$2.9 million decline in revenue generated by the transfer stations from customer self-haul drop offs.

2012 operating expenses were relatively flat increasing \$0.4 million (0.26%) compared to 2011. The largest operating expense increase was related to contractual solid waste collection costs which increased \$1.5 million (1.7%). Depreciation and amortization expense rose \$0.2 million and taxes paid to the City rose \$0.5 million due to higher tonnage tax rates. These increases were more than offset by reductions in general and administrative and customer service expense, which decreased approximately \$2.1 million primarily due to the large amount of unfilled employment vacancies within the utility. Many of these vacancies will remain unfilled in 2013.

Nonoperating expenses increased \$0.6 million (32.1%). One of the factors attributing to the increase was a \$0.9 million increase to interest expense, which is due to the bond issued in 2011. Interest expense was offset by a \$1.0 million increase in interest expense adjustments as the result of capitalized interest relating to the construction of the South Transfer Station. Another factor contributing to the increase was a \$1.7 million increase in the Clean Cities program expense. In 2012, the Clean Cities expense outpaced Clean Cities revenue collected though tonnage taxes by \$0.2 million.

**SEATTLE PUBLIC UTILITIES - SOLID WASTE FUND**  
**(An Enterprise Fund of the City of Seattle)**  
**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 as of December 31, 2013, 2012, and 2011:

**Summary of Capital Assets, Net of Accumulated Depreciation**

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Land and land rights	\$ 15,217,643	\$ 14,565,140	\$ 1,791,096
Buildings	51,751,428	50,726,548	1,452,599
Structures	3,496,534	3,481,093	462,400
Machinery and equipment	30,730,505	34,101,644	23,434,751
Computer systems	5,397,181	4,305,965	5,151,751
Construction in progress	24,554,012	19,633,803	83,819,741
Other property	<u>2,261,617</u>	<u>2,261,617</u>	<u>1,769,033</u>
Capital assets, net of accumulated depreciation	<u>\$ 133,408,920</u>	<u>\$ 129,075,810</u>	<u>\$ 117,881,371</u>

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

**2013 Compared to 2012**

The Fund's capital assets (net of accumulated depreciation) for the year ended December 31, 2013 is \$133.4 million. This represents an increase of approximately \$4.3 million (3.4%) compared to 2012. The Fund spent \$10.4 million for construction projects in 2013. The construction projects were multi-year projects and \$6.0 million related to these projects was capitalized as assets and other charges in 2013. This increase in assets was offset by \$1.3 million for asset retirements and \$6.3 million for depreciation.

Highlights of the Fund's capital assets placed in service during 2013 include the following:

- \$2.0 million for the new South Transfer Station placed in service in 2013.
- \$0.7 million for the purchase of land at the South Transfer Station.
- \$1.7 million for IT infrastructure upgrades.

The Fund's construction in progress activity at year end included \$22.8 million for the North Transfer Station rebuild.

**SEATTLE PUBLIC UTILITIES - SOLID WASTE FUND**  
**(An Enterprise Fund of the City of Seattle)**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

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**CAPITAL ASSETS (CONTINUED)**

**2012 Compared to 2011**

The Fund's capital assets (net of accumulated depreciation) for the year ended December 31, 2012 is \$129.1 million. This represents an increase of approximately \$11.2 million (9.5%) compared to 2011. The Fund spent \$17.1 million for construction projects in 2012. The construction projects were multi-year projects and \$81.2 million related to these projects was capitalized as assets and other charges in 2012. This increase in assets was offset by \$0.07 million for asset retirements and \$6.5 million for depreciation.

Highlights of the Fund's capital assets placed in service during 2012 include the following:

- \$65.7 million for the new South Transfer Station.
- \$12.8 million for the purchase of land at the South Transfer Station.
- \$0.8 million for IT infrastructure upgrades, including installation of scale management systems hardware at the South Transfer Station.

The Fund's construction in progress activity during 2012 primarily included \$64.2 million for the South Transfer Station rebuild.

**DEBT ADMINISTRATION**

The Fund's debt primarily consists of bonded debt, which is secured solely by solid waste revenues and provides financing for capital improvements. The Fund upgraded the credit rating on its bonds to AA from AA- by Standard & Poor's Rating Service and maintained the Aa3 rating from Moody's Investors Service. Additional information about the Fund's long-term debt can be found in Note 4 of this report.

**2013 Compared to 2012**

At the end of 2013, the Fund had \$115.9 million in bonded debt, as compared to \$119.2 million in 2012, all of which was secured solely by solid waste revenues. This decrease of \$3.3 million is attributed to scheduled principal payments of the 2011 bond issue. The Fund has used all spendable bond proceeds mostly for the completion of the South Transfer Station and the North Transfer Station design phase. The Fund retains a bond reserve balance of \$4.9 million.

**2012 Compared to 2011**

At the end of 2012, the Fund had \$119.2 million in bonded debt, as compared to \$122.2 million in 2011, all of which was secured solely by solid waste revenues. This decrease of \$3.0 million is attributed to scheduled principal payments of the 2011 bond issue. The Fund will use the remaining proceeds of the 2011 bond issue to finance various capital projects.

**SEATTLE PUBLIC UTILITIES - SOLID WASTE FUND**  
**(An Enterprise Fund of the City of Seattle)**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

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**ECONOMIC FACTORS AFFECTING NEXT YEAR**

Effective April 1, 2014, the Fund adopted a rate increase of approximately 4.1% for residential and commercial services. This rate increase is expected to bring an additional \$5.7 million in operating revenues to the Fund in 2014. The North Transfer Station closed on January 20, 2014 as the station rebuild project began. It is expected that self-haul revenue and municipal solid waste tonnage processed by SPU will decrease during the closure period. Management is aware of this and is working on a plan to mitigate the effects of the closure.

**REQUESTS FOR INFORMATION**

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

**SEATTLE PUBLIC UTILITIES - SOLID WASTE FUND**  
**(An Enterprise Fund of the City of Seattle)**  
**STATEMENTS OF NET POSITION**

	December 31,	
	2013	2012 (As Restated)
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Operating cash and equity in pooled investments	\$ 20,863,492	\$ 21,224,460
Receivables		
Accounts, net of allowance	13,068,457	12,254,786
Unbilled revenues	410,369	320,809
Due from other funds	286,899	249,519
Due from other governments	931,815	923,856
Materials and supplies inventory	107,587	148,497
Prepayments and other current assets	39,208	149,841
Total current assets	<u>35,707,827</u>	<u>35,271,768</u>
<b>NONCURRENT ASSETS</b>		
Restricted cash and equity in pooled investments	12,456,154	11,054,887
Prepayments long-term	342,575	360,605
Landfill closure and postclosure costs	14,740,896	16,080,977
Regulatory assets	3,987,154	5,564,577
Other charges	723,842	714,185
Capital assets		
Land and land rights	15,217,643	14,565,140
Plant in service, excluding land	149,170,917	145,168,124
Less accumulated depreciation	(57,795,269)	(52,552,874)
Construction in progress	24,554,012	19,633,803
Other property, net	2,261,617	2,261,617
Total noncurrent assets	<u>165,659,541</u>	<u>162,851,041</u>
Total assets	201,367,368	198,122,809
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Unamortized loss on refunded debt	<u>139,393</u>	<u>162,625</u>
Total assets and deferred outflows of resources	<u>\$ 201,506,761</u>	<u>\$ 198,285,434</u>

**SEATTLE PUBLIC UTILITIES - SOLID WASTE FUND**  
**(An Enterprise Fund of the City of Seattle)**  
**STATEMENTS OF NET POSITION (CONTINUED)**

	December 31,	
	2013	2012
		(As Restated)
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 8,905,996	\$ 8,338,275
Salaries, benefits and payroll taxes payable	730,565	609,670
Compensated absences payable	145,582	138,108
Due to other funds	1,660,857	922,149
Interest payable	2,337,341	2,402,403
Taxes payable	592,313	289,107
Revenue bonds due within one year	3,495,000	3,330,000
Claims payable	249,696	251,621
Environmental liabilities	1,316,000	1,817,000
Landfill closure and postclosure liability	986,973	1,398,234
Other	4,309,478	5,758,224
Total current liabilities	24,729,801	25,254,791
<b>NONCURRENT LIABILITIES</b>		
Compensated absences payable	1,509,380	1,471,680
Claims payable	633,956	607,035
Environmental liabilities	89,279	137,447
Landfill closure and postclosure liability	15,973,828	17,218,549
Unfunded other post retirement benefits	870,147	711,194
Other noncurrent liabilities	2,355,869	2,297,312
Revenue bonds	115,875,000	119,205,000
Less bonds due within one year	(3,495,000)	(3,330,000)
Bond premium	5,425,270	5,681,375
Total noncurrent liabilities	139,237,729	143,999,592
Total liabilities	163,967,530	169,254,383
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Rate stabilization	5,246,536	-
<b>NET POSITION</b>		
Net investment in capital assets	18,079,526	15,152,680
Restricted	147,149	254,409
Unrestricted	14,066,020	13,623,962
Total net position	32,292,695	29,031,051
Total liabilities and net position	\$ 201,506,761	\$ 198,285,434

**SEATTLE PUBLIC UTILITIES - SOLID WASTE FUND**  
**(An Enterprise Fund of the City of Seattle)**  
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**

	Years Ended December 31,	
	2013	2012 (As Restated)
<b>OPERATING REVENUES</b>		
Charges for services and other revenues	\$ 159,741,503	\$ 156,926,774
<b>OPERATING EXPENSES</b>		
Solid waste collection	95,324,997	91,785,851
Planning and development	85,885	94,475
Utility systems management	2,256,440	3,081,852
Field operations	7,644,214	7,533,259
Project delivery	690,653	818,655
Customer services	5,649,423	5,725,724
General and administrative	12,190,340	11,192,300
City taxes	16,838,354	15,537,768
Other taxes	2,933,995	2,665,948
Depreciation and amortization	7,317,891	7,702,961
Amortization of landfill closure and postclosure costs	1,340,086	1,358,169
Total operating expenses	<u>152,272,278</u>	<u>147,496,962</u>
<b>OPERATING INCOME</b>	<u>7,469,225</u>	<u>9,429,812</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Investment income	(71,840)	295,266
Interest expense	(5,225,670)	(2,890,557)
Amortization of bond premiums	256,105	256,105
Amortization of bond refunding loss	(23,232)	(23,232)
Gain (loss) on sale of capital assets	(52,054)	133,203
Contributions and grants	592,409	754,146
Other, net	316,701	(281,703)
Total nonoperating revenues (expenses)	<u>(4,207,581)</u>	<u>(1,756,772)</u>
<b>CHANGE IN NET POSITION</b>	3,261,644	7,673,040
<b>NET POSITION</b>		
Beginning of year	<u>29,031,051</u>	<u>21,358,011</u>
End of year	<u>\$ 32,292,695</u>	<u>\$ 29,031,051</u>

**SEATTLE PUBLIC UTILITIES - SOLID WASTE FUND**  
**(An Enterprise Fund of the City of Seattle)**  
**STATEMENTS OF CASH FLOWS**

	Years Ended December 31,	
	2013	2012
		(As Restated)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from customers	\$ 167,645,776	\$ 160,232,672
Cash paid to suppliers	(108,635,447)	(109,591,967)
Cash paid to employees	(20,673,246)	(18,586,982)
Cash paid for taxes	(18,756,526)	(18,108,187)
Net cash provided by operating activities	19,580,558	13,945,536
<b>CASH FLOW FROM NON-CAPITAL FINANCING ACTIVITIES</b>		
Operating grants received	895,721	340,182
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Proceeds from sale of fixed assets	202,539	133,203
Principal payments on revenue bonds	(3,330,000)	(2,960,000)
Capital expenditures and other charges	(10,522,245)	(14,695,783)
Interest paid on long-term debt	(5,708,695)	(6,080,694)
Debt issuance costs	-	(171,327)
Net cash used in capital and related financing activities	(19,358,401)	(23,774,601)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Net gain (loss) on investments	(77,578)	311,007
<b>NET INCREASE (DECREASE) IN CASH AND EQUITY IN POOLED INVESTMENTS</b>	1,040,299	(9,177,876)
<b>CASH AND EQUITY IN POOLED INVESTMENTS</b>		
Beginning of year	32,279,347	41,457,223
End of year	\$ 33,319,646	\$ 32,279,347
<b>CASH AT THE END OF THE YEAR CONSISTS OF</b>		
Operating cash and equity in pooled investments	\$ 20,863,492	\$ 21,224,460
Noncurrent restricted cash and equity in pooled investments	12,456,154	11,054,887
Total cash at the end of the year	\$ 33,319,646	\$ 32,279,347

**SEATTLE PUBLIC UTILITIES - SOLID WASTE FUND**  
**(An Enterprise Fund of the City of Seattle)**  
**STATEMENTS OF CASH FLOWS (CONTINUED)**

	Years Ended December 31,	
	2013	2012 (As Restated)
RECONCILIATION OF NET OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Net operating income	\$ 7,469,225	\$ 9,429,812
Adjustments to reconcile net operating income to net cash provided by operating activities		
Depreciation and amortization	7,317,891	7,702,961
Nonoperating revenues and expenses	919,080	411,764
Changes in operating assets and liabilities		
Unbilled revenues	(89,560)	50,518
Accounts receivable	(813,672)	(553,313)
Due from other City funds	(37,380)	(191,478)
Due from other governments	(311,271)	430,160
Materials and supplies inventory	40,911	(6,221)
Other assets	1,474,482	1,584,748
Accounts payable	567,742	(2,332,515)
Accrued payroll and payroll taxes payable	120,895	76,062
Taxes payable	303,206	95,528
Compensated absences payable	45,174	(9,098)
Due to other City funds	738,709	(308,476)
Claims payable	24,996	(19,043)
Accrued landfill closure and post-closure costs	(1,655,982)	(1,345,389)
Environmental liability	(549,168)	601,094
Rate stabilization	5,246,536	-
Other liabilities	(1,231,258)	(1,671,578)
Total adjustments	<u>12,111,333</u>	<u>4,515,724</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 19,580,558</u>	<u>\$ 13,945,536</u>

**SEATTLE PUBLIC UTILITIES - SOLID WASTE FUND**  
**(An Enterprise Fund of the City of Seattle)**  
**NOTES TO FINANCIAL STATEMENTS**

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

**Operations** - The City of Seattle, Seattle Public Utilities - Solid Waste Fund (the Fund) is a public utility enterprise fund of the City of Seattle (the City). The Fund was established to account for the solid waste activities of Seattle Public Utilities (SPU). These activities include the collection and disposal of residential and commercial garbage, recycling, and yard waste, operation of the City's two transfer stations and two household hazardous waste facilities, and management of the post closure maintenance and environmental monitoring of the City's two closed landfills. The collection, disposal and/or processing of garbage, yard waste, and recyclable materials is performed by private contractors, under contract with the Fund.

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 2013 and 2012, the Fund paid \$3,827,688 and \$3,373,136, respectively, to the City for its share of general and administrative services. Additionally, the Fund paid \$13,400,087 and \$12,249,575 in 2013 and 2012, respectively, to the City for business and occupation taxes, as well as \$3,438,267 and \$3,288,193, respectively, in tonnage taxes on waste collected and transferred in the City for disposal.

Solid waste collection and disposal services provided to other City departments and agencies are billed at rates prescribed by City ordinances. The Fund collected \$779,183 in 2013 and \$806,972 in 2012 from the City for solid waste services provided.

The utility billing function is co-managed by both SPU and Seattle City Light (SCL). SPU provides customer service through the call center and walk-in center. SCL operates and manages the billing system, Combined Customer Services System (CCSS). SPU and SCL billed and reimbursed each other for these services in 2013 and 2012. Within SPU, the cost 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 \$1,604,865 in 2013 and \$1,470,251 in 2012. The Fund paid \$220,537 and \$301,990 for CCSS services in 2013 and 2012, respectively, which does not include reimbursements to SCL for the Fund's share of capital costs to upgrade the CCSS system.

The Fund is subject to regulation by the City and the State of Washington. Service rates are authorized by ordinances passed by the Seattle City Council. 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.

# SEATTLE PUBLIC UTILITIES - SOLID WASTE FUND

## (An Enterprise Fund of the City of Seattle)

### NOTES TO FINANCIAL STATEMENTS

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

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

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

**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.

**Allowance for Doubtful Accounts** - A reserve has been established for uncollectible accounts receivable based on actual historical write-off trends and knowledge of specific circumstances that indicate collection of an account may be unlikely. As of December 31, 2013 and 2012, the Fund's allowance for doubtful accounts was \$999,564 and \$1,087,194, respectively.

**Due From/To Other Funds and Governments** - Activity between other funds and governments that is outstanding at the end of the year, not related to the provision of utility services, is reported as due from other funds and governments.

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

**SEATTLE PUBLIC UTILITIES - SOLID WASTE FUND**  
**(An Enterprise Fund of the City of Seattle)**  
**NOTES TO FINANCIAL STATEMENTS**

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

**Regulatory Assets** - GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, allows for certain costs to be capitalized as a regulatory asset instead of charged to expense. A regulatory asset is recorded when it is probable that future revenue in an amount at least equal to the capitalized costs will be recovered through customer rates over some future period. The Fund uses regulatory accounting for debt issuance costs because these costs are consistent with the rate methodology and, as such, will continue to be amortized over the life of the associated bond issues. GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, would have required these costs to be expensed in the period incurred unless the Fund executed GASB 62. In addition, the Fund also uses regulatory accounting for future reasonably estimable cleanup costs related to the remediation the South Park Bus Barn site located near the South Park Landfill.

**Other Charges** - Other charges primarily include costs related to leasehold improvements and plans such as the Comprehensive Solid Waste 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 materials, 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 improvements is capitalized. SPU's policy is to capitalize assets with a cost of \$5,000 or more.

**Construction in Progress** - Capitalizable costs incurred on projects that 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. In 1990, the Fund purchased 350 acres of land surrounding the Kent-Highlands landfill. A portion of this land will become part of the landfill area, with the excess held for sale. This property is carried at cost as other property on the statements of net position. Other property also includes artwork acquired through the City's "One Percent for Art" program, which supports the City ordinance established to direct the inclusion of works of art in public spaces within the City.

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

Buildings	10-75 years
Transfer stations, scale houses, and related improvements	5-33 years
Machinery and equipment	3-20 years
Structures	10-15 years
Computer systems	3-11 years

**SEATTLE PUBLIC UTILITIES - SOLID WASTE FUND**  
**(An Enterprise Fund of the City of Seattle)**  
**NOTES TO FINANCIAL STATEMENTS**

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

For most assets, it is SPU's policy to begin depreciation in the year following acquisition and to record a full year's depreciation in the year of disposition. This does not apply to heavy equipment, for which depreciation begins in the month following the equipment's in-service date to more accurately allocate equipment costs to various activities.

**Deferred Outflows/Inflows of Resources** - In addition to assets, the statement of net position, when applicable, will report a separate section for deferred outflows of resources. It represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The Fund has deferred loss on refunding debt which qualifies for reporting in this category. A deferred loss on refunding bonds results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statement of net position, when applicable, will report a separate section for deferred inflows of resources. It represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until then. In 2013, the Seattle City Council authorized the Fund to deposit \$5.2 million into the rate stabilization account. These funds will be used in future periods to lessen the impact of rate increases.

**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.

**SEATTLE PUBLIC UTILITIES - SOLID WASTE FUND**  
**(An Enterprise Fund of the City of Seattle)**  
**NOTES TO FINANCIAL STATEMENTS**

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

Most pollution remediation outlays do not qualify for capitalization and the Fund does not anticipate significant capitalized costs in the future. More information about environmental liabilities can be found in Note 10 of this report.

**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.

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 ineligible 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. The cash payment is 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** - Revenues are recorded through cycle billings rendered to customers monthly or bimonthly. Amounts billed but not earned at year-end are recorded as unearned revenues on the Fund's statement of net position. The Fund accrues and records unbilled collection service revenues in the financial statements for services provided from the date of the last billing to year end.

Other operating revenues include revenues generated from the Fund's two transfer stations. Transfer station revenues are collected from self-haul customers who deliver their garbage, yard waste, wood waste, appliances, and tires for a fee to the two transfer stations.

**Operating Expenses** - Certain expenses of the Fund are reported on the statement of revenues, expenses, and changes in net position by functional category. The types of work performed within each category are as follows:

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

# SEATTLE PUBLIC UTILITIES - SOLID WASTE FUND

## (An Enterprise Fund of the City of Seattle)

### NOTES TO FINANCIAL STATEMENTS

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

- **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 solid waste 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.

**Taxes** - The Fund paid 11.5% City utility tax on residential and commercial revenues, net of yard waste, recycling, and other costs related to waste reduction. The Fund also is charged two taxes by the City based on solid waste tonnage for operating transfer stations and collecting garbage within the City of Seattle. The tonnage tax rate increased to \$11.69 per ton from \$10.30 per ton in 2012. In addition, the Fund paid 1.8% business and occupation tax for January through June and 1.5% for July through December, 0.484% wholesale tax, and 0.471% retail tax to the State on the services provided to residential, commercial, and transfer station customers. The State refuse tax rates remained the same at 3.60% for 2013.

**Nonoperating Revenues and Expenses** - This includes the nonoperating revenues and expenses that arise from transactions not related directly to the major income-earning operations of the utility and are of a recurring nature. Major items are the Clean Cities Program revenue and expenses, investment and interest income, interest expense, amortization of debt expenses, amortization of debt discounts, premiums and refunding losses, sale of capital assets, and rental income. Clean Cities revenue is earned through tonnage fees collected from businesses engaged in operating transfer stations and collecting garbage and that are then used for the City's Clean Cities program. Other, Net includes \$5.4 million in Clean Cities revenue and \$5.2 million in Clean Cities expense for 2013 compared to \$4.8 million in Clean Cities revenue and \$5.0 million in Clean Cities expense for 2012.

**Net Position** - The statement of net position reports all financial and capital resources. Assets and deferred outflows of resources minus liabilities and deferred inflows of resources is net position. There are three components of net position: net investment in capital assets, restricted, and unrestricted.

Net investment in capital assets consists of capital assets, 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 position is restricted when constraints placed on net position use are either (1) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or (2) imposed by law through constitutional provisions or enabling legislation. The Fund's restricted net position as of December 31, 2013 and 2012 is related to the bond debt reserve funds and certain other charges.

**SEATTLE PUBLIC UTILITIES - SOLID WASTE FUND**  
**(An Enterprise Fund of the City of Seattle)**  
**NOTES TO FINANCIAL STATEMENTS**

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

Unrestricted net position is the portion that is not “net investment in capital assets” or “restricted.”

**Arbitrage Rebate Requirement** - The Fund is subject to the Internal Revenue Code (IRC), Section 148(f), related to its tax-exempt revenue 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 arbitrage liability as of December 31, 2013 and 2012.

**Accounting Changes** - GASB has issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The statement is effective for periods beginning after December 15, 2012. The financial statements reflect these changes for the periods presented, see Note 12 for additional information.

GASB has issued Statement No. 68, *Accounting and Financial Reporting for Pensions*. The primary objective of this statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This statement is effective for periods beginning after June 15, 2014. The Fund is evaluating the impact of this standard on the financial statements, but anticipates recording amounts for the unfunded portion of the pension plan. At this time, those amounts are not yet known.

**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 landfill closure and post closure costs, unbilled collection services, allowance for doubtful accounts, accrued sick leave, capitalized interest, depreciation, environmental liabilities, and other contingencies. Changes in these estimates and assumptions may have a material impact on the financial statements.

**Significant Risks and Uncertainty** - 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 the prior year balances to provide a presentation consistent with the current year.

**SEATTLE PUBLIC UTILITIES - SOLID WASTE FUND**  
**(An Enterprise Fund of the City of Seattle)**  
**NOTES TO FINANCIAL STATEMENTS**

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**Note 2 - Cash and Investments**

**Custodial Credit Risk - Deposits** - As of December 31, 2013 and 2012, the City's pool contained cash on deposit with the City's custodial banks in the amounts of \$12,431,810 and \$18,082,491, respectively. The deposits in excess of \$250,000 in both 2013 and 2012 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 depositors as described in RCW 39.58.050 (5) and (6), are segregated from all other assets. Eligible collateral is utilized by the trustee when the Commission has determined a loss, net of deposit insurance, has been incurred by a public depository financial institution.

**Investments** - As of December 31, the City's pooled investments were as follows:

	2013		2012	
	City Pool	Weighted Average Maturity (Days)	City Pool	Weighted Average Maturity (Days)
U.S. Government Agencies	\$ 853,631,386	1141	\$ 803,856,889	851
U.S. Government Obligations	227,659,850	902	67,448,440	482
State and Local Governments	156,812,737	818	182,163,719	549
Commercial Paper	154,962,668	47	176,955,311	40
Repurchase Agreements	44,756,478	2	162,390,595	2
Total	\$ 1,437,823,119		\$ 1,392,814,954	
Portfolio Weighted Average Maturity		914		592

**SEATTLE PUBLIC UTILITIES - SOLID WASTE FUND**  
**(An Enterprise Fund of the City of Seattle)**  
**NOTES TO FINANCIAL STATEMENTS**

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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:

	2013	2012
Cash and equity in pooled investments	\$ 20,863,492	\$ 21,224,460
Restricted cash and equity in pooled investments	12,456,154	11,054,887
	\$ 33,319,646	\$ 32,279,347
Balance as a percentage of City Pool cash and investments	2.3%	2.3%

**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, 2013 and 2012, 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 National Mortgage Association, Wells Fargo, and Federal Home Loan Mortgage Corporation. As of December 31, 2013, these investments were rated Aaa by Moody's Investors Service and AA+ by Standard & Poor's Rating Service. As of December 31, 2012, these investments were rated Aaa, and Aa1 by Moody's Investors Service and AAA and AA+ by Standard & Poor's Rating Service.

**SEATTLE PUBLIC UTILITIES - SOLID WASTE FUND**  
**(An Enterprise Fund of the City of Seattle)**  
**NOTES TO FINANCIAL STATEMENTS**

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

**Concentration of Credit Risk** - The City's investment policy limits concentration of credit risk for the City's investments as a whole, inclusive of the Fund's investments. These policy limits vary for each investment category. The City's investments in which 5% or more is invested in any single issuer as of December 31 are as follows:

Issuer	2013		2012	
	Fair Value	Percent of Total Investments	Fair Value	Percent of Total Investments
Federal National Mortgage Association	\$ 329,389,682	23%	\$ 243,725,925	18%
Federal Home Loan Mortgage Corp	\$ 285,535,430	20%	\$ 126,065,840	9%
United States Government	\$ 227,659,850	16%	\$ 67,448,440	5%
Freddie Mac Multifamily Securities	\$ 107,594,143	7%	\$ 80,726,450	6%
Federal Home Loan Bank	\$ 86,497,845	6%	\$ 258,633,251	19%
Wells Fargo	\$ 44,756,478	3%	\$ 162,390,595	12%

**Note 3 - Capital Assets**

Capital assets activity for the year ended December 31, 2013 consisted of the following:

	Beginning Balance	Additions and Transfers In	Retirements and Transfers Out	Ending Balance
Buildings	\$ 61,235,928	\$ 1,338,492	\$ -	\$ 62,574,420
Structures	3,654,493	73,241	-	3,727,734
Machinery and equipment	57,942,524	1,390,628	(1,343,712)	57,989,440
Computer systems	22,335,179	2,544,144	-	24,879,323
Total capital assets, excluding land	145,168,124	5,346,505	(1,343,712)	149,170,917
Less accumulated depreciation	(52,552,874)	(6,331,514)	1,089,119	(57,795,269)
	92,615,250	(985,009)	(254,593)	91,375,648
Construction in progress	19,633,803	10,384,581	(5,464,372)	24,554,012
Land and land rights	14,565,140	652,503	-	15,217,643
Other property	2,261,617	-	-	2,261,617
Capital assets, net	\$ 129,075,810	\$ 10,052,075	\$ (5,718,965)	\$ 133,408,920

**SEATTLE PUBLIC UTILITIES - SOLID WASTE FUND**  
**(An Enterprise Fund of the City of Seattle)**  
**NOTES TO FINANCIAL STATEMENTS**

**Note 3 - Capital Assets (Continued)**

Capital assets activity for the year ended December 31, 2012 consisted of the following

	Beginning Balance	Additions and Transfers In	Retirements and Transfers Out	Ending Balance
Buildings	\$ 11,599,529	\$ 49,636,399	\$ -	\$ 61,235,928
Structures	578,000	3,076,493	-	3,654,493
Machinery and equipment	42,678,455	15,338,082	(74,013)	57,942,524
Computer systems	21,779,617	555,562	-	22,335,179
Total capital assets, excluding land	76,635,601	68,606,536	(74,013)	145,168,124
Less accumulated depreciation	(46,134,100)	(6,492,787)	74,013	(52,552,874)
	30,501,501	62,113,749	-	92,615,250
Construction in progress	83,819,741	17,100,123	(81,286,061)	19,633,803
Land and land rights	1,791,096	12,774,044	-	14,565,140
Other property	1,769,033	492,584	-	2,261,617
Capital assets, net	<u>\$ 117,881,371</u>	<u>\$ 92,480,500</u>	<u>\$ (81,286,061)</u>	<u>\$ 129,075,810</u>

During 2013 and 2012, the Fund capitalized interest costs relating to construction of \$417,962 and \$2,899,112, respectively.

**Note 4 - Revenue Bonds**

The Fund issues bonds to provide financing for capital improvements. Payment of debt service on the bonds is derived solely from the revenues generated by the Fund. The Fund has set aside \$4,863,999 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, 2013 were \$115,875,000.

Revenue bonds outstanding as of December 31, 2013 and 2012 consisted of the following Solid Waste bonds:

Name of Issue	Issuance Date	Maturity Years	Interest Rates	Original Issue Amount	Bonds Outstanding	
					2013	2012
2007 Revenue and Refunding	12/05/2007	2008-2033	4.0 - 5.0%	\$ 82,175,000	\$ 71,935,000	\$ 74,230,000
2011 Revenue Bonds	6/22/2011	2012-2036	3.0 - 5.0%	45,750,000	43,940,000	44,975,000
				<u>\$ 127,925,000</u>	<u>\$ 115,875,000</u>	<u>\$ 119,205,000</u>

**SEATTLE PUBLIC UTILITIES - SOLID WASTE FUND**  
**(An Enterprise Fund of the City of Seattle)**  
**NOTES TO FINANCIAL STATEMENTS**

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

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

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 3,495,000	\$ 5,549,244	\$ 9,044,244
2015	3,665,000	5,371,494	9,036,494
2016	3,855,000	5,184,994	9,039,994
2017	4,045,000	4,988,869	9,033,869
2018	4,260,000	4,782,869	9,042,869
2019 - 2023	22,850,000	20,620,969	43,470,969
2024 - 2028	28,730,000	14,316,894	43,046,894
2029 - 2033	36,285,000	6,771,956	43,056,956
2034 - 2038	8,690,000	883,250	9,573,250
	<u>\$ 115,875,000</u>	<u>\$ 68,470,539</u>	<u>\$ 184,345,539</u>

The following table shows the revenue bond activity during the year ended December 31, 2013:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds payable, revenue bonds	\$ 119,205,000	\$ -	\$ (3,330,000)	\$ 115,875,000	\$ 3,495,000
Add (deduct) deferred amounts					
Issuance premiums	5,681,375	-	(256,105)	5,425,270	-
Total bonds payable	<u>\$ 124,886,375</u>	<u>\$ -</u>	<u>\$ (3,586,105)</u>	<u>\$ 121,300,270</u>	<u>\$ 3,495,000</u>

The following table shows the revenue bond activity during the year ended December 31, 2012:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds payable, revenue bonds	\$ 122,165,000	\$ -	\$ (2,960,000)	\$ 119,205,000	\$ 3,330,000
Add (deduct) deferred amounts					
Issuance premiums	5,937,480	-	(256,105)	5,681,375	-
Total bonds payable	<u>\$ 128,102,480</u>	<u>\$ -</u>	<u>\$ (3,216,105)</u>	<u>\$ 124,886,375</u>	<u>\$ 3,330,000</u>

**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 at least equal to 125% of annual debt service. Net revenue available for debt service, as defined by the bond covenants, was 373% of annual debt service for 2013.

**SEATTLE PUBLIC UTILITIES - SOLID WASTE FUND**  
**(An Enterprise Fund of the City of Seattle)**  
**NOTES TO FINANCIAL STATEMENTS**

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

Net revenue available for debt service for the year ended December 31, 2013 is determined as follows:

Change in net position	\$ 3,261,644
Add	
City business and occupation tax	16,838,354
Depreciation and amortization	7,317,891
Amortization of landfill closure and postclosure costs	1,340,086
Interest paid on revenue bonds	5,643,633
	<u>34,401,608</u>
Less	
Amortization of bond premiums and refunding loss	232,873
Capitalized interest	417,962
	<u>417,962</u>
Adjusted net revenue available for debt service	<u><u>\$ 33,750,773</u></u>
Debt service requirement (cash basis)	<u><u>\$ 9,038,394</u></u>
Coverage	373%

**Note 5 - Leases**

The Fund has non-cancelable operating lease commitments for real and personal property with minimum payments of \$192,417 in 2013 and \$183,979 in 2012. Rents are paid as they become due and payable. Minimum payments under the leases for the years ended December 31, are as follows:

2014	\$ 199,178
2015	194,502
2016	157,455
2017	1,685
	<u>1,685</u>
	<u><u>\$ 552,820</u></u>

**SEATTLE PUBLIC UTILITIES - SOLID WASTE FUND**  
**(An Enterprise Fund of the City of Seattle)**  
**NOTES TO FINANCIAL STATEMENTS**

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**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. The System is a single-employer defined benefit plan in which 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 ten 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.

City employees are required to contribute 10.03% of their annual base salaries to the System. The City's contribution rate for the years ended December 31, 2013, 2012, and 2011 was 12.89%, 11.01%, and 9.03%, respectively. Employer rates are established by the City Council on a biannual basis. The Fund's contributions to the System for the years ended December 31, 2013, 2012, and 2011 were \$1,976,288, \$1,683,817, and \$1,349,809, respectively.

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

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

Year Ended December 31,	City Required Contribution	City Actual Contribution	Percentage Contributed
2011	\$ 50.2	\$ 50.2	100%
2012	\$ 62.4	\$ 62.4	100%
2013	\$ 76.9	\$ 76.9	100%

Actuarial data and assumptions

Valuation date	January 1, 2013
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%

**SEATTLE PUBLIC UTILITIES - SOLID WASTE FUND**  
**(An Enterprise Fund of the City of Seattle)**  
**NOTES TO FINANCIAL STATEMENTS**

**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 (UAAL) <sup>2</sup> (b-a)	Funded Ratio (a/b)	Covered Payroll <sup>3</sup> (c)	UAAL as a % of Covered Payroll ((b-a)/c)
January 1, 2011	\$ 2,013.7	\$ 2,709.0	\$ 695.4	74.3%	\$ 563.2	123.5%
January 1, 2012	\$ 1,954.3	\$ 2,859.3	\$ 905.0	68.3%	\$ 557.0	162.5%
January 1, 2013	\$ 1,920.1	\$ 3,025.3	\$ 1,105.2	63.5%	\$ 567.8	194.6%

<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 of Seattle as single-employer defined benefit public employee health care plans.

**SEATTLE PUBLIC UTILITIES - SOLID WASTE FUND**  
**(An Enterprise Fund of the City of Seattle)**  
**NOTES TO FINANCIAL STATEMENTS**

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**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 \$2.4 million in 2012 and \$3.9 million in 2011.

The table below summarizes the City's annual cost, expected contributions to the plan, and changes in the net OPEB obligation for fiscal years ended December 31, 2012 and 2011. These calculations are based on the most recent actuarial valuation data available, dated January 1, 2012. The Fund has accrued \$870,147 to the plan as of December 31, 2013, as a reasonable estimate of expected contributions.

	<u>2012</u>	<u>2011</u>
Annual required contribution	\$ 8,064,000	\$ 11,286,000
Interest on net OPEB obligation	1,340,000	1,212,000
Adjustment to annual required contribution	<u>(1,969,000)</u>	<u>(1,673,000)</u>
Annual OPEB cost (expense)	7,435,000	10,825,000
Expected contribution (employer-paid benefits)	<u>(2,441,000)</u>	<u>(3,889,000)</u>
Increase in net OPEB obligation	4,994,000	6,936,000
Net OPEB obligation, beginning of year	<u>34,548,000</u>	<u>27,612,000</u>
Net OPEB obligation, end of year	<u>\$ 39,542,000</u>	<u>\$ 34,548,000</u>
Fund's allocated share of city liability	<u>\$ 711,194</u>	<u>\$ 693,230</u>

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.

**SEATTLE PUBLIC UTILITIES - SOLID WASTE FUND**  
**(An Enterprise Fund of the City of Seattle)**  
**NOTES TO FINANCIAL STATEMENTS**

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

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. Significant methods and assumptions are as follows:

Actuarial data and assumptions	
Valuation date	January 1, 2012
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	30 years, open
Discount rate	3.88%
Health care cost trend rates - medical	Traditional and Preventive Plans: 9%, decreasing by 0.5% for each year for 4 years  Group Health Standard and Deductible Plans: 8.5%, decreasing by 0.5% for each year for 7 years
Participation	40% of Active Employees who retire participate.
Mortality	General Service Actives based on the RP-2000 Employees Tables for Males and Females, with ages set back three years and General Service Retirees based on the RP-2000 Combined Healthy Males and Females, with ages set back one year.
Marital status	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.
Morbidity factors	Morbidity rate ranges for ages 50 through 64: 87.09% to 172.99% for retirees, and 101.19% to 172.99% for spouses. Retirees' spouses pay a lower premium than retirees
Other considerations	Active employees with current spousal and/or dependent coverage are assumed to elect same plan and coverage after retirement.

**SEATTLE PUBLIC UTILITIES - SOLID WASTE FUND**  
**(An Enterprise Fund of the City of Seattle)**  
**NOTES TO FINANCIAL STATEMENTS**

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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)	AAL Entry Age (b)	UAAL (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percent of Covered Payroll ((b-a)/c)
January 1, 2010	\$ -	\$ 93.5	\$ 93.5	0.0%	\$ 869.1	10.8%
January 1, 2011	\$ -	\$ 99.4	\$ 99.4	0.0%	\$ 866.2	11.5%
January 1, 2012	\$ -	\$ 74.7	\$ 74.7	0.0%	\$ 891.6	8.4%

The Health Care Sub Fund of the General Fund is reported in the City's Comprehensive Annual Financial Report, which can be obtained by writing the Department of Finance, City of Seattle, PO Box 94747, Seattle, Washington 98124-4747 or [www.seattle.gov/cafrs/](http://www.seattle.gov/cafrs/).

**Note 7 - Claims Payable**

The City and the Fund are self-insured for certain losses arising from personal and property damage claims by third parties and for casualty losses to the Fund's property. Liabilities for identified claims and claims incurred but not reported have been recorded by the Fund.

For 2013 and 2012, 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, 0.674% and 0.784%, respectively. Claims expected to be paid within one year were \$249,696 and \$251,621 as of December 31, 2013 and 2012, respectively. The schedules below present the changes in the liability for workers' compensation claims and other claims (risk financing liabilities) as of December 31:

	2013	2012
Beginning liability, undiscounted	\$ 885,993	\$ 902,980
Payments	(188,039)	(188,369)
Incurred claims and change in estimate	211,113	171,382
Ending liability, undiscounted	<u>\$ 909,067</u>	<u>\$ 885,993</u>
Ending liability, discounted (recorded balance at December 31)	<u>\$ 883,652</u>	<u>\$ 858,656</u>

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

**SEATTLE PUBLIC UTILITIES - SOLID WASTE FUND**  
**(An Enterprise Fund of the City of Seattle)**  
**NOTES TO FINANCIAL STATEMENTS**

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**Note 8 - Compensated Absences**

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

	2013	2012
Beginning liability	\$ 1,609,788	\$ 1,618,886
Additions	1,691,282	1,761,756
Reductions	(1,646,108)	(1,770,854)
Ending liability	\$ 1,654,962	\$ 1,609,788

**Note 9 - Contractual Obligations**

The City contracts with private companies for the collection of residential and commercial garbage, yard waste, and recycling. Effective March 30, 2009 the City entered into new contracts with Waste Management and CleanScapes for residential and commercial collection. The contracts are scheduled to end on March 31, 2019. Total payments under these contracts for residential and commercial collection in 2013 and 2012 were \$74,712,826 and \$71,465,723, respectively.

In 1990, the City signed a 38-year contract with Washington Waste Systems (WWS) for the disposal of non-recyclable City waste. WWS agreed to reduce the contract price in exchange for extending the contract to March 29, 2009. Effective March 30, 2009, a new contract was negotiated with WWS resulting in a reduced rate of \$39.65/ton. The contract provides for annual increases in the rate per ton based on a formula driven by the Consumer Price Index resulting in the current rate of \$41.63/ton. The Fund paid WWS \$13,291,599 and \$13,087,534 under this contract in 2013 and 2012, respectively.

The City also has negotiated a long-term yard waste processing contract with Cedar Grove Composting, Inc. (CGC). The first opt-out date on the disposal contract was extended to March 29, 2009, in exchange for price reductions every two years beginning in 2003. The City renegotiated a new long-term yard waste processing contract with CGC in 2008, which became effective March 30, 2009 and the current tonnage rate is \$27.88/ton. The first opt-out date under the contract occurred on March 30, 2013 at which time CGC agreed to a one year extension of the contract expiring on March 30, 2014. The City has negotiated new contracts with two yard waste contractors unrelated to CGC and those long-term contracts are effective April 1, 2014. Total payments to CGC in 2013 and 2012 were \$2,670,081 and \$2,575,479, respectively.

**SEATTLE PUBLIC UTILITIES - SOLID WASTE FUND**  
**(An Enterprise Fund of the City of Seattle)**  
**NOTES TO FINANCIAL STATEMENTS**

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**Note 9 - Contractual Obligations (Continued)**

Effective April 1, 2009, the City commenced a new contract for recycling processing with Rabanco, LTD. The company is responsible for processing recyclables, including food waste, from both commercial and residential customers. The new contract includes the collection of compostable materials, which is a service not originally provided by the City. The contract is scheduled to end on March 31, 2016 with an option to extend the contract for a three-year period at that time. Total payment for recycling processing in 2013 and 2012 were \$2,373,270 and \$2,332,918, respectively.

**Note 10 - Environmental Liabilities**

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

**South Park** - The City of Seattle and a private developer are under an Agreed Order with the Washington State Department of Ecology (Ecology) to perform a Remedial Investigation and Feasibility Study and to draft a Cleanup Action Plan for the historic South Park Landfill site under the State Model Toxics Control Act. The City and developer submitted a draft Remedial Investigation and Feasibility Study Report in April 2012 and are negotiating with Ecology to finalize the report and move forward to draft a Cleanup Action Plan. Ecology has approved an interim cleanup action by the developer on his portion of site property to take place in 2014. In 2012, the City executed an agreement regarding the developer's interim action that settles City liabilities for the interim cleanup costs but not City liabilities for the permanent cleanup.

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. 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; as new information becomes available, estimates may vary significantly due to price increases or reductions, technology, or applicable laws or regulations.

The Fund is aggressively pursuing other third parties that may have contributed to the contamination of the sites noted. There were no realized recoveries from other PRPs in 2013 or 2012.

**SEATTLE PUBLIC UTILITIES - SOLID WASTE FUND**  
**(An Enterprise Fund of the City of Seattle)**  
**NOTES TO FINANCIAL STATEMENTS**

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**Note 10 - Environmental Liabilities (Continued)**

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

	2013	2012
Beginning environmental liability, net of recoveries	\$ 1,954,447	\$ 1,353,373
Payments or amortization	(1,229,805)	(1,116,674)
Change in estimated liability	680,637	1,717,748
Ending environmental liability, net of recoveries	\$ 1,405,279	\$ 1,954,447

The provisions for environmental liabilities included in current and noncurrent liabilities at December 31 are:

	2013	2012
Environmental liability, current	\$ 1,316,000	\$ 1,817,000
Environmental liability, noncurrent	89,279	137,447
Ending liability	\$ 1,405,279	\$ 1,954,447

**Note 11 - Landfill Closure and Post Closure Care**

At December 31, 2013, accrued landfill closure and post closure costs consist primarily of monitoring, maintenance, and repair costs. It is the City Council's policy to include the Fund's share of all landfill closure and post closure costs in the revenue requirements used to set future solid waste rates. Therefore, total estimated landfill closure and post closure care costs are accrued and also reflected as a future costs in the accompanying financial statements, in accordance with generally accepted accounting principles. These costs are being amortized as they are recovered from rate payers. Actual costs for closure and post closure care may be higher due to inflation, changes in technology, or changes in regulations. Such amounts would be added to the liability and accrued when identified. Landfill closure costs were fully amortized in 2009 and landfill postclosure costs will continue to amortize until 2024.

In prior years, the Fund delivered its refuse to two leased disposal sites: the Midway and Kent-Highlands landfills. Subsequent to signing the original lease agreement, federal and state requirements for closure of landfill sites were enacted. The Fund stopped disposing of municipal waste in the Midway site in 1983 and in the Kent-Highlands site in 1986.

**SEATTLE PUBLIC UTILITIES - SOLID WASTE FUND**  
**(An Enterprise Fund of the City of Seattle)**  
**NOTES TO FINANCIAL STATEMENTS**

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**Note 12 - Adoption of New Accounting Pronouncement**

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, is effective for financial statement periods beginning after December 15, 2012, with the effects of the accounting change to be applied retroactively by restating the financial statements. The Fund adopted this new pronouncement in the current year and, accordingly, has restated amounts of effected balances within the financial statements as of December 31, 2012. The amounts related to the bond issue costs of \$962,854 have been included in our rate-setting structure and were reclassified into the regulatory asset account; as such, there is no impact to net position for 2012.

	<u>2012 As Previously Reported</u>	<u>2012 As Restated</u>	<u>Effect of Restatement</u>
<b>Statement of Net Position</b>			
<i>Assets</i>			
Prepayments and other current assets	\$ 131,811	\$ 149,841	\$ 18,030
Unamortized bond issue costs	1,341,489	-	(1,341,489)
Prepayments long-term	-	360,605	360,605
Regulatory asset - bond issue costs	-	962,854	962,854
<i>Deferred Outflows of Resources</i>			
Unamortized loss on refunded debt	-	162,625	162,625
<i>Liabilities</i>			
Loss on advanced refunding	(162,625)	-	162,625
<i>Net Position</i>			
Net investment in capital assets	15,179,680	15,152,680	(27,000)
Restricted	97,099	254,409	157,310
Unrestricted	13,754,272	13,623,962	(130,310)
<b>Statement of Revenues, Expenses, and Changes in Net Position</b>			
General and administrative	11,174,269	11,192,300	18,031
Depreciation and other amortization	7,659,447	7,702,961	43,514
Amortization of debt costs	(61,545)	-	61,545
<b>Statement of Cash Flows</b>			
Operating income	9,491,357	9,429,812	(61,545)
Depreciation and amortization	7,659,447	7,702,961	43,514
Other assets	(8,497)	9,534	18,031

**SUPPLEMENTAL INFORMATION**

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**SEATTLE PUBLIC UTILITIES - SOLID WASTE FUND**  
**(An Enterprise Fund of the City of Seattle)**  
**SOLID WASTE CUSTOMERS BY CLASS**

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**Solid Waste Customers by Class**

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
VARIABLE CANS					
No can/vacancy	2,433	2,577	2,611	2,443	2,385
Micro-can	13,414	14,667	16,761	17,974	18,613
Mini can	42,139	41,778	43,830	44,395	44,738
32 gallon can	109,012	98,742	94,393	91,783	90,499
Two or more 32 gallon cans	N/A	7,777	7,986	8,174	8,304
TOTAL VARIABLE CANS	166,998	165,541	165,581	164,769	164,539
DUMPSTER PREMISES <sup>(1)</sup>	124,778	-	-	-	-
DUMPSTER ACCOUNTS	5,450	5,303	5,245	5,206	5,185
ACTIVE TRANSFER STATION CREDIT ACCOUNTS	317	314	293	285	269

<sup>(1)</sup> This item was eliminated as a result of rate restructuring in March 2009.

**SEATTLE PUBLIC UTILITIES - SOLID WASTE FUND**  
**(An Enterprise Fund of the City of Seattle)**  
**SOLID WASTE TONNAGE**

	<b>Solid Waste Tonnage</b>				
	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
<b>GARBAGE</b>					
Residential collection	118,726	114,135	112,772	111,402	110,838
Self-haul garbage	81,565	79,293	71,033	70,474	74,019
Commercial collection	<u>151,398</u>	<u>142,180</u>	<u>135,536</u>	<u>134,089</u>	<u>132,401</u>
Total tons disposed	<u>351,689</u>	<u>335,608</u>	<u>319,341</u>	<u>315,965</u>	<u>317,258</u>
<b>RECYCLING</b>					
Private recycling <sup>(1)</sup>	189,793	208,711	220,878	218,784	220,500
Residential curbside recycling	58,786	57,131	57,234	55,317	55,023
Apartment recycling	17,798	19,267	18,544	20,599	20,886
Residential curb yard and food waste	74,230	79,952	79,813	83,666	82,390
Self-haul yard waste	10,149	7,682	6,794	6,593	6,290
Self-haul wood waste	1,375	808	739	569	626
Self-haul recycling	6,179	4,939	3,949	3,501	3,413
Composting <sup>(2)</sup>	<u>10,800</u>	<u>10,800</u>	<u>10,800</u>	<u>10,800</u>	<u>10,800</u>
Total tons recycled	<u>369,110</u>	<u>389,290</u>	<u>398,751</u>	<u>399,829</u>	<u>399,928</u>
Total tons generated	<u><u>720,799</u></u>	<u><u>724,898</u></u>	<u><u>718,092</u></u>	<u><u>715,794</u></u>	<u><u>717,186</u></u>
Garbage as a percentage of total tons generated	49%	46%	44%	44%	44%
Recycling as a percentage of total tons generated	51%	54%	56%	56%	56%

<sup>(1)</sup> Estimate for 2012.

<sup>(2)</sup> Composting figures are estimates based on surveys and include grasscycling and backyard food waste and yard waste composting. Surveys were conducted in 2005 and 2010.

**SEATTLE PUBLIC UTILITIES - SOLID WASTE FUND**  
**(An Enterprise Fund of the City of Seattle)**  
**SOLID WASTE RATE SCHEDULE AND TRANSFER STATION FEES**

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**Solid Waste Rate Schedule and Transfer Station Fees**

2014 Monthly Residential Rate Schedule

	<u>Rates (Effective January 1, 2014)</u>
Service unit	
No can (minimum charge)	\$ 6.85
Micro can	19.45
Mini can	23.85
One can	31.05
Additional cans (per can rate)	31.05
Non-compacted dumpster (one cubic yard, once/week, one container)	229.52
Compacted dumpster (three cubic yards, once/week, one container)	663.81
Yard waste mini-can	5.15
Yard waste 32-gallon can	7.75
Yard waste 96-gallon can	9.90

2014 Commercial Collection Rates

Like other solid waste rates, the City sets commercial rates through ordinance. Commercial rates vary with the type and level of service. A typical commercial customer has 3 cubic yards of garbage collected once per week. As of March 30, the cost of this service is \$400.54 per month, including a monthly account fee of \$22.10.

2014 Transfer Station Fees

	<u>Rates (Effective January 1, 2010)</u>
Garbage	
Sedans, SUVs, and station wagons	\$30.00 per trip
All other self-haul vehicles with garbage	\$145.00 per ton (\$30.00 minimum charge)
Yard and wood waste	
Sedans, SUVs, and station wagons	\$20.00 per trip
All other self-haul vehicles with yard waste	\$110.00 per ton (\$20.00 minimum charge)

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**APPENDIX D**  
**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 Bond Registrar and request that copies of notices be provided directly to them.

Redemption notices will be sent to DTC. If less than all of the Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. 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 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 and premium, if any, or interest with respect to those Bonds, selecting Bonds or portions thereof to be redeemed, giving any notice permitted or required to be given to Registered Owners of Bonds under the Bond Legislation, registering the transfer of Bonds, obtaining any consent or other action to be taken by Registered Owners of Bonds, and for all other purposes whatsoever; and the City and the Bond Registrar shall not be affected by any notice to the contrary. The City and the Bond Registrar shall not have any responsibility or obligation to any direct or indirect DTC participant, any person claiming a beneficial ownership interest in the Bonds under or through DTC or any such participant, or any other person which is not shown on the Bond Register as being a Registered Owner of Bonds, with respect to: (i) the Bonds; (ii) any records maintained by DTC or any such participant; (iii) the payment by DTC or such participant of any amount in respect of the principal of, premium, if any, or interest with respect to the Bonds; (iv) any notice which is permitted or required to be given to Registered Owners of Bonds under the Bond Legislation; (v) the selection by DTC or any such participant of any person to receive payment in the event of a partial redemption of the Bonds; or (vi) any consent given or other action taken by DTC as Registered Owner of the Bonds.

**APPENDIX E**  
**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, 29% 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, the County, and the City are given below.

<b>POPULATION</b>			
<u>Year</u>	<u>Washington</u>	<u>King County</u>	<u>Seattle</u>
1980 <sup>(1)</sup>	4,130,163	1,269,749	493,846
1990 <sup>(1)</sup>	4,866,692	1,507,319	516,259
2000 <sup>(1)</sup>	5,894,121	1,737,034	563,374
2007 <sup>(2)</sup>	6,488,800	1,861,300	586,200
2008 <sup>(2)</sup>	6,587,600	1,884,200	592,800
2009 <sup>(2)</sup>	6,668,200	1,909,300	602,000
2010 <sup>(1)</sup>	6,724,540	1,931,249	608,660
2011 <sup>(2)</sup>	6,767,900	1,942,600	612,100
2012 <sup>(2)</sup>	6,817,770	1,957,000	616,500
2013 <sup>(2)</sup>	6,882,400	1,981,900	626,600

(1) Source: U.S. Department of Commerce, Bureau of Census

(2) Source: State of Washington, Office of Financial Management

### Per Capita Income

The following table presents per capita personal income for the Seattle Metropolitan Division (the cities of Seattle, Bellevue, and Everett), the County, the State, and the United States.

<b>PER CAPITA INCOME</b>					
	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Seattle MD	\$ 54,621	\$ 50,644	\$ 51,370	\$ 53,931	\$ 56,267
King County	58,628	53,933	54,927	57,837	60,090
State of Washington	44,106	41,504	42,024	43,878	46,045
United States	40,947	38,637	39,791	41,560	43,735

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

## Construction

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

### CITY OF SEATTLE RESIDENTIAL BUILDING PERMIT VALUES

Year	New Single Family Units		New Multifamily Units		Total Value(\$)
	Number	Value(\$)	Number	Value(\$)	
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
2012	498	120,592,378	6,799	984,110,088	1,104,702,466
2013	822	205,297,350	5,855	805,297,482	1,010,594,832
2013 <sup>(1)</sup>	153	\$ 37,552,198	1,246	\$ 164,139,032	\$ 201,691,230
2014 <sup>(1)</sup>	229	56,821,358	1,050	146,021,653	202,843,011

(1) Estimates through March.

Source: U.S. Bureau of the Census

## Retail Activity

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

### KING COUNTY AND THE CITY OF SEATTLE TAXABLE RETAIL SALES

Year	King County	Seattle
2008	\$ 45,711,920,389	\$ 17,096,581,492
2009	39,594,903,520	15,101,407,742
2010	39,275,353,140	14,783,168,932
2011	40,846,118,928	15,751,585,856
2012	43,506,804,227	17,162,539,275
2013 <sup>(1)</sup>	46,601,199,029	18,258,200,846

(1) Preliminary.

Source: Washington State Department of Revenue

## Industry and Employment

The following table presents major Puget Sound-area employers and their State-wide employment data in 2013.

### PUGET SOUND AREA MAJOR EMPLOYERS

<b>Employer</b>	<b>Employees<sup>(1)</sup></b>
The Boeing Company	85,000
Joint Base Lewis-McChord	56,000
Navy Region Northwest	43,000
Microsoft Corp.	41,700
University of Washington	29,800
Providence Health and Services	20,200
Wal-Mart Stores, Inc.	18,000
Fred Meyer Stores	14,600
King County Government	13,000
U.S. Postal Service	11,900
City of Seattle	12,370 <sup>(2)</sup>
Starbucks Corp.	10,800
MultiCare Health System	10,300
Franciscan Health System	9,900
Nordstrom, Inc.	9,300
Costco Wholesale Corp.	8,900
PeaceHealth	8,800

(1) Does not include part-time or seasonal employment figures. Amazon.com Inc. did not participate in the survey that produced the table, but if it had, it is likely that it would have been ranked in this list of major employers.

(2) Source: City of Seattle. Figure includes temporary workers.

Source: *Puget Sound Business Journal Book of Lists, 2014*

**KING COUNTY**  
**RESIDENT CIVILIAN LABOR FORCE AND EMPLOYMENT**  
**AND NONAGRICULTURAL WAGE AND SALARY EMPLOYMENT<sup>(1)</sup>**

	<b>Annual Average</b>				
	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
Civilian Labor Force	1,117,710	1,111,000	1,114,310	1,118,930	1,139,610
Total Employment	1,021,770	1,009,510	1,023,300	1,042,540	1,079,950
Total Unemployment	95,940	101,490	91,010	76,390	59,660
Percent of Labor Force	8.6%	9.1%	8.2%	6.8%	5.2%
<b>NAICS INDUSTRY</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
Total Nonfarm	1,153,542	1,134,767	1,153,692	1,181,900	1,232,500
Total Private	986,342	967,808	988,767	1,016,467	1,065,150
Goods Producing	160,442	148,158	148,942	154,375	159,483
Natural Resources and Mining	508	467	525	425	450
Construction	57,142	49,675	48,258	50,625	53,217
Manufacturing	102,792	98,017	100,192	103,308	105,800
Services Providing	993,100	986,608	1,004,750	1,027,525	1,073,017
Trade, Transportation, and Utilities	209,175	206,350	211,158	216,975	225,133
Information	80,192	79,408	80,183	81,058	82,258
Financial Activities	72,783	69,233	68,717	68,458	70,683
Professional and Business Services	176,792	176,675	184,567	192,408	200,217
Educational and Health Services	137,683	138,142	141,750	144,867	163,283
Leisure and Hospitality	108,117	108,700	111,075	114,933	119,858
Other Services	41,158	41,142	42,375	43,392	44,233
Government	167,200	166,958	164,925	165,433	167,350
Workers in Labor/Management Disputes	-	-	-	-	-
	<b>Mar. 2014</b>				
Civilian Labor Force	1,165,300				
Total Employment	1,104,590				
Total Unemployment	60,710				
Percent of Labor Force	5.2%				

(1) Columns may not add to totals due to rounding.

Source: Washington State Employment Security Department