

***The City of Seattle—
City Light Department***

Enterprise Fund of The City of Seattle

*Financial Statements as of and for the
Years Ended December 31, 2023 and 2022,
Required Supplementary Information,
Other Information, and
Independent Auditors' Report*

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

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Independent Auditors' Report

To the Sustainability, City Light, Arts & Culture Committee of
City of Seattle, City Light Department

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the City of Seattle, City Light Department (Department), an enterprise fund of the City of Seattle, Washington, as of and for the years ended December 31, 2023 and 2022, and the related notes to the financial statements, as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position for the Department, as of December 31, 2023 and 2022, and the changes in financial position and, cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Department and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 1, the financial statements of the Department are intended to present the financial position, the changes in the financial position, and cash flows of only the Department. They do not purport to, and do not, present fairly the financial position of the City of Seattle, Washington, as of December 31, 2023, and 2022, and the changes in financial position, or cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

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

Other Information

Management is responsible for the other information as identified in the table of contents. The other information does not include the financial statements and our auditors' report thereon. Our opinion on the financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 30, 2024 on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Department's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department's internal control over financial reporting and compliance.



Madison, Wisconsin
April 30, 2024

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2023 and 2022

The following discussion and analysis of the financial performance of The City of Seattle—City Light Department (the Department) provides a summary of the financial activities for the years ended December 31, 2023 and 2022. This discussion and analysis should be read in combination with the Department's financial statements, which immediately follow this section.

ORGANIZATION

The Department is the public electric utility of The City of Seattle (the City). As an enterprise fund of the City, the Department owns and operates generating, transmission and distribution facilities and delivers electricity to approximately 503,200 customers in Seattle and certain surrounding communities, and other City agencies.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

COVID-19

COVID-19 had a significant effect on the Department's operations, operating results, and financial statements, primarily in 2020 and 2021. Additional details are noted within the specific areas impacted in the following discussion.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

**MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED)
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2023 and 2022**

CONDENSED STATEMENTS OF NET POSITION

(\$ in millions)	December 31		
	2023	2022	2021
Assets:			
Utility plant—net	\$ 4,762.1	\$ 4,550.9	\$ 4,372.7
Restricted assets	225.9	210.3	280.9
Current assets	615.4	716.6	511.1
Other assets	<u>490.0</u>	<u>465.1</u>	<u>440.2</u>
Total assets	<u>6,093.4</u>	<u>5,942.9</u>	<u>5,604.9</u>
Total deferred outflows of resources	<u>113.2</u>	<u>72.8</u>	<u>58.2</u>
Total assets and deferred outflows of resources	<u>\$ 6,206.6</u>	<u>\$ 6,015.7</u>	<u>\$ 5,663.1</u>
Liabilities:			
Long-term debt	\$ 2,783.5	\$ 2,795.3	\$ 2,747.1
Noncurrent liabilities	441.3	284.4	341.6
Current liabilities	360.2	341.4	295.4
Other liabilities	<u>36.3</u>	<u>36.3</u>	<u>34.7</u>
Total liabilities	<u>3,621.3</u>	<u>3,457.4</u>	<u>3,418.8</u>
Total deferred inflows of resources	<u>169.8</u>	<u>268.0</u>	<u>221.3</u>
Net position:			
Net investment in capital assets	2,185.5	1,953.7	1,886.0
Restricted:			
Rate stabilization account	<u>25.0</u>	<u>25.0</u>	<u>25.0</u>
Total restricted	<u>25.0</u>	<u>25.0</u>	<u>25.0</u>
Unrestricted—net	<u>205.0</u>	<u>311.6</u>	<u>112.0</u>
Total net position	<u>2,415.5</u>	<u>2,290.3</u>	<u>2,023.0</u>
Total liabilities, deferred inflows, and net position	<u>\$ 6,206.6</u>	<u>\$ 6,015.7</u>	<u>\$ 5,663.1</u>

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2023 and 2022

ASSETS

Utility Plant—Net

2023 Compared to 2022 Utility plant assets net of accumulated depreciation and amortization increased \$211.2 million to \$4,762.1 million in 2023. The following table sets forth the increases in utility plant (before depreciation and amortization) year over year:

Utility Plant Assets:	2023	increase	2022
Hydroelectric Production Plant	\$ 1,035.2	\$ 34.0	\$ 1,001.2
Transmission Plant	371.5	9.6	361.9
Distribution Plant	3,692.4	158.2	3,534.2
General Plant	440.5	2.2	438.3
Intangibles Plant	838.1	5.0	833.1
	\$ 6,377.7	\$ 209.0	\$ 6,168.7

The \$209.0 million increase in utility plant assets to \$6,377.7 million was partially offset by a \$124.4 million increase in accumulated depreciation and amortization to \$2,451.5 million. The components of the increase in utility plant assets include the following:

- The \$34.0 million increase in Hydro Assets is primarily due to a \$29.2 million increase for Hydro Turbines, \$2.4 for Hydro Dams, \$1.1 million for Roads and Bridges, \$0.8 million in Hydro Structures, and a \$0.5 million increase for miscellaneous Hydro Equipment.
- The \$9.6 million increase in Transmission is primarily due to an \$8.4 million increase for Transmission Station Equipment, \$0.7 million for Transmission Structures, and \$0.5 million for Transmission Underground Lines and other.
- The \$158.2 million increase in Distribution Plant is due to a \$38.8 million increase for Poles, a \$35.3 million net increase for Underground, \$27.7 million increase for Network, a \$24.9 million increase for Overhead, an increase of \$17.1 million related to Services, Station Equipment, Street Lights, and \$14.4 for Meters.
- The \$2.2 million increase in General Plant is primarily due to a \$5.2 million increase for General Structure improvements, and a \$1.7 million increase for Equipment and Tools, offset by \$4.7 million in vehicle and truck retirements.
- The \$5.0 million increase in Intangible Assets is primarily due to a net \$27.8 million increase in Software related to Customer Service Portal and Advanced Meter Infrastructure Upgrades, offset by a net \$22.8 million decrease in relicensing costs primarily due to the reversal of premature capitalizations for Skagit Relicensing.

Other components of utility plant include:

- Construction work-in-progress (CWIP) of \$657.0 million, an increase of \$125.1 million over the prior year, driven by an addition of \$425.3 million offset by capitalization of \$300.2 million.

The \$657 million of CWIP is for ongoing construction in the following areas:

- o \$68.2 million for Substations and structures
- o \$254.4 million for improvements to Distribution System
- o \$79.3 million for Hydro
- o \$106.7 million for General Tools and Equipment
- o \$95.9 million for Software & Licenses
- o \$33.4 million for Transmission
- o \$19.1 million for miscellaneous capital
- Nonoperating property has a balance of \$19.0 million, which increased \$0.7 million.
- Assets held for future use is \$3.1 million, same as the prior year with a slight decrease of \$29.4 thousand.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2023 and 2022

- Land and land rights is \$156.8 million, which increased \$0.9 million.

See Note 3 Utility Plant of the accompanying financial statements.

2022 Compared to 2021 Utility plant assets net of accumulated depreciation and amortization increased \$178.2 million to \$4,550.9 million in 2022. The following table sets forth the increases in utility plant (before depreciation and amortization) year over year:

Utility Plant Assets:	2022	increase	2021
Hydroelectric Production Plant	\$ 1,001.2	\$ 8.9	\$ 992.3
Transmission Plant	361.9	33.8	328.1
Distribution Plant	3,534.2	306.6	3,227.6
General Plant	438.3	14.7	423.6
Intangible Assets	833.1	52.6	780.5
	\$ 6,168.7	\$ 416.6	\$ 5,752.1

The \$416.6 million increase in utility plant assets to \$6,168.7 million was partially offset by a \$131.4 million increase in accumulated depreciation and amortization to \$2,327.0 million. The components of the increase in utility plant assets include the following:

- The \$8.9 million increase in Hydro Assets is primarily due to a \$4.9 million increase for Hydro Structures, \$3.1 million increase for miscellaneous Hydro Equipment, and a \$0.9 million increase for Ancillary Electric Equipment and Removal.
- The \$33.8 million increase in Transmission is primarily due to a \$21.7 million increase for Transmission Overhead/Underground Lines and an increase of \$12.1 million for Transmission Station Equipment.
- The \$306.6 million increase in Distribution Plant is due to a \$129.5 million increase for Network, a \$74.1 million net increase for Underground, a \$42.3 million increase for Poles, a \$30.6 million increase for Overhead, and an increase of \$30.1 million related to Services, Station Equipment, Street Lights, and Removal.
- The \$14.7 million increase in General Plant is primarily due to a \$10.5 million increase for General Structure improvements, a \$2.9 million increase for vehicles and a \$1.3 million increase for Equipment and Tools.
- The \$52.6 million increase in Intangible Assets is primarily due to \$49.4 million for Relicensing at Boundary and Skagit, and a net increase of \$3.2 million for Software.

Other components of utility plant include:

- Construction work-in-progress (CWIP) of \$531.9 million, a decrease of \$107.9 million over the prior year, driven by an addition of \$362.3 million offset by capitalization of \$470.2 million.

The \$531.9 million of CWIP is for ongoing construction in the following areas:

- o \$92.7 million for Substations and structures
- o \$227.4 million for improvements to Distribution System
- o \$84.6 million for Hydro
- o \$33.6 million for Tools and Equipment
- o \$36.2 million for Software
- o \$29.0 million for Transmission
- o \$28.4 million for miscellaneous capital

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2023 and 2022

- Nonoperating property has a balance of \$18.3 million, which increased \$0.5 million.
- Assets held for future use \$3.1 million, which decreased by \$0.9 million.
- Land and land rights \$155.9 million, which increased \$1.3 million.

Restricted Assets

2023 Compared to 2022 Restricted assets increased by \$15.6 million to \$225.9 million.

Construction funds increased by \$13.5 million in 2023. In 2022 the funds had been fully depleted by the end of the year.

The Rate Stabilization Account (RSA) decreased by a net \$9.2 million to \$65.8 million. Details are below:

(\$ in millions)	2023	2022
Rate Stabilization Account		
Beginning Balance	\$ 75.0	\$ 99.4
Council Authorized transfer to RSA	100.0	-
Operating Revenue	<u>(109.2)</u>	<u>(24.4)</u>
Ending Balance	<u>\$ 65.8</u>	<u>\$ 75.0</u>

In 2023, actual net wholesale revenue was \$108.3 million less than the \$40.0 million adopted planning value. The \$109.2 million transfer reflects a true-up from previous year, as well as an estimate for the December transfer (which was trued up in January 2024). This transfer was partially offset by \$100.0 million transferred to the RSA from operating cash (\$30.0 million in May, \$30.0 million in August and \$40.0 million in December) in accordance with Seattle City Ordinance No. 126819, which authorizes discretionary transfers to prevent the RSA from being depleted. The Ordinance also postponed a June 1, 2023 surcharge that was triggered based on the end March RSA balance, per the RSA rules. However, this was not sufficient to avoid an RSA surcharge further, which was triggered at the end of September and a 4.0% surcharge was implemented Jan 1, 2024. See Note 4 Rate Stabilization Account of the accompanying financial statements.

Other restricted assets increased by \$11.3 million to \$146.6 million. The bond reserve account increased by \$3.2 million due to 2023 interest income. The debt service account decreased by \$1.1 million mainly due to the lower bond interest and principal payment pending for payment at the end of 2023. Special deposits and other restricted assets increased by \$9.2 million due to higher Make Ready Work deposits of \$9.7 million and an increase in fair value of \$1.0 million, partially offset by a \$1.5 million decrease in customer prepayments.

2022 Compared to 2021 Restricted assets decreased by \$70.6 million to \$210.3 million.

Construction funds were fully depleted in 2022. The balance decreased by \$56.2 million compared to 2021.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2023 and 2022

The Rate Stabilization Account (RSA) decreased by a net \$24.4 million to \$75.0 million. Details are below:

<i>(\$ in millions)</i>	2022	2021
Rate Stabilization Account		
Beginning balance	\$ 99.4	\$ 96.8
Council authorized transfer to RSA	-	15.0
Surcharge revenue	-	6.6
RSA interest income	-	1.4
Operating revenue	<u>(24.4)</u>	<u>(20.4)</u>
Ending balance	<u>\$ 75.0</u>	<u>\$ 99.4</u>

In 2022, the actual net wholesale revenue was \$26.9 million less than budgeted. The \$24.4 million transfer reflects a true-up from previous year, as well as estimate for the December transfer (which was true-ed up in January 2023). There was no surcharge in effect during 2022. Beginning in 2022, with the adoption of Ordinance No. 126502, interest on the RSA funds is no longer allocated to that account but held in operating cash. See Note 4 Rate Stabilization Account of the accompanying financial statements.

Other restricted assets increased by \$10.0 million to \$135.3 million. The bond reserve account increased by \$7.2 million primarily due to the additional deposit of the 2022 bonds. The debt service account increased by \$6.3 million mainly due to the 2022 bond debt service interest payment. Special deposits and other restricted assets decreased by \$3.5 million due to the downward GASB 31 fair value adjustment of \$5.5 million, partially offset by a \$2.0 million increase in customer prepayments and special deposits.

Current Assets

2023 Compared to 2022 Current assets decreased by \$101.2 million to \$615.4 million.

Operating cash decreased by \$85.4 million to \$263.2 million. The lower cash balance is a result of decreased net wholesale energy transactions, higher debt service costs, and higher capital contributions offset by higher inflows from retail revenue, and transfers from the Rate Stabilization Account (RSA).

Accounts receivable decreased by \$9.2 million to \$195.3 million in 2023 comparing to 2022 due to the following components:

- \$0.8 million increase in retail electric receivables net of allowance. The lower allowance in 2023 is a result of continued collection efforts and the Utility Residential Customer Arrearages grant.
- \$0.5 million increase in payment arrangements, as more customers signed up to pay outstanding bills.
- \$3.4 million decrease in non-electric service receivables net of allowance mostly due to the higher allowance in 2023, as more invoices remained unpaid at the end of 2023 than 2022.
- \$0.5 million increase in late fee charges for non-electric service receivable.
- \$4.8 million increase in short-term wholesale energy and transmission receivable, attributable to an increase in December 2023 net sale transactions compared to December 2022. December 2022 had a comparably low amount of net sale transactions as a result of cold weather driving higher load, higher prices, and lower generation from Boundary and Skagit.
- \$12.4 million decrease in accounts receivable from other governments. The decrease is due to the lower credits from the Bonneville Power Administration (BPA) Power Reserves Distribution Clause for \$13.8 million and Federal Energy Regulatory Commission (FERC) land use fee credit for \$4.0 million partially offset by \$2.4 million increase due from Seattle IT related to CCM expense allocations, a \$1.9 million increase from government invoices, and a \$1.1 million increase in federal interest subsidies for the Department's bonds.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2023 and 2022

Unbilled revenues decreased by \$14.8 million due to lower unbilled retail consumption compared to December 2022 partially offset by the 4.5% average rate increase in 2023.

Materials, supplies, and inventory increased by \$8.2 million to \$55.5 million in 2023 compared to 2022 due to the following components:

- The wire and cable commodity contributed \$3.3 million to this increase, primarily driven by mix and price increases in primary underground cable of \$1.7 million and \$1.6 million due to additional volume in other categories.
- The meter commodity added an additional \$1.9 million due to new items and long lead times in support of the utility's needs.
- The utility electric materials commodity contributed to a \$1.5 million increase due to inventory volume growth to mitigate increasing lead times.
- There was an addition of 153 utility poles in inventory, resulting in a \$0.6 million increase. 40% of the increase was in the composite pole category which has a significantly higher price than Douglas fir poles. The Douglas fir pole increased in volume and price due to a full transition to a new more costly treatment process.

The balance of the year over year inventory variance is due to an increase of \$0.4 million in PVC conduit and composite crossarms impacted by rising resin other petroleum products and \$0.5 million due to increased volumes as well as pricing in lighting, hardware, and miscellaneous supplies.

2022 Compared to 2021 Current assets increased by \$205.5 million to \$716.6 million.

Operating cash increased by \$155.5 million to \$348.6 million. The higher cash balance is a result of increased inflows from retail revenue, transfers from the Rate Stabilization Account (RSA) offset by lower net wholesale energy transactions, higher debt service and lower capital contributions.

Accounts receivable increased by \$28.7 million to \$204.5 million in 2022 comparing to 2021 due to the following components:

- \$3.5 million decrease in retail electric receivables combined with \$5.7 million decrease in the allowance mostly due to resumption of collection efforts and the Utility Residential Customer Arrearages grant.
- \$4.3 million increase in payment arrangements, as more customers signed up to pay outstanding bills.
- \$8.3 million increase in sundry receivables due mainly to a higher volume of large jobs in "Pay before service" category.
- \$6.7 million decrease in short-term wholesale energy and transmission receivable, attributable to an increase in net purchase transactions. The \$3.8 million decrease is a result of cold weather driving higher load, higher prices, and lower generation from Boundary and Skagit). The remaining \$2.9 million decrease is due to the Stateline contract which ended on December 31, 2021.
- \$20.6 million increase in accounts receivable from other governments due to a \$27.9 million credit received from the Bonneville Power Administration (BPA) Power Reserves Distribution Clause whereby BPA returned funds to customers due to strong secondary sales. This amount is partially offset by a reduction in the short-term Federal Energy Regulatory Commission (FERC) land use fee credit of \$7.3 million.

Unbilled revenues increased by \$11.4 million due to higher load resulting from weather, as well as strong post-pandemic economic activity and an average retail rate increase of 3.6% in 2022.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2023 and 2022

Materials, supplies and inventory increased by \$4.9 million due to continued increases in prices and lead times. Most impacted has been the Wire and Cable commodity, which contributed \$2.4 million to the increase. This is the result of pricing as well as increased inventory volumes to mitigate longer lead times. The utility electric materials commodity category was significantly impacted by pricing as well as mix of items, contributing \$1.3 million of this variance. Both commodities are heavily affected by metals pricing, including copper, aluminum and steel. Metals pricing also impacted transformer and lighting categories, increasing overall inventory value by \$0.5 and \$0.4 million, respectively, with minimal to no change in inventory levels. The remaining \$0.3 million increase is related to increased pricing in other commodity types.

Prepayments and other assets increased by \$5.0 million as a result of the implementation of GASB Statement No. 87, *Leases*.

Other Assets

2023 Compared to 2022 Total Other assets of \$490.0 million increased by \$24.9 million from 2022.

The \$24.9 million year over year increase included the following:

- Regulatory assets for environmental cleanup increased by \$23.3 million. These are the estimated costs to remediate several Superfund sites along the Duwamish River for which the Department has been designated a responsible party.
- Conservation costs increased by \$1.6 million due to additions to various programs. See Note 7 Other Assets of the accompanying financial statements.

2022 Compared to 2021 Total Other assets of \$465.1 million increased by \$24.9 million from 2021.

The \$50.6 million increase in long-term receivable is the result of the implementation of GASB Statement No. 87, *Leases*. Under the Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources.

The remaining \$25.7 million year over year decrease included the following:

- Regulatory assets for environmental cleanup decreased by \$25.6 million and environmental recovery decreased by \$1.7 million. These are the estimated costs to remediate several Superfund sites along the Duwamish River for which the Department has been designated a responsible party.
- Long-term receivable increased by \$6.7 million due to FERC Land Use fees refund from 1996 - 2019 per court order of \$3.3 million and \$3.4 million, as more customers signed up for payment arrangements plans.
- \$2.0 million decrease for ongoing payment from local jurisdictions for underground infrastructure improvements loans.
- Conservation costs decreased by \$2.4 million due to lower payments for HVAC installation incentives.
- Other, \$0.7 million decrease.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2023 and 2022

Deferred Outflows of Resources

2023 Compared to 2022 Deferred outflows of resources increased by \$40.4 million to \$113.2 million.

In 2023, pension-related deferred outflows increased by a net \$44.0 million due to a \$52.8 million increase in the difference between projected and actual earnings and a \$0.6 million increase in contributions, partially offset by a \$9.2 million related to changes in actuarial assumptions and a \$0.2 million decrease in the difference between expected and actual experience. The most recent actuarial experience study was used to update assumptions, including for salary increase, mortality, and retirement rates. See Note 13 Seattle City Employees' Retirement System of the accompanying financial statements.

Deferred outflow of resources pertaining to GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions (OPEB)*, decreased by \$0.4 million.

Charges on advance refunding account balance decreased by a net \$3.2 million. 2023 activity consisted of amortization, 2012 and 2013 bonds refunding and 2014 and 2017 bonds defeasance.

2022 Compared to 2021 Deferred outflows of resources increased by \$14.6 million to \$72.8 million.

In 2022, pension-related deferred outflows increased by a net \$18.6 million due to an increase in actuarial assumptions. The most recent actuarial experience study was used to update assumptions, including for salary increase, mortality, and retirement rates. See Note 13 Seattle City Employees' Retirement System of the accompanying financial statements.

Deferred outflow of resources pertaining to GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions (OPEB)*, decreased by \$0.5 million.

Advance refunding account balance decreased by a net \$3.5 million. 2022 activity consisted of amortization, 2012A bonds refunding and 2013 and 2014 bonds defeasance.

LIABILITIES

Long-Term Debt

2023 Compared to 2022 Long-term debt decreased a net \$11.8 million to \$2,783.5 million during 2023.

The Department issued fixed rate bonds in the amount of \$273.6 million. The fixed bond proceeds were used for ongoing capital improvement programs and for a \$12.4 million refunding of the 2012 bonds and \$48.3 million of the 2013 bonds on a current basis. The Department also issued \$85.8 million of variable rate bonds. The variable bond proceeds were used to refund \$85.4 million of the 2018 variable rate bonds on a current basis. In addition, \$27.6 million of 2014 bonds, \$29.3 million of 2015 bonds, and \$36.7 million of 2017 bonds were defeased in 2023.

Debt to capitalization ratio was 52.2% at the end of 2023, a decrease from 53.6% in 2022.

Net revenues available to pay debt service in 2023 were equal to 1.74 times principal and interest on all bonds. See Note 9 Long-Term Debt of the accompanying financial statements.

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2022 Compared to 2021 Long-term debt increased a net \$48.2 million to \$2,795.3 million during 2022.

The Department issued a new debt in the amount of \$257.7 million of fixed rate bonds (2022 bonds). The 2022 bonds proceeds were used for ongoing capital improvement programs, for a deposit to the reserve fund, and for a \$50.8 million refunding of 2012A bonds on a current refunding basis. In addition, \$13.6 million of 2013 bonds and \$13.9 million of 2014 bonds were defeased in 2022.

Debt to capitalization ratio was 53.6% at the end of 2022, a decrease from 56.1% in 2021.

Net revenues available to pay debt service in 2022 were equal to 2.53 times principal and interest on all bonds.

Noncurrent Liabilities

2023 Compared to 2022 Total noncurrent liabilities increased by \$156.9 million to \$441.3 million.

Net Pension liability increased by \$130.9 million based on the most recent actuarial report. This was caused primarily by a decrease in plan fiduciary net position due to poor investment performance in 2022. See Note 13 Seattle City Employees' Retirement System of the accompanying financial statements.

Environmental liability increased by \$27.3 million. The increase is largely due to increased projected cost for East Waterway (EW), Harbor Island Superfund Site as a result of the recent update of estimated projected remediation costs at the request of Environmental Protection Agency. City Light and other entities are sharing the cost of investigating contamination in EW. City Light's involvement stems from its sale of transformers to a company on Harbor Island. See Note 15 Environmental Liabilities of the accompanying financial statements.

The remaining decrease of \$1.3 million is due to a decrease in Other Post-Employment Benefits (OPEB) liability plus a small decrease in non-current accrued vacation time. See Note 14 Other Postemployment Benefits (OPEB) of the accompanying financial statements.

2022 Compared to 2021 Total noncurrent liabilities decreased by \$57.2 million to \$284.4 million.

Net Pension liability decreased by \$27.8 million based on the most recent actuarial report. This decrease was driven primarily by strong investment performance in 2021. See Note 13 Seattle City Employees' Retirement System of the accompanying financial statements.

Environmental liability decreased by \$28.2 million. Environmental liabilities are attributable to the estimated cost of remediating contaminated sediments in the lower Duwamish Waterway, a designated federal Superfund site. The Department is a responsible party for contamination in the Duwamish River due to land ownership and use of property located along the river. See Note 15 Environmental Liabilities of the accompanying financial statements.

The remaining decrease of \$1.2 million is primarily due to lower Postemployment Benefits other than Pensions (OPEB) liability per the most recent actuarial report.

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Current Liabilities

2023 Compared to 2022 Current liabilities increased by \$18.8 million to \$360.2 million due to the following:

- \$19.5 million decrease in short-term wholesale power payable primarily due to a decrease in purchase volume, and a decrease in the average purchase price per MWh in December 2023 compared to December 2022, \$27.8 million. There was also a \$0.3 million decrease in miscellaneous power net purchase transactions. This amount is partially offset by an \$8.3 million increase from BPA Block Load Shaping, a reallocation of month-to-month volumes with differing rates over the contract year.
- \$21.6 million increase in accounts payable liability.
- \$9.6 million increase in customer prepayments.
- \$4.8 million decrease in claims payable.
- \$3.9 million in higher debt due within one year.
- \$1.7 million for higher interest payable due to increased bonds outstanding at the end of 2023.
- \$6.3 million for higher taxes payable at the end of 2023. The 2022 tax payable was recorded in an interdepartmental liability account, that was paid by the end of the year.

2022 Compared to 2021 Current liabilities increased by \$46.0 million to \$341.4 million due to the following:

- \$29.3 million increase for short-term wholesale power payable primarily due to an increase in net purchase transactions, \$33.8 million. This is a result of cold weather driving higher load, higher prices, and lower generation from Boundary and Skagit. This amount is partially offset by a \$2.8 million decrease from BPA Block Load Shaping, a reallocation of month-to-month volumes with differing rates over the contract year, and a \$1.7 million decrease due to the Stateline contract that ended December 2021.
- \$4.7 million for higher accounts payable accrual.
- \$4.4 million for higher debt due within one year: higher principal payable on 2022 bonds compared to the refunded 2012A bonds, \$2.9 million, and other bond series, \$1.5 million.
- \$4.2 million for higher interest payable as a result of greater bonds outstanding at the end of 2022
- \$1.8 million for higher taxes payable as a result of higher retail revenue in 2022
- \$1.1 million for higher payroll accrual due to higher number of employees & annual wage increase in 2022
- \$0.5 million other

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Other Liabilities

2023 Compared to 2022 No year over year change in other liabilities.

2022 Compared to 2021 Other liabilities increased by net \$1.6 million to \$36.3 million due to a \$2.2 million increase in deferred revenue for contributions in aid of construction offset by a \$0.6 million decrease in customer prepayments.

Deferred Inflows of Resources

2023 Compared to 2022 Deferred inflows of resources decreased by \$98.2 million for a total of \$169.8 million.

The GASB Statement No. 87, *Leases* transaction resulted in a \$5.2 million decrease in deferred inflow. Under the Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources.

The rate stabilization unearned revenue account decreased by \$9.2 million. \$9.2 million was transferred to operating revenues for actual net wholesale revenues which were less than budgeted.

Deferred inflows related to pension liability decreased by \$82.2 million. The decrease is due to the difference between projected and actual investment earnings of \$86.5 million and a \$0.3 million decrease in deferred inflows related to differences between expected and actual experience. This decrease was partially offset by a \$4.6 million increase related to changes between employer contributions and proportionate share of contributions.

There was a decrease of \$4.0 million primarily due to a FERC Land Use fee refund applied during 2023 from 1996 - 2019 per court order that was partially offset by a \$1.8 million increase related to the Department's Energy Conservation Agreement with Bonneville.

The gain on refunding was \$0.6 million higher in 2023 than in 2022.

2022 Compared to 2021 Deferred inflows of resources increased by \$46.7 million for a total of \$268.0 million.

The implementation of GASB Statement No. 87, *Leases* resulted in a \$55.3 million increase in deferred inflow. Under the Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources.

The rate stabilization unearned revenue account decreased by \$24.4 million. \$24.4 million was transferred to operating revenues for actual net wholesale revenues which were less than budgeted.

Deferred inflows related to pension liability increased by \$14.8 million. The increase is due to the difference between projected and actual investment earnings of \$26.3 million. This increase was partially offset by a \$10.0 million decrease related to changes between employer contributions and proportionate share of contributions and a \$1.5 million decrease in deferred inflows related to differences between expected and actual experience.

Deferred inflows of resources pertaining to Postemployment Benefits other than Pensions (OPEB) increased by \$1.7 million. The difference between expected and actual experience was an increase of \$2.0 million, partially offset by a \$0.3 million decrease in actuarial changes of assumptions.

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There was a decrease of \$4.0 million due to a FERC Land Use fee refund applied during 2022 from 1996 - 2019 per court order that was partially offset by a \$0.4 million increase related to the Department's Energy Conservation Agreement with Bonneville.

The gain on refunding was \$2.8 million higher in 2022. Other deferred inflows increased by \$0.1 million.

RESULTS OF OPERATIONS

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

(\$ in millions)	Year Ended December 31		
	2023	2022	2021
Operating revenues	\$ 1,190.9	\$ 1,238.7	\$ 1,108.9
Nonoperating revenues	<u>35.9</u>	<u>(7.2)</u>	<u>4.6</u>
Total revenues	<u>1,226.8</u>	<u>1,231.5</u>	<u>1,113.5</u>
Operating expenses	1,053.3	924.0	891.7
Nonoperating expenses	<u>91.6</u>	<u>88.8</u>	<u>88.9</u>
Total expenses	<u>1,144.9</u>	<u>1,012.8</u>	<u>980.6</u>
Income before capital contributions and grants	<u>81.9</u>	<u>218.7</u>	<u>132.9</u>
Capital contributions	43.0	48.4	65.3
Capital grants	<u>0.3</u>	<u>0.2</u>	<u>0.4</u>
Total capital contributions and grants	<u>43.3</u>	<u>48.6</u>	<u>65.7</u>
Change in net position	<u>\$ 125.2</u>	<u>\$ 267.3</u>	<u>\$ 198.6</u>

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2023 and 2022

SUMMARY

2023 Compared to 2022 The change in net position for 2023 was \$125.2 million, a decrease of \$142.1 million or 53.2% from the 2022 change in net position of \$267.3 million.

The major contributors for the lower net position:

- higher retail electric sales, \$12.2 million
- higher other operating revenue, \$2.1 million
- higher fair value adjustment and interest revenue, \$43.1 million
- greater capital grants, \$0.1 million

These were partially offset by the following components:

- lower short-term wholesale power and other power-related revenue, \$46.9 million
- lower transfers from Rate Stabilization Account (RSA), \$15.2 million
- higher operating expenses, \$129.3 million
- higher interest expense, \$2.8 million
- lower capital contributions and grants, \$5.4 million

2022 Compared to 2021 Net position for 2022 was \$267.3 million, an increase of \$68.7 million or 34.6% from the 2021 change in net position of \$198.6 million. The net position of 2021 includes the \$0.2 million restatement due to the implementation of GASB Statement No. 87, *Leases*.

The major contributors for the higher net position:

- higher retail electric sales, \$57.2 million
- higher other power-related revenue, \$17.2 million
- higher transfers from Rate Stabilization Account (RSA), \$27.0 million
- lower operating expenses (excluding short-term wholesale power purchases adjusted for book-outs), \$23.6 million
- lower non-operating expense, \$0.1 million

These were partially offset by the following components:

- lower net wholesale revenue (wholesale purchases are deducted from wholesale sales and adjusted for book-outs), \$24.5 million
- lower other operating revenue, \$3.0 million
- lower non-operating revenue, \$11.8 million
- lower capital contributions, \$17.1 million

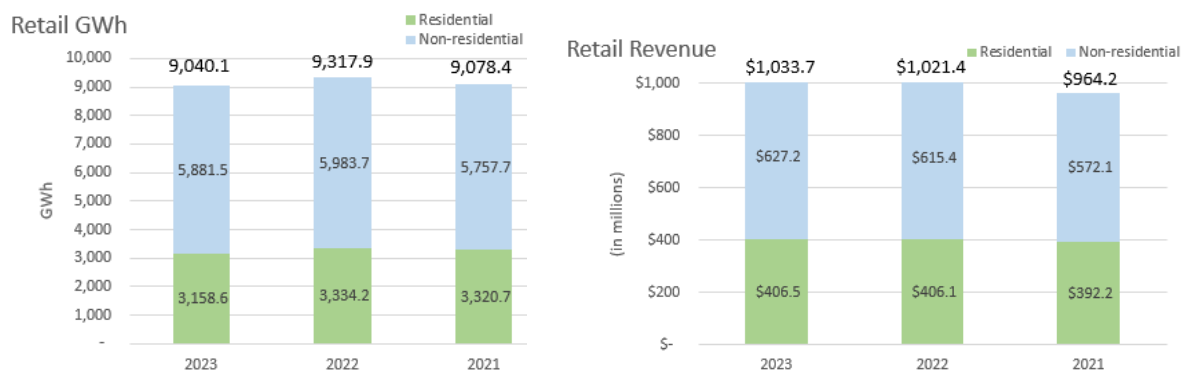
REVENUES

2023 Compared to 2022 Total operating revenues were \$1,190.9 million, decrease of \$47.8 million or 3.9% from 2022. Retail power revenues at \$1,033.7 million increased \$12.2 million, Short-term wholesale power revenues at \$56.2 million decreased \$41.5 million, Other power-related revenues at \$71.1 million decreased \$5.4 million, Transfers from/(to) RSA at \$9.2 million decreased by \$15.2 million, and Other operating revenues at \$20.7 million increased by \$2.1 million.

Higher Retail power revenues for \$12.2 million were the net result of higher billed residential revenues, \$23.4 million, and higher nonresidential revenues, \$15.1 million, offset by lower net change of unbilled revenue, \$26.2 million. There was a retail rate increase on January 1, 2023 of approximately 4.5% on average. Higher electric sales were due to colder than normal temperatures during the February to April and November periods, faster post-pandemic recovery in the commercial sector and higher saturation of cooling equipment for residential customers.

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Transfers from/(to) the RSA are determined by the departure of actual net wholesale power revenues from budget. In 2023, actual net wholesale revenue was \$108.3 million less than forecasted. The \$109.2 million transfer reflects a true-up from previous year, as well as estimate for the December transfer (which was trued up in January 2024). This transfer was partially offset by \$100.0 million transferred to the RSA from operating cash (\$30 million in May, \$30 million in August and \$40 million in December) in accordance with Seattle City Ordinance No. 126819, which authorizes discretionary transfers to prevent the RSA from being depleted. The Ordinance also postponed a June 1, 2023 surcharge that was triggered based on the end March RSA balance, per the RSA rules. However, this was not sufficient to avoid an RSA surcharge further, which was triggered at the end of September and a 4.0% surcharge was implemented Jan 1, 2024. See Note 4 Rate Stabilization Account of the accompanying financial statements.

(\$ in millions)	2023	2022
Rate Stabilization Account		
Beginning Balance	\$ 75.0	\$ 99.4
Council Authorized transfer to RSA	100.0	-
Operating Revenue	(109.2)	(24.4)
Ending Balance	<u>\$ 65.8</u>	<u>\$ 75.0</u>

Short-term wholesale power revenues represent revenue received from the sale of power generated in excess of retail sales and other obligations and were \$56.2 million, a decrease of \$41.5 million compared to \$97.7 million recorded in 2022. Short-term wholesale power revenues fluctuate with changes in water conditions, retail sales, and commodity prices.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2023 and 2022

City Light is active in the wholesale power market both buying and selling energy. For a more comprehensive overview of wholesale energy transactions City Light management often reviews net wholesale revenue, where wholesale purchases are deducted from wholesale sales and adjusted for book-outs. Net wholesale revenues were negative \$68.3 million in 2023, \$81.4 million lower than in 2022. This shortfall reflects very low hydro generation owing to dry conditions exacerbated by higher-than-expected retail sales increasing the need to purchase power on the wholesale market at very high market prices.

Net Wholesale Revenue, \$ Million

	2023	2022	2021
Wholesale Power Revenue	\$ 56.2	\$ 97.7	\$ 66.3
Wholesale Power Purchases	(124.5)	(86.2)	(38.5)
Booked out Long-Term Purchases	-	1.6	9.8
Net Wholesale Revenue	\$ (68.3)	\$ 13.1	\$ 37.6

Other power-related revenues, net, decreased by \$5.4 million. The valuation of energy exchange contracts decreased by \$11.5 million. This decrease was partially offset by \$4.0 million from the Lucky Peak exchange contract having a more favorable premium. Other miscellaneous increased by \$1.9 million.

Other operating revenue decreased by \$2.1 million mainly due to an increase of \$1.3 million in Operation and Maintenance revenues and a \$0.8 million increase in cable and telecom pole rentals.

2022 Compared to 2021 Total operating revenues were \$1,238.7 million, an increase of \$129.8 million or 11.7% from 2021. Retail power revenues at \$1,021.5 million increased \$57.2 million, Short-term wholesale power revenues at \$97.7 million increased \$31.4 million, Other power-related revenues at \$76.5 million increased \$17.2 million, Transfers from/(to) RSA at \$24.4 million increased by \$27.0 million, and Other operating revenues at \$18.6 million decreased by \$3.0 million.

Higher Retail power revenues for \$57.2 million were the net result of higher billed residential revenues, \$18.6 million, and higher nonresidential revenues, \$38.8 million, offset by lower net change of unbilled revenue, \$0.2 million. There was a retail rate increase on January 1, 2022 of approximately 3.6% on average. Higher residential sales were due to colder than normal temperatures during the heating season and warmer than normal temperatures during the cooling season. Nonresidential sales were also higher due to weather, as well as stronger post-pandemic economic activity.

Transfers from/(to) the RSA are determined by the departure of actual net wholesale power revenues from budget. In 2022, the actual net wholesale revenue was \$26.9 million less than budgeted. The \$24.4 million transfer in 2022 reflects a true-up from previous year, as well as estimate for the December transfer (which was true-ed up in January 2023). There was no surcharge in effect during 2022. Beginning 2022, with the adoption of Ordinance No. 126502, interest on the Rate Stabilization Account funds is no longer allocated to that account but held in operating cash.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2023 and 2022

<i>(\$ in millions)</i>	2023	2022
Rate Stabilization Account		
Beginning balance	\$ 99.4	\$ 96.8
Council authorized transfer to RSA	-	15.0
Surcharge revenue	-	6.6
RSA interest income	-	1.4
Operating revenue	<u>(24.4)</u>	<u>(20.4)</u>
Ending balance	<u>\$ 75.0</u>	<u>\$ 99.4</u>

Short-term wholesale power revenues represent revenue received from the sale of power generated in excess of retail sales and other obligations and were \$97.7 million, an increase of \$31.4 million compared to \$66.3 million recorded in 2021. Short-term wholesale power revenues fluctuate with changes in water conditions, retail sales, and commodity prices.

City Light is active in the wholesale power market both buying and selling energy. For a more comprehensive overview of wholesale energy transactions City Light management often reviews net wholesale revenue, where wholesale purchases are deducted from wholesale sales and adjusted for book-outs. Net wholesale revenues were \$13.1 million in 2022, \$24.5 million lower than in 2021. The considerable decrease in net short wholesale power revenues was due mostly to lower hydro generation, higher loads and significantly higher market prices.

Other power-related revenues, net, increased by \$17.2 million. The valuation of energy exchange contracts increased by \$7.4 million. In addition, the Lucky Peak exchange contract resulted in a more favorable premium of \$7.4 million. Other miscellaneous increased by \$2.4 million.

Other operating revenue decreased by \$3.0 million mainly due to a decrease of \$1.6 million in Operation and Maintenance revenues and a \$1.4 million decrease in cable and telecom pole rentals.

EXPENSES

2023 Compared to 2022 Operating expenses totaled \$1,053.3 million, an increase of \$129.3 million or 14.0% from \$924.0 million in 2022.

2023 power-related operating expenses at \$470.0 million were higher by \$60.3 million or 14.7% compared to \$409.7 million in 2022 due to the following:

- Long-term purchased power expenses of \$175.4 million increased by \$24.9 million largely due to a reduced BPA Power Reserves Distribution Clause credit in 2023 by \$15.7 million, and a \$16.0 million increase due to BPA Block power costs. A \$6.8 million decrease in other long-term purchased power partially offset the increases. Please refer to Note 20 of the accompanying financial statements.
- Short-term wholesale power purchases of \$124.5 million increased by \$38.3 million due to low hydro generation owing to dry conditions exacerbated by higher-than-expected retail sales increasing the need to purchase power on the wholesale market at very high market prices.

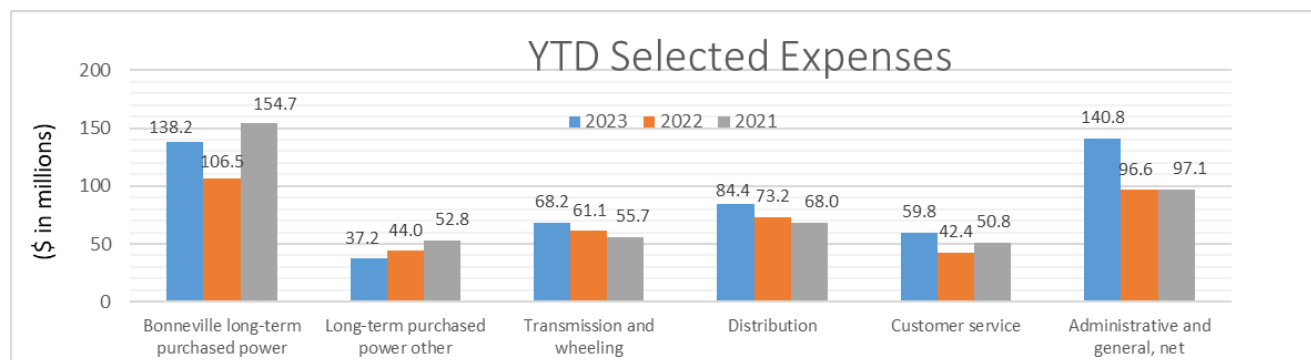
THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

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- Other power expenses of \$101.9 million decreased by \$10.0 million due to the lower generation costs and the lower market prices related to non-monetary transactions, partially offset by an increase in miscellaneous other power costs.
- Transmission expenses of \$68.2 million increased by \$7.1 million mostly due to the higher O&M costs for City Light’s transmission and higher BPA wheeling costs.

Non-power operating expenses increased by \$72.9 million to \$311.4 million or 30.6% from \$238.5 million in 2022 due to the following:

- Distribution expenses of \$84.4 million increased by \$11.2 million due to less labor being charged to capital work, higher vacancy-driven overtime and increased cost of supplies.
- Customer service of \$59.8 million increased by \$17.4 million due to the higher bad debt expense of \$11.8 million and various other costs of \$5.6 million due to continued strong post-pandemic pick up on normal operations.
- Administrative and general of \$140.8 million increased by \$44.2 million compared to 2022 primarily due to increased GASB 68 pension expense, \$27.4 million, and an increase in General expense, \$7.8 million.



Taxes in 2023 decreased by \$6.6 million primarily due to a tax refund received from the City of Seattle.

Depreciation and amortization at \$159.5 million increased by \$2.7 million primarily due to replacements and additions of conductors, conduits, poles and software.

2022 Compared to 2021 Operating expenses totaled \$924.0 million, an increase of \$32.3 million or 3.6% from \$891.7 million in 2021.

2022 power-related operating expenses at \$409.7 million were higher by \$12.8 million or 3.2% than \$396.9 million in 2021 due to the following:

- Long-term purchased power expenses of \$150.5 million decreased by \$57.0 million mostly due to BPA Power Reserves Distribution Clause credit and expiration of the Stateline Wind contract. Please refer to Note 20 of the accompanying financial statements.

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- Short-term wholesale power purchases of \$86.2 million increased by \$47.7 million due to the lower hydro generation, colder than normal temperatures that drove up retail demand and significantly higher market prices in December.
- Other power expenses of \$111.9 million increased by \$16.7 million mostly due to the higher generation costs and the higher market prices related to non-monetary transactions.
- Transmission expenses of \$61.1 million increased by \$5.4 million mostly due to the higher BPA wheeling costs.

Non-power operating expenses decreased by \$6.2 million to \$238.5 million or 2.5% from \$244.7 million in 2021 due to the following:

- Distribution expenses of \$73.2 million increased by \$5.2 million due to pick up on normal operations as compared to 2021.
- Customer service of \$42.4 million decreased by \$8.4 million due to the lower bad debt expense in 2022 as result of resumption of collection efforts and the Utility Residential Customer Arrearages grant partially offset by the higher labor cost due to pick up on normal operations as compared to 2021.
- Conservation expenses of \$26.3 million decreased by \$2.5 million as more than half of the customer agreements were extended due to supply issues.
- Administrative and general of \$96.6 million decreased by \$0.5 million compared to 2021.

Taxes in 2022 increased by \$17.5 million as a result of higher revenues.

Depreciation and amortization at \$156.8 million increased by \$8.2 million primarily due to replacements and additions of conductors, conduits, poles and software.

NONOPERATING REVENUES AND (EXPENSES), CAPITAL CONTRIBUTIONS AND GRANTS

2023 Compared to 2022 Nonoperating revenue increased by \$43.1 million in 2023 due to the increased GASB 31 fair value adjustment of \$37.3 million, higher interest income of \$6.9 million partially offset by lower non-capital grants, net, \$0.9 million and other \$0.2 million.

Nonoperating expenses increased by \$2.8 million year over year due to the higher interest because of the increased bonds balance at the end of 2023, \$5.6 million, offset by the higher refunding gain amortization, \$2.8 million.

Capital contributions and grants decreased by \$5.3 million mainly due to the reduced activity in time and materials jobs and joint use.

2022 Compared to 2021 Nonoperating revenue decreased by \$11.8 million in 2022 due to the following:

- lower GASB 31 fair value adjustment, \$17.5 million

Partially offset by:

- higher interest income due to higher cash balance at the end of 2022, \$3.4 million
- higher lease interest revenue resulted from GASB 87 implementation, \$0.8 million
- higher non-capital grants, net, \$1.5 million

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Nonoperating expense increased net \$0.1 million year over year due to the higher interest because of the increased bonds balance at the end of 2022, \$3.2 million, offset by the higher refunding gain amortization, \$3.3 million.

Capital contributions and grants decreased by \$17.1 million mainly due to the reduced activity in time and materials jobs and joint use.

RISK MANAGEMENT

The Department evaluates and monitors all strategic risks at the enterprise level, including emergency response, cybersecurity, physical plant security and seismic risks.

The Department's Risk Oversight Council (ROC) is a cross functional executive committee that has the authority and responsibility for overseeing and implementing the Department's risk management efforts related to wholesale marketing activities. ROC meets at least twice per month to review recent events in the wholesale power markets and the Department's market positions, exposures, policy compliance, and wholesale trading strategies and plans.

Wholesale energy marketing activities are managed by the Power Management Division. The Risk Oversight Division manages the market and credit risk related to all wholesale marketing activities and carries out the middle office functions of the Department. This includes risk control, deal review & valuations, independent reporting of market positions and portfolio performance, counterparty credit risk, risk modeling, model validations, settlements, and ensuring adherence to wholesale trading policy and procedures. These divisions report to separate officers to ensure checks and balances.

Hydro Risk

Due to the Department's reliance on hydroelectric generation, weather can significantly affect its operations. Hydroelectric generation depends on the amount of snowpack in the mountains upstream of the Department's hydroelectric facilities, springtime snowmelt timing, run-off, and rainfall. Hydroelectric operations are also influenced by flood control and environmental considerations including protection of fish. In low water years when generation is reduced, the Department will utilize purchased power to meet retail demand. Normally, the Department's retail demand peaks in winter; however, extreme weather conditions affecting either heating or cooling needs could increase costs. In addition, economic trends (increase or decrease in business activity, housing sales and development of properties) can affect demand and costs.

Energy Market Risk

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

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

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MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2023 and 2022

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

The Department measures the risk in its energy portfolio using a model that utilizes historical simulation methodology and incorporates not only price risk, but also the volumetric risk associated with its hydro-dominated power portfolio. Scenario analysis is used for stress testing.

Credit Risk

Credit risk is the risk of loss that would be incurred as a result of nonperformance by a counterparty of their contractual obligations. If a counterparty failed to perform on its contractual obligation to deliver electricity, then the Department may find it necessary to procure electricity at current market prices, which may be higher than the contract price. If a counterparty failed to pay its obligation in a timely manner, this would have an impact on the Department's revenue and cash flow. As with market risk, the Department has policies governing the management of credit risk.

Wholesale counterparties are assigned credit limits based on publicly available and proprietary financial information. Along with ratings provided by national ratings agencies, an internal credit scoring model is used to classify counterparties into one of several categories with permissible ranges of credit limits. Specific counterparty credit limits are set within this prescribed range based on qualitative and quantitative factors. Credit limits are also used to manage counterparty concentration risk. The Department actively strives to reduce concentration of credit risk related to geographic location of counterparties as it only transacts in the western energy markets. This geographic concentration of counterparties may impact the Department's overall credit exposure because counterparties may be affected by similar conditions.

Credit limits, exposures and credit quality are actively monitored. Despite such efforts, there is potential for default; however, the Department has not faced a counterparty default in nearly 15 years. The Department transacts with counterparties on an uncollateralized and collateralized basis. Posted collateral may be in the form of cash, letters of credit, or parental guarantees.

REQUESTS FOR INFORMATION

For more information about Seattle City Light, contact Communications at 206-684-3000 or at P.O. Box 34023, Seattle, WA 98124-4023

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

STATEMENTS OF NET POSITION - ASSETS AND DEFERRED OUTFLOWS OF RESOURCES AS OF DECEMBER 31, 2023 AND 2022

<i>(\$ in millions)</i>	2023	2022
ASSETS		
UTILITY PLANT—At original cost:		
Plant -in-service—excluding land	\$ 6,377.7	\$ 6,168.7
Less accumulated depreciation and amortization	<u>(2,451.5)</u>	<u>(2,327.0)</u>
Total plant-in-service—net	3,926.2	3,841.7
Construction work-in-progress	657.0	531.9
Nonoperating property—net of accumulated depreciation	19.0	18.3
Assets held for future use	3.1	3.1
Land and land rights	<u>156.8</u>	<u>155.9</u>
Total utility plant—net	<u>4,762.1</u>	<u>4,550.9</u>
RESTRICTED ASSETS:		
Rate stabilization account	65.8	75.0
Municipal light and power bond reserve account	106.3	103.1
Construction account	13.5	0.0
Special deposits and other restricted assets	<u>40.3</u>	<u>32.2</u>
Total restricted assets	<u>225.9</u>	<u>210.3</u>
CURRENT ASSETS:		
Cash and equity in pooled investments	263.2	348.6
Accounts receivable, net of allowance of \$46.2 and \$43.8	193.8	203.1
Interfund receivables	1.5	1.4
Unbilled revenues	95.7	110.5
Materials and supplies at average cost	55.5	47.3
Prepayments and other current assets	<u>5.7</u>	<u>5.7</u>
Total current assets	<u>615.4</u>	<u>716.6</u>
OTHER ASSETS:		
Conservation costs—net	255.6	253.7
Environmental costs—net	116.4	93.1
Other charges and assets—net	<u>118.0</u>	<u>118.3</u>
Total other assets	<u>490.0</u>	<u>465.1</u>
TOTAL ASSETS	<u>6,093.4</u>	<u>5,942.9</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows related to Pension and OPEB	103.6	60.0
Charges on advance refunding	<u>9.6</u>	<u>12.8</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>113.2</u>	<u>72.8</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 6,206.6</u>	<u>\$ 6,015.7</u>

See notes to financial statements.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

STATEMENTS OF NET POSITION - LIABILITIES, DEFERRED INFLOWS OF RESOURCES, & NET POSITION AS OF DECEMBER 31, 2023 AND 2023

(\$ in millions)	2023	2022
LIABILITIES		
LONG-TERM DEBT:		
Revenue bonds	\$ 2,635.7	\$ 2,643.5
Plus bond premium—net	279.4	279.5
Less revenue bonds—current portion	<u>(131.6)</u>	<u>(127.7)</u>
Total long-term debt	<u>2,783.5</u>	<u>2,795.3</u>
NONCURRENT LIABILITIES:		
Net pension liability	302.6	171.7
Accumulated provision for injuries and damages	111.2	83.9
Compensated absences	20.3	20.7
Other noncurrent liabilities	<u>7.2</u>	<u>8.1</u>
Total noncurrent liabilities	<u>441.3</u>	<u>284.4</u>
CURRENT LIABILITIES:		
Accounts payable and other current liabilities	174.7	161.5
Accrued payroll and related taxes	8.4	8.4
Compensated absences	1.1	1.1
Accrued interest	44.4	42.7
Long-term debt—current portion	<u>131.6</u>	<u>127.7</u>
Total current liabilities	<u>360.2</u>	<u>341.4</u>
OTHER LIABILITIES	<u>36.3</u>	<u>36.3</u>
TOTAL LIABILITIES	<u>3,621.3</u>	<u>3,457.4</u>
DEFERRED INFLOWS OF RESOURCES		
Rate stabilization unearned revenue	40.8	50.0
Deferred inflows related to pension and OPEB	17.2	99.3
Other deferred inflows of resources	<u>111.8</u>	<u>118.7</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>169.8</u>	<u>268.0</u>
NET POSITION		
Net investment in capital assets	2,185.5	1,953.7
Restricted:		
Rate stabilization account	<u>25.0</u>	<u>25.0</u>
Total restricted	<u>25.0</u>	<u>25.0</u>
Unrestricted—net	<u>205.0</u>	<u>311.6</u>
Total net position	<u>2,415.5</u>	<u>2,290.3</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	<u>\$ 6,206.6</u>	<u>\$ 6,015.7</u>

See notes to financial statements.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

<i>(\$ in millions)</i>	2023	2022
OPERATING REVENUES:		
Retail power revenues	\$ 1,033.7	\$ 1,021.5
Short-term wholesale power revenues	56.2	97.7
Other power-related revenues	71.1	76.5
Transfers from/(to) rate stabilization account	9.2	24.4
Other operating revenues	<u>20.7</u>	<u>18.6</u>
Total operating revenues	<u>1,190.9</u>	<u>1,238.7</u>
OPERATING EXPENSES:		
Long-term purchased power—Bonneville and other	175.4	150.5
Short-term wholesale power purchases	124.5	86.2
Other power expenses	101.9	111.9
Transmission	68.2	61.1
Distribution	84.4	73.2
Customer service	59.8	42.4
Conservation	26.4	26.3
Administrative and general	140.8	96.6
Taxes	112.4	119.0
Depreciation and amortization	<u>159.5</u>	<u>156.8</u>
Total operating expenses	<u>1,053.3</u>	<u>924.0</u>
OPERATING INCOME	<u>137.6</u>	<u>314.7</u>
NONOPERATING REVENUES AND (EXPENSES):		
Other revenues and (expenses)—net	35.9	(7.2)
Interest expense		
Interest expense—net	(119.1)	(112.8)
Amortization of bond costs—net	<u>27.5</u>	<u>24.0</u>
Total interest expense	<u>(91.6)</u>	<u>(88.8)</u>
Total nonoperating expenses	<u>(55.7)</u>	<u>(96.0)</u>
INCOME BEFORE CAPITAL CONTRIBUTIONS AND GRANTS	<u>81.9</u>	<u>218.7</u>
CAPITAL CONTRIBUTIONS AND GRANTS:		
Capital contributions	43.0	48.4
Capital grants	<u>0.3</u>	<u>0.2</u>
Total capital contributions and grants	<u>43.3</u>	<u>48.6</u>
CHANGE IN NET POSITION	125.2	267.3
NET POSITION:		
Beginning of year	<u>2,290.3</u>	<u>2,023.0</u>
End of year	<u>\$ 2,415.5</u>	<u>\$ 2,290.3</u>

See notes to financial statements.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

<i>(\$ in millions)</i>	2023	2022
OPERATING ACTIVITIES:		
Cash received from customers and counterparties	\$ 1,114.5	\$ 1,106.8
Cash paid to suppliers and counterparties	(476.9)	(325.1)
Cash paid to employees	(155.8)	(189.9)
Taxes paid	<u>(106.1)</u>	<u>(117.2)</u>
Net cash provided by operating activities	<u>375.7</u>	<u>474.6</u>
NONCAPITAL FINANCING ACTIVITIES:		
Interfund operating cash received	0.0	0.9
Interfund operating cash paid	(55.4)	(48.9)
Principal paid on long-term debt	(12.2)	(9.0)
Interest paid on long-term debt	(10.9)	(7.8)
Noncapital grants received	1.6	10.4
Bonneville receipts for conservation	4.7	3.1
Payment to vendors on behalf of customers for conservation	<u>(21.6)</u>	<u>(20.7)</u>
Net cash used in noncapital financing activities	<u>(93.8)</u>	<u>(72.0)</u>
CAPITAL AND RELATED FINANCING ACTIVITIES:		
Proceeds from long-term debt	216.6	212.0
Proceeds from long-term debt premiums	34.2	26.6
Payment to trustee for defeased bonds	(90.4)	(26.5)
Bond issue costs paid	(0.7)	(0.4)
Principal paid on long-term debt	(115.5)	(114.3)
Interest paid on long-term debt	(102.7)	(99.2)
Acquisition and construction of capital assets	(344.9)	(318.8)
Interfund payments for acquisition and construction of capital assets	(27.1)	(24.0)
Capital contributions	45.5	38.5
Interfund receipts for capital contributions	0.0	(0.1)
Capital grants received/(paid)	0.3	0.5
Interest received for suburban infrastructure improvements	2.3	2.4
Decrease in other assets	<u>1.9</u>	<u>2.0</u>
Net cash used in capital and related financing activities	<u>(380.5)</u>	<u>(301.3)</u>
INVESTING ACTIVITIES:		
Interest received (paid) on cash and equity in pooled investments	<u>28.8</u>	<u>(16.4)</u>
Net cash provided by (used in) investing activities	<u>28.8</u>	<u>(16.4)</u>
NET INCREASE (DECREASE) IN CASH AND EQUITY IN POOLED INVESTMENTS	(69.8)	84.9
CASH AND EQUITY IN POOLED INVESTMENTS:		
Beginning of year	<u>558.9</u>	<u>474.0</u>
End of year	<u>\$ 489.1</u>	<u>\$ 558.9</u>

See notes to financial statements.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

STATEMENTS OF CASH FLOWS - RECONCILIATION FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

<i>(\$ in millions)</i>	2023	2022
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	<u>\$ 137.6</u>	<u>\$ 314.7</u>
Adjustments to reconcile operating income to net cash provided by operating activities:		
Non-cash items included in operating income:		
Depreciation	159.5	156.8
Amortization of other assets	24.8	36.9
Bad debt expense	17.8	4.2
Power revenues	(70.9)	(64.2)
Power expenses	83.6	79.9
Provision for injuries and damages	2.2	1.4
Other non-cash items	(8.8)	(42.4)
Change in:		
Accounts receivable	40.9	17.8
Unbilled revenues	14.8	(11.4)
Materials and supplies	(12.9)	(5.3)
Other assets	(54.2)	34.2
Provision for injuries and damages and claims payable	48.4	(54.7)
Accounts payable and other payables	4.9	33.7
Deferred inflows	(2.8)	(2.6)
Rate stabilization unearned revenue	<u>(9.2)</u>	<u>(24.4)</u>
Total adjustments	<u>238.1</u>	<u>159.9</u>
Net cash provided by operating activities	<u>\$ 375.7</u>	<u>\$ 474.6</u>
SUPPLEMENTAL DISCLOSURES OF NONCASH ACTIVITIES:		
In-kind capital contributions	\$ 0.2	\$ 1.6
Amortization of debt related costs—net	27.5	24.0
Power exchange revenues	40.1	45.0
Power exchange expenses	(40.1)	(45.0)
Power revenue netted against power expenses	18.7	9.4
Power expense netted against power revenues	(12.1)	(12.8)
Bond proceeds deposited into an escrow account for purposes of refunding	146.5	50.4

See notes to financial statements.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

1. OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City Light Department (the Department) is the public electric utility of The City of Seattle (the City). The Department is an enterprise fund of the City. The Department owns and operates certain generating, transmission, and distribution facilities and supplies electricity to approximately 503,200 residential, commercial, and public customers in the City of Seattle. The Department also supplies electrical energy to other City agencies at rates prescribed by City ordinances, and to certain neighboring communities under franchise agreements. The establishment of the Department's rates is within the exclusive jurisdiction of the Seattle City Council. A requirement of Washington State law provides that rates must be fair, nondiscriminatory, and fixed to produce revenue adequate to pay for operation and maintenance expenses and to meet all debt service requirements payable from such revenue. The Department pays occupation taxes to the City based on total revenues.

The Department's revenues for services provided to other City departments were \$18.6 million and \$11.7 million in 2023 and 2022, respectively, and \$1.2 million and \$2.0 million for non-energy services, respectively.

The Department's receivables from other City departments totaled \$1.5 million and \$1.4 million at December 31, 2023, and 2022, respectively. The Department's payables to other City departments were \$0.0 million on December 31, for 2023 and 2022, respectively. The balances receivable and payable are the result of transactions incurred in the normal course of operations.

The Department receives certain services from other City departments and paid \$134.8 million in 2023 and \$121.4 million in 2022, for such services. Amounts paid include central cost allocations from the City for services received including treasury services, risk financing, purchasing, data processing systems, vehicle maintenance, personnel, payroll, legal, administrative, information technology and building rentals, including for the Department's administrative offices.

Basis of Presentation and Accounting Standards—The financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America as applied to governmental units. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Department has applied and is current through 2023 with all applicable GASB pronouncements.

GASB Statement No. 94 - GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, addresses issues related to public-private and public-public partnership arrangements (PPPs) and provides guidance for availability payment arrangements. There was no impact on the financial statements when the Department implemented Statement No. 94 effective January 1, 2023.

GASB Statement No. 96 - GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for governments. This Statement defines: a SBITA; establishes that a SBITA results in a right-to-use subscription asset, an intangible asset, and a corresponding subscription liability; provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and requires note disclosures regarding a SBITA. There was no impact on the financial statements when the Department implemented Statement No. 96 effective January 1, 2023.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

GASB Statement No. 99 - GASB Statement No. 99, *Omnibus 2022*, addresses several topics and issues that have been identified during implementation of various GASB Statements. This statement clarifies issues related to derivative instruments, leases, pledges of future revenues, PPPs, SBITAs, and disclosures related to non-monetary transactions. The Department implemented Statement No. 99 effective January 1, 2023, which included a required change in terminology of the financial statements, specifically that the term Statements of Net Position replaces the term Balance Sheets.

GASB Statement No. 100 - GASB Statement No. 100, *Accounting Changes and Error Corrections*, establishes accounting and financial reporting requirements for (a) accounting changes and (b) the correction of an error in previously issued financial statements. This statement will be effective for the Department in 2024. The Department is currently evaluating the impact of implementation on the financial statements.

GASB Statement No. 101 - GASB Statement No. 101, *Compensated Absences*, clarifies the recognition of certain types of employee accrued leave and also establishes guidance for measuring a liability for leave that has not been used. This statement will be effective for the Department in 2024. The Department is currently evaluating the impact of implementation on the financial statements.

GASB Statement No. 102 - GASB Statement No. 102, *Certain Risk Disclosures*, establishes financial reporting requirements for risks related to vulnerabilities due to certain concentrations or constraints. A concentration is a lack of diversity related to an aspect of a significant inflow of resources or outflow of resources. A constraint is a limitation that is imposed by an external party or by formal action of a government's highest level of decision-making authority. A government may be vulnerable to risks from certain concentrations or constraints that limit its ability to acquire resources or control spending. This statement will be effective for the Department in 2025. The Department is currently evaluating the impact of implementation on the financial statements.

Fair Value Measurements—Descriptions of the Department's accounting policies on fair value measurements for items reported on the statements of net position at December 31, 2023 and 2022, are as noted in Note 2 Fair Values, Note 5 Cash and Equity in Pooled Investments and Investments, Note 6 Accounts Receivable and Note 20 Long-Term Purchased Power, Exchanges, and Transmission.

Fair Value of Financial Instruments—The Department's financial instruments reported on the statements of net position at December 31, 2023 and 2022, as Restricted assets and Cash and equity in pooled investments are measured at fair value. These instruments consist primarily of the Department's share of the City-wide pool of investments (see Note 5 Cash and Equity in Pooled Investments and Investments). Gains and losses on these financial instruments are reflected in Investment income in the statements of revenues, expenses, and changes in net position. The fair value of long-term debt at December 31, 2023 and 2022 is discussed in Note 9 Long-Term Debt.

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

- *Net investment in capital assets*—This component consists of capital assets, net of accumulated depreciation and amortization, reduced by the net outstanding debt balances related to capital assets net of unamortized debt expenses.
- *Restricted*—This component consists of net position with constraints placed on use. Constraints include those imposed by creditors (such as through debt covenants and excluding amounts considered in net capital, above), grants, or laws and regulations of other governments, or by enabling legislation, The City of Seattle Charter, or by ordinances legislated by the Seattle City Council.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

- *Unrestricted*—This component consists of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that do not meet the definition of Net investment in capital assets or Restricted.

Restricted and Unrestricted Net Position—The Department’s policy is to use restricted net position for specified purposes and to use unrestricted net position for operating expenses. The Department does not currently incur expenses for which both restricted and unrestricted net position is available.

Assets Held for Future Use—These assets include property acquired but never used by the Department in electrical service and therefore, held for future service under a definitive plan. Also included is property previously used in service but retired and held pending its reuse in the future under a definitive plan. As of December 31, 2023 and 2022, assets held for future use included the following electrical plant assets: land for future substations, communication system and risk mitigation structures was \$3.1 million.

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

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

The Department’s customer base accounted for electric energy sales at December 31, 2023 and 2022, as follows:

	2023	2022
Residential	39.3 %	39.8 %
Nonresidential	<u>60.7 %</u>	<u>60.2 %</u>
Total	100.0 %	100.0 %

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

Other nonoperating revenues and (expenses), net for the years 2023 and 2022 consisted of the following:

(\$ in millions)	<u>2023</u>	<u>2022</u>
Nonoperating Revenues and (Expenses)		
Other revenues and (expenses) - net		
Investment income (loss)	\$ 31.2	\$ (12.9)
Utility residential customer arrearages grant	1.6	9.7
Arrearages grant funds disbursed	(1.6)	(9.7)
Other income (expense) - net	<u>4.7</u>	<u>5.7</u>
Total Other revenues and (expenses) - net	<u>\$ 35.9</u>	<u>\$ (7.2)</u>

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

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

Administrative and General Overhead Costs Applied—Certain administrative and general overhead costs are allocated to construction work-in-progress, major data processing systems development, programmatic conservation, relicensing mitigation projects, and billable operations and maintenance activities based on rates established by cost studies. Pension and benefit costs are allocated to capital and operations and maintenance activities based on a percentage of labor dollars.

The administrative and general overhead costs applied totaled \$58.0 million and \$65.6 million in 2023 and 2022, respectively. Benefit costs applied were \$45.0 million and \$37.2 million in 2023 and 2022, respectively. Administrative and general expenses, net of total applied overhead, were \$140.8 million and \$96.6 million in 2023 and 2022, respectively.

Nonexchange Transactions—Capital contributions and grants in the amount of \$43.3 million and noncapital grants in the amount of \$1.6 million for 2023, reported in the Statements of Revenues, Expenses, and Changes in Net Position as nonoperating revenues from nonexchange transactions. Capital contributions and grants revenues are recognized based on the accrual basis of accounting. In-kind capital contributions are recognized at estimated acquisition value in the period when all eligibility requirements have been met as described in GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*. Federal and state grant revenues are recognized as earned and are subject to contract and other compliance audits.

Compensated Absences—Regular employees of the Department earn vacation time in accordance with length of service. A maximum of 480 hours may be accumulated for the most tenured employees and, upon termination, employees are entitled to compensation for unused vacation. Upon retirement, employees receive compensation equivalent to 25% of their accumulated sick leave. Employees represented by unions who voted in favor of a Healthcare Reimbursement Arrangement (HRA) receive 35% of their sick leave balance tax-free through an HRA account for healthcare expenses post-retirement. Because of the special tax arrangement, the sick leave balance may only go into the HRA account; it may not be taken as a cashout. The HRA program is administered by an independent third-party administrator, Meritain Health. HRA investments are managed by HRA Voluntary Employee Beneficiary Association (VEBA) Trust. The Department accrues all costs associated with compensated absences, including payroll taxes.

Use of Estimates—The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect amounts reported in the financial statements. The Department used significant estimates in determining reported allowance for doubtful accounts, unbilled revenues, power exchanges, accumulated provision for injuries and damages and workers' compensation, environmental liabilities, accrued sick leave, net pension liability, other postemployment benefits, and other contingencies. Actual results may differ from those estimates.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

Significant Risk and Uncertainty—The Department is subject to certain business risks that could have a material impact on future operations and financial performance. These risks include financial market liquidity and economic uncertainty; prices on the wholesale markets for short-term power transactions; interest rates and other inputs and techniques for fair valuation; water conditions, weather, climate change, and natural disaster-related disruptions; terrorism; collective bargaining labor disputes; fish and other Endangered Species Act (ESA) issues; Environmental Protection Agency (EPA) regulations; compliance with clean and renewable energy legislation; local and federal government regulations or orders concerning the operations, maintenance, and/or licensing of hydroelectric facilities; other governmental regulations; restructuring of the electrical utility industry; and the costs of constructing transmission facilities that may be incurred as part of a northwest regional transmission system, and related effects of this system on transmission rights, transmission sales, surplus energy, and governance.

Deferred Outflows of Resources—A deferred outflow of resources represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense) until that future time. See Note 8 for additional information.

Deferred Inflows of Resources—A deferred inflow of resources represents an acquisition of net position that applies to a future period and therefore will not be recognized as an inflow of resources (revenue) until that future time. See Note 17 for additional information.

2. FAIR VALUE MEASUREMENT

The Department records certain assets, liabilities, and deferred inflows of resources in accordance with GASB Statement No. 72, *Fair Value Measurement and Application*, which defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurement.

Fair value is defined in Statement No. 72 as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). Fair value is a market-based measurement for a particular asset or liability based on assumptions that market participants would use in pricing the asset or liability. Such assumptions include observable and unobservable inputs of market data, as well as assumptions about risk and the risk inherent in the inputs to the valuation technique.

Valuation techniques to determine fair value should be consistent with one or more of three approaches: the market approach, cost approach, and income approach. The Department uses the market approach for the valuation of pooled investments, a combination of the market and income approaches for the valuation of the undelivered forward portion of energy exchanges and other nonmonetary transactions.

As a basis for considering market participant assumptions in fair value measurements, Statement No. 72 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Department can access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

- Level 3 inputs are unobservable inputs for the asset or liability. Valuation adjustments such as for nonperformance risk or inactive markets could cause an instrument to be classified as Level 3 that would otherwise be classified as Level 1 or Level 2.

The valuation methods of the fair value measurements are disclosed as noted below.

Cash resources of the Department are combined with cash resources of the City to form a pool of cash and investments that is managed by the City’s Department of Finance. The City records pooled investments at fair value based on quoted market prices.

The Department obtained the lowest level of observable input of the fair value measurement of energy exchanges and other non-monetary transactions in its entirety from subscription services or other independent parties. The observable inputs for the settled portion of the energy exchange contracts are Dow Jones price indices. The observable inputs for the undelivered forward portion of energy exchanges and other non-monetary transactions are Kiodex forward curves and present value factors based on the interest rate for Treasury constant maturities, bond-equivalent yields.

Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Department’s assessment of the significance of a particular input to the fair value measurement requires judgement and may affect the valuation of fair value assets and liabilities and their place within the fair value hierarchy levels.

The Department had no assets or liabilities that met the criteria for Level 3 at December 31, 2023 and 2022. The following fair value hierarchy table presents information about the Department’s assets and liabilities, reported at fair value on a recurring basis or disclosed at fair value as of December 31, 2023 and 2022:

(\$ in millions)

2023	Credit Rating	Level 1	Level 2	Total
Assets				
Fair value investments				
Corporate Bonds	AA+ to A	\$ -	\$ 9.0	\$ 9.0
International Bank for Reconstruction & Development	AAA	-	6.5	6.5
Local Government Investment Pool	N/A	54.3	-	54.3
Municipal Bonds	AAA to A-	-	20.1	20.1
Repurchase Agreements	N/A	2.3	-	2.3
U.S. Government Agency Mortgage-Backed Securities	AA+	-	41.8	41.8
U.S. Government Agency Securities	AA+	-	189.4	189.4
U.S. Treasury and U.S. Government-Backed Securities	AA+	165.7	-	165.7
Total fair value investments		<u>222.3</u>	<u>266.8</u>	<u>489.1</u>
Total Assets at fair value		<u>\$ 222.3</u>	<u>\$ 266.8</u>	<u>\$ 489.1</u>

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

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(\$ in millions)

2022	Credit Rating	Level 1	Level 2	Total
Assets				
Fair value investments				
Corporate Bonds	AA+ to A	\$ -	\$ 11.6	\$ 11.6
Commercial Paper	A+	-	12.7	12.7
International Bank for Reconstruction & Development	AAA	-	7.7	7.7
Local Government Investment Pool	N/A	66.6	-	66.6
Municipal Bonds	AAA to A-	-	26.4	26.4
Repurchase Agreements	N/A	7.4	-	7.4
U.S. Government Agency Mortgage-Backed Securities	AA+	-	44.1	44.1
U.S. Government Agency Securities	AA+	-	192.9	192.9
U.S. Treasury and U.S. Government-Backed Securities	AA+	189.5	-	189.5
Total fair value investments		<u>263.5</u>	<u>295.4</u>	<u>558.9</u>
Total Assets at fair value		<u>\$ 263.5</u>	<u>\$ 295.4</u>	<u>\$ 558.9</u>

3. UTILITY PLANT

Utility Plant—Utility plant is recorded at original cost, which includes both direct costs of construction or acquisition and indirect costs.

The capitalization threshold for tangible assets was \$5,000, and for intangible assets, \$500,000 in 2023 and 2022. Plant constructed with capital contributions or contributions in-aid-of construction received from customers is included in Utility plant. Capital contributions and capital grants totaled \$43.3 million in 2023 and \$48.6 million in 2022. The Department uses a straight-line composite method of depreciation and amortization and, therefore, groups assets into composite groups for purposes of depreciation. Estimated economic lives range from 4 to 50 years. Depreciation and amortization expense as a percentage of depreciable utility plant-in-service was approximately 2.5% in 2023 and 2.5% in 2022. When operating plant assets are retired, their original cost together with retirement costs and removal costs, less salvage, is charged to accumulated depreciation or amortization, if applicable. The cost of maintenance and repairs is charged to expense as incurred, while the cost of replacements and betterments are capitalized. The Department periodically reviews long-lived assets for impairment to determine whether any events or circumstances indicate the carrying value of the assets may not be recoverable over their economic lives. There were no impairments in 2023 and 2022.

Intangible assets are those that lack physical substance, are nonfinancial in nature, and have useful lives extending beyond a single reporting period. The Department's intangible assets are reported as capital assets under Utility Plant. The Department's intangible assets consist of easements, purchased and internally developed software, transmission rights, capitalized relicensing costs for Skagit and Boundary hydroelectric projects, Tolt hydroelectric project mitigation costs, and costs capitalized under the High Ross Agreement.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

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Utility plant-in-service at original cost, including land on December 31, 2023, and 2022, was:

	Hydroelectric Production	Transmission	Distribution	General	Intangibles	Total
2023						
<i>(\$ in millions)</i>						
Utility Plant-in-service - At original cost:						
Plant-in-service, excluding Land:						
1/1/2023 Balance	\$ 1,001.2	\$ 361.9	\$ 3,534.2	\$ 438.3	\$ 833.1	\$ 6,168.7
Acquisitions	44.7	12.0	175.3	8.3	5.0	245.3
Dispositions	(10.7)	(2.4)	(17.1)	(6.1)	-	(36.3)
Transfers and adjustments	-	-	-	-	-	-
12/31/2023 Balance	<u>1,035.2</u>	<u>371.5</u>	<u>3,692.4</u>	<u>440.5</u>	<u>838.1</u>	<u>6,377.7</u>
Accumulated depreciation and amortization:						
1/1/2023 Balance	\$ 410.3	\$ 97.7	\$ 1,150.0	\$ 285.7	\$ 383.3	\$ 2,327.0
Increase in accumulated depreciation and amortization	19.1	8.1	101.7	13.0	32.2	174.1
Retirements	(12.1)	(6.4)	(25.0)	(6.1)	-	(49.6)
Gain/Loss on Retirements	-	-	-	-	-	-
12/31/2023 Balance	<u>417.3</u>	<u>99.4</u>	<u>1,226.7</u>	<u>292.6</u>	<u>415.5</u>	<u>2,451.5</u>
Sub Total Plant-in-service - Net, excluding Land:	<u>\$ 617.9</u>	<u>\$ 272.1</u>	<u>\$ 2,465.7</u>	<u>\$ 147.9</u>	<u>\$ 422.6</u>	<u>\$ 3,926.2</u>
Land and land rights:						
1/1/2023 Balance	\$ 59.8	\$ 3.0	\$ 86.5	\$ 6.6	\$ -	\$ 155.9
Acquisitions	0.8	-	0.1	-	-	0.9
Dispositions	-	-	-	-	-	-
Transfers and adjustments	-	-	-	-	-	-
12/31/2023 Balance	<u>60.6</u>	<u>3.0</u>	<u>\$ 86.6</u>	<u>6.6</u>	<u>-</u>	<u>156.8</u>
Construction work-in-process:						
1/1/2023 Balance	\$ 87.1	\$ 25.9	\$ 294.9	\$ 80.1	\$ 43.9	\$ 531.9
Additions	42.8	19.0	220.7	38.8	104.0	425.3
Closings	(48.3)	(14.9)	(175.7)	(9.3)	(52.0)	(300.2)
12/31/2023 Balance	<u>81.6</u>	<u>30.0</u>	<u>\$ 339.9</u>	<u>109.6</u>	<u>95.9</u>	<u>657.0</u>
* Total Plant-in-service - Net, including Land and CWIP:	<u>\$ 760.1</u>	<u>\$ 305.1</u>	<u>\$ 2,892.2</u>	<u>\$ 264.1</u>	<u>\$ 518.5</u>	<u>\$ 4,740.0</u>

* Excludes Nonoperating property and Assets Held For Future Use.

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	Hydroelectric Production	Transmission	Distribution	General	Intangibles	Total
2022						
<i>(\$ in millions)</i>						
Utility Plant-in-service - At original cost:						
Plant-in-service, excluding Land:						
1/1/2022 Balance	\$ 992.3	\$ 328.1	\$ 3,227.6	\$ 423.6	\$ 780.5	\$ 5,752.1
Acquisitions	9.8	34.7	341.4	15.4	52.6	453.9
Dispositions	(0.9)	(0.9)	(34.8)	(0.7)	-	(37.3)
Transfers and adjustments	-	-	-	-	-	-
12/31/2022 Balance	<u>1,001.2</u>	<u>361.9</u>	<u>3,534.2</u>	<u>438.3</u>	<u>833.1</u>	<u>6,168.7</u>
Accumulated depreciation and amortization:						
1/1/2022 Balance	\$ 395.7	\$ 94.5	\$ 1,101.0	\$ 273.3	\$ 331.1	\$ 2,195.6
Increase in accumulated depreciation and amortization	18.5	7.6	93.2	13.1	52.2	184.6
Retirements	(3.9)	(4.4)	(44.2)	(0.7)	-	(53.2)
Gain/Loss on Retirements	-	-	-	-	-	-
12/31/2022 Balance	<u>410.3</u>	<u>97.7</u>	<u>1,150.0</u>	<u>285.7</u>	<u>383.3</u>	<u>2,327.0</u>
Sub Total Plant-in-service - Net, excluding Land:	<u>\$ 590.9</u>	<u>\$ 264.2</u>	<u>\$ 2,384.2</u>	<u>\$ 152.6</u>	<u>\$ 449.8</u>	<u>\$ 3,841.7</u>
Land and land rights:						
1/1/2022 Balance	\$ 58.5	\$ 3.0	\$ 86.5	\$ 6.6	\$ -	\$ 154.6
Acquisitions	1.3	-	-	-	-	1.3
Dispositions	-	-	-	-	-	-
Transfers and adjustments	-	-	-	-	-	-
12/31/2022 Balance	<u>59.8</u>	<u>3.0</u>	<u>86.5</u>	<u>6.6</u>	<u>-</u>	<u>155.9</u>
Construction work-in-process:						
1/1/2022 Balance	\$ 58.4	\$ 50.2	\$ 437.8	\$ 69.4	\$ 24.0	\$ 639.8
Additions	43.8	14.2	207.1	25.2	72.0	362.3
Closings	(15.1)	(38.5)	(350.0)	(14.5)	(52.1)	(470.2)
12/31/2022 Balance	<u>87.1</u>	<u>25.9</u>	<u>294.9</u>	<u>80.1</u>	<u>43.9</u>	<u>531.9</u>
* Total Plant-in-service - Net, including Land and CWIP:	<u>\$ 737.8</u>	<u>\$ 293.1</u>	<u>\$ 2,765.6</u>	<u>\$ 239.3</u>	<u>\$ 493.7</u>	<u>\$ 4,529.5</u>

** Excludes Nonoperating property and Assets Held For Future Use.*

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NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

4. RATE STABILIZATION ACCOUNT

The Rate Stabilization Account (RSA) is a restricted cash reserve established to reduce the need for rapid and substantial rate increases solely to comply with the Department’s bond covenants.

In March 2010, the Seattle City Council adopted Resolution No. 31187 and Ordinance No. 123260, establishing revised financial policies and parameters for the operation of the RSA created by Ordinance No. 121637 in 2004. Ordinance No. 123260 identified the sources of significant funding of the RSA and specified parameters for its operation. The RSA is drawn down to supplement revenues when surplus power sales revenues are below the budgeted amount, and conversely, deposits are to be made to the RSA when the surplus power sales revenues are greater than budgeted. Deposits or withdrawals may be made up to and including the date 90 days after the end of the applicable year.

Ordinance No. 123260 established a target size for the RSA of no less than \$100.0 million and no greater than \$125.0 million and authorized the imposition of automatic temporary surcharges on electric rates when the RSA balance is within specified levels. In December 2021, the Seattle City Council adopted Ordinance No. 126502, which established new thresholds and surcharge rates for the RSA applicable for 2023 and 2022 as follows:

RSA Balance at March 31 or September 30	Action
Less than or equal to \$75.0 million but greater than \$50.0 million:	Automatic 2.0% surcharge until RSA balance reaches \$100.0 million
Less than or equal to \$50.0 million but greater than \$25.0 million	Automatic 4.0% surcharge until RSA balance reaches \$100.0 million
Less than or equal to \$25.0 million:	City Council must initiate rate review within 45 days and determine actions to replenish RSA to \$100.0 million within 24 months

In 2023, actual net wholesale revenue was \$108.3 million less than budgeted. The \$109.2 million net transfer reflects a true-up from previous year made from the RSA to the operating cash account during the year. These transfers were partially offset by \$100.0 million transferred to the RSA from operating cash in 2023, in accordance with Ordinance No. 126819, which authorized the discretionary transfers to prevent a surcharge from triggering. There was no surcharge in effect during 2023. The RSA balance was \$65.8 million at December 31, 2023.

In 2022, actual net wholesale revenue was \$22.7 million less than budgeted. The \$24.4 million transfer reflects a true-up from previous year, as well as an estimate for the December transfer (which was true-up in January 2023). There was no surcharge in effect during 2022. Beginning in 2022 with the adoption of Ordinance No. 126502, interest earned by the funds in the Rate Stabilization Account are no longer allocated to that account and are instead held in operating cash. The RSA balance was \$75.0 million at December 31, 2022.

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The RSA at December 31, 2023, and 2022, consisted of cash from the following sources:

<i>(\$ in millions)</i>	2023	2022
Rate Stabilization Account		
Beginning balance	\$ 75.0	\$ 99.4
Council authorized transfer to RSA	100.0	-
Operating revenue	<u>(109.2)</u>	<u>(24.4)</u>
Ending balance	<u>\$ 65.8</u>	<u>\$ 75.0</u>

RSA transactions are recorded in accordance with GASB Statement No. 62 *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.

The regulatory deferred inflow of resources rate stabilization unearned revenue account at December 31, 2023, and 2022, consisted of the following:

<i>(\$ in millions)</i>	2023	2022
Unearned revenue - Rate Stabilization Account		
Beginning balance	\$ 50.0	\$ 74.4
Council authorized transfer to RSA	100.0	-
Operating revenue	<u>(109.2)</u>	<u>(24.4)</u>
Ending balance	<u>\$ 40.8</u>	<u>\$ 50.0</u>

The RSA includes \$25.0 million from the Contingency Reserve Account. This amount is not included in unearned revenue and is not available to be transferred to operating cash. The Contingency Reserve Account was established in 2005 with proceeds that had been deposited in the Bond Reserve Fund, which was replaced with a surety bond.

Net transfers from/(to) the RSA in the statements of revenues, expenses and net position for the periods ended December 31, 2023, and 2022 were as follows:

<i>(\$ in millions)</i>	2023	2022
Transfers from/(to) Rate Stabilization Account	<u>\$ 9.2</u>	<u>\$ 24.4</u>

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

5. CASH AND EQUITY IN POOLED INVESTMENTS AND INVESTMENTS

Cash and Equity in Pooled Investments—Cash resources of the Department are combined with cash resources of the City to form a pool of cash that is managed by the City’s Department of Finance. Under the City’s investment policy, all temporary cash surpluses in the pool are invested. The Department’s share of the pool is included on the statements of net position as Cash and Equity in Pooled Investments or as restricted assets. The pool operates like a demand deposit account in that all departments, including the Department, may deposit cash at any time and can also withdraw cash, out of the pool, up to the amount of the Department’s fund balance, without prior notice or penalty. Accordingly, the statements of cash flows reconcile to cash and equity in pooled investments. The City considers investments in financial instruments having a maturity of 90 days or less as a cash equivalent.

Custodial Credit Risk – Deposits—Custodial credit risk of deposits is the risk that in the event of bank failure for one of the City’s depository institutions, the City’s deposits or related collateral securities may not be returned in a timely manner.

As of December 31, 2023, and 2022, the City did not have custodial credit risk. The City’s deposits are covered by insurance provided by the Federal Deposit Insurance Corporation (FDIC) and the National Credit Union Association (NCUA) as well as protection provided by the Washington State Public Deposit Protection Commission (PDPC) as established in RCW 39.58. The PDPC makes and enforces regulations and administers a program to ensure public funds deposited in banks and thrifts are protected if a financial institution becomes insolvent. The PDPC approves which banks, credit unions, and thrifts can hold state and local government deposits and monitors collateral pledged to secure uninsured public deposits. This secures public treasurers’ deposits when they exceed the amount insured by the FDIC or NCUA by requiring banks, credit unions, and thrifts to pledge securities as collateral.

As of December 31, 2023, and 2022, the City held \$14,000 and \$95,000 in its cash vault, respectively. Additional small amounts of cash were held in departmental revolving fund accounts with the City’s various custodial banks, all of which fell within the NCUA/FDIC’s \$250,000 standard maximum deposit insurance amount. Any of the City’s cash not held in its vault, or a local depository, was held in the City’s operating fund (investment pool), and at the close of every business day, any cash remaining in the operating fund is swept into an overnight repurchase agreement that matures the next day.

Investments—The Department’s cash resources may be invested by the Department of Finance separate from the cash and investments pool. Investments are managed in accordance with the City’s Statement of Investment Policy, with limits and restrictions applied at the City-wide level rather than to specific investments of the Department. As of December 31, 2023, and 2022, the Department did not have any dedicated investments. The City’s Statement of Investment Policy was modified on January 1, 2018, with an effective date of March 8, 2018 and includes, but is not limited to, the topics of Standards of Care, Objectives, Strategy, Eligible Investments and Investment Parameters.

The City follows a set of Standards of Care when it comes to its investments that include the following:

- **Social Policies:** A City social policy shall take precedence over furthering the City’s financial objectives when expressly authorized by City Council resolution, except where otherwise provided by law or trust principles.

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NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

- Prudence: The standard of prudence to be used by investment personnel shall be the “Prudent Investor Rule” and will be applied in the context of managing an overall portfolio.
- Ethics and Conflict of Interest: The Finance Director, Treasury Services Director and employees involved in the investment process must refrain from any personal business activity that could conflict with proper execution of the investment program. Employees must comply with the City’s Ethics Code (SMC 4.16.080) and annually submit a Financial Interest Statement to the City’s Ethics & Elections Commission that identifies any potential financial interest that could be related to the performance of the City’s investment portfolio.
- Delegation of Authority: The City Finance Director is authorized to manage the City’s investment program and may delegate the day-to-day management responsibility to the City’s Treasury Services Director who may delegate authority for program administration to appropriate individuals. No persons may engage in an investment transaction except as provided under the terms of the City Statement of Investment Policy and the procedures established therein.

The three objectives in managing the City of Seattle’s investments define its risk profile and guide implementation of its investment strategy. In order of importance, they are Safety of Principal, Maintenance of Liquidity, and Investment Income.

Eligible investments for the City are those securities and deposits authorized by statute (RCW 39.59.040) and include, but are not limited to:

- A. Bonds of the state of Washington and any local government in the state of Washington
- B. General obligation bonds of a state and general obligation bonds of a local government of a state, which bonds have at the time of investment one of the three highest credit ratings of a nationally recognized rating agency
- C. Subject to compliance with RCW 39.56.030, registered warrants of a local government in the same county as the government making the investment
- D. Certificates, notes, or bonds of the United States, or other obligations of the United States or its agencies, or of any corporation wholly owned by the government of the United States
- E. United States dollar denominated bonds, notes, or other obligations that are issued or guaranteed by supranational institutions, provided that at the time of investment, the institution has the United States government as its largest shareholder
- F. Federal home loan bank notes and bonds, federal land bank bonds and federal national mortgage association notes, debentures, and guaranteed certificates of participation, or the obligations of any other government sponsored corporation whose obligations are or may become eligible as collateral for advances to member banks as determined by the board of governors of the federal reserve system
- G. Bankers’ acceptances purchased in the secondary market
- H. Commercial paper purchased in the secondary market

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I. Corporate bonds purchased in the secondary market.

State statute also permits investment in the following types of securities:

- A. Certificates of deposit or demand deposits with financial institutions made in accordance with the provisions of Chapter 39.58 RCW
- B. Washington State Local Government Investment Pool (LGIP), Chapter 43.250 RCW
- C. Repurchase agreements collateralized by the above eligible securities issued by the U.S. Government and its sponsored entities.

As of December 31, 2023 and 2022, the City’s pooled investments were as follows:

<i>(\$ in millions)</i>	2023		2022	
	Fair Value of City Pooled Investments	Weighted-Average Maturity (Days)	Fair Value of City Pooled Investments	Weighted-Average Maturity (Days)
Corporate Bonds	\$ 67.3	537	\$ 72.1	810
Commercial Paper	-	-	79.0	16
International Bank for Reconstruction & Development	48.9	247	48.0	1,165
Local Government Investment Pool	406.4	-	415.6	-
Municipal Bonds	150.8	772	164.5	840
Repurchase Agreements	17.3	9497	46.4	-
U.S. Government Agency Mortgage-Backed Securities	312.8	1,754	274.9	2,126
U.S. Government Agency Securities	1,417.0	404	1,204.1	662
U.S. Treasury and U.S. Government-Backed Securities	1,240.5	679	1,182.4	765
Total	\$ 3,661.0		\$ 3,487.0	
Portfolio Weighted Average Maturity		626		729

As of December 31, 2023 and 2022, the Department’s share of the City pool was as follows:

<i>(\$ in millions)</i>	2023	2022
Operating cash and equity in pooled investments	\$ 263.2	\$ 348.6
Restricted cash	225.9	210.3
Total	\$ 489.1	\$ 558.9
Balance as a percentage of City pool cash and investments	13.4%	16.0%

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NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

Fair Value of Pooled Investments—The City reports investments at fair value and categorizes its fair value measurements within the fair value hierarchy established by GASB Statement No. 72, Fair Value Measurement and Application. See Note 2 Fair Value Measurement. Fair value of the City’s pooled investments fluctuates with changes in interest rates and the underlying size of the pooled investment portfolio. To mitigate interest rate risk in the City’s pooled investment portfolio, the City typically holds its investments to maturity and manages its maturities to ensure sufficient monthly cash flow to meet its liquidity requirements. Market anticipation of continued softening of inflation along with potential Federal Reserve (Fed) easing in 2024 helped to push yields lower across the full spectrum of short end fixed income markets. The two-year Treasury note declined in the fourth quarter by 80 basis points to end 2023 at a yield of 4.25%, while fed funds held steady at a range of 5.25% to 5.50%. The Federal Open Market Committee (FOMC) held their final meeting of 2023 on December 13, in which they decided to keep interest rates unchanged while signaling the end of the rate hike cycle. FOMC members communicated their expectations of three-quarter point cuts by the end of 2024 but noted a high level of uncertainty as to the timing. The consensus for longer-term expectations amongst FOMC members is for cuts over the next three years to result in a fed funds rate closer to their long-term target of 2%. Ongoing economic resiliency could be tested in the next few quarters with lagged effects of higher rates from the current interest rate cycle. The market has priced in 150 basis points of Fed easing over the eight Fed meetings scheduled for 2024 with a year-ending fed funds rate of 3.75%.

The City held \$406.4 million in 2023, and \$415.6 million in 2022 in the Washington State Local Government Investment Pool (LGIP) managed by the Office of the Washington State Treasurer. The City’s investments in the LGIP are reported at amortized cost which approximates fair value. It is overseen by the Office of the State Treasurer, the State Finance Committee, the Local Government Investment Pool Advisory Committee, and the Washington State Auditor’s Office.

To provide for the City’s investment objectives, parameters have been established that guide the investment officers. Management of the Pool is subject to the restrictions outlined in the following sections.

Interest Rate Risk—Interest rate risk is the risk that changes in interest rates over time will adversely affect the fair value of an investment. To mitigate interest rate risk, the City intentionally immunizes its known and expected cash flow needs. To best accomplish meeting its investment objectives, the City has divided the Pool into two separate portfolios: Operating and Strategic.

The Operating Portfolio is invested to meet reasonably expected liquidity needs over a period of twelve to eighteen months. This portfolio has low duration and high liquidity. Consistent with this profile, and for the purpose of comparing earnings yield, its benchmark is the net earnings rate of the State of Washington’s Local Government Investment Pool (LGIP).

The Strategic Portfolio consists of cash that is in excess of known and expected liquidity needs. Accordingly, this portfolio is invested in debt securities with longer maturities than the Operating Portfolio, which over a market cycle, is expected to provide a higher return and greater investment income. Consistent with this profile, and for the purpose of comparing duration, yield and total return, the benchmark for the Strategic portfolio is the Barclays U.S. Government 1-7 year index. The duration of the Strategic Portfolio is targeted between 75 percent and 125 percent of the benchmark.

To further mitigate interest rate risk a minimum of 60% of the Operating Portfolio and 30% of the Strategic Portfolio must be invested in asset types with high liquidity, specifically U.S. government obligations, U.S. government agency obligations, LGIP, demand accounts, repo, sweep, commercial paper and Banker’s Acceptances.

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NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

Credit Risk—Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

To mitigate credit risk, municipal bonds must have one of the three highest credit ratings of a Nationally Recognized Statistical Rating Agency (NRSRO) at the time of purchase. The Office of the State Treasurer interprets the three highest credit ratings to include AAA, AA and A including gradations within each category. For example, the lowest credit rating allowable is A3 by Moody's and A- by S&P and Fitch.

Commercial paper and corporate bond investments must adhere to the Washington State Investment Board Policy Number 2.05.500, and together are defined as the "credit portfolio" with the following constraints in place to mitigate credit risk:

Commercial paper investments may not have maturities exceeding 270 days and must hold the highest short-term credit rating by all the major credit rating agencies that rate the issuer at the time of purchase.

Corporate bonds must be rated at least weak single-A or better by all the major rating agencies that rate the note at the time of purchase. Corporate bonds rated in the broad single-A category with a negative outlook may not be purchased. Portfolio holdings of corporate bonds downgraded to below single A and portfolio holdings of securities rated single A with their outlooks changed to negative may continue to be held. No additional purchases are permitted.

Municipal bonds must have a credit rating of weak single-A or better by all the major rating agencies that rate the issuer at the time of purchase. No single issuer may exceed 5 percent of the Pool's fair value.

Concentration Risk—Concentration Risk is the risk of loss attributed to the magnitude of investments in a single issuer. The City manages concentration risk by limiting its investments in any one issuer in accordance with the City's investment policy and state statutes. The policy limits vary for each investment category.

The maturity of a corporate bond shall be 5.5 years or less at the time of purchase. The maximum duration of aggregate corporate bond investments shall not exceed 3 years. No corporate bond issuer may exceed 3 percent of the fair value of the assets of the total portfolio. The percentage of corporate bonds that may be purchased from any single issuer rated AA or better by all major rating agencies that rate the bond is 3 percent of assets of the total portfolio. The percentage of corporate bonds that may be purchased from any single issuer in the broad single-A category from all the major rating agencies that rate the security is 2 percent of the total portfolio.

The credit portfolio may not exceed 25 percent of the Pool's fair value. Credit investments must be diversified by sector and industry. Commercial paper and corporate bonds must be purchased in the secondary market and directly from an issuer. No single issuer shall exceed 3 percent of the total portfolio's fair value.

The individual country limit of non-U.S. and non-Canadian exposure is 2 percent of the total portfolio. The exposure is determined by the country of domicile of the issuer.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

State statute and the City’s Statement of Investment Policy do not stipulate concentration limits for holdings of U.S. Government or U.S. Government Agency Obligations. There is a maximum of 5 percent of the Pool in any municipal issuer. The City’s investments in which 5% or more is invested in any single issuer as of December 31, 2023 and 2022 are as follows:

(\$ in millions)

<u>Issuer</u>	2023	
	Fair Value	Percent of Total Investments
U.S. Treasury and Government-Backed Securities	\$ 1,240.5	34%
Federal Home Loan Bank	572.7	16%
Local Government Investment Pool	406.4	11%
Federal National Mortgage Association	293.7	8%
Federal Farm Credit Bank	291.4	8%
Federal Home Loan Mortgage Corporation	287.1	8%
Federal Agriculture Mortgage Corporation	248.0	7%
Total	\$ 3,339.8	92%

(\$ in millions)

<u>Issuer</u>	2022	
	Fair Value	Percent of Total Investments
U.S. Treasury and Government-Backed Securities	\$ 1,182.4	34%
Local Government Investment Pool	415.6	12%
Federal Home Loan Bank	355.6	10%
Federal National Mortgage Association	331.9	10%
Federal Farm Credit Bank	299.4	9%
Federal Agriculture Mortgage Corporation	263.8	8%
Federal Home Loan Mortgage Corporation	191.8	6%
Municipal Bonds	164.5	5%
Total	\$ 3,205.0	94%

Custodial Credit Risk – Investments—Custodial credit risk for investments is the risk that, in the event of failure of the counterparty, the City will not have access to, or be able to recover, its investments or collateral securities that are in the possession of an outside party. The City mitigates custodial credit risk for its investments by having its investment securities held by the City’s contractual custodial agent. The City maintains a custody relationship with Wells Fargo under the State of Washington’s statewide custody provider program arranged by the State Treasurer’s Office. The City mitigates counterparty risk by settling trades through its custodian on a delivery-versus-payment method.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

By investment policy, the City maintains a list of approved securities dealers for transacting business. The City also conducts its own due diligence as to the financial wherewithal of its counterparties.

Foreign Currency Risk—The City’s pooled investments do not include securities denominated in foreign currencies.

The City of Seattle’s Annual Comprehensive Financial Report may be obtained by writing to The City of Seattle, Department of Finance and Administrative Services, P.O. Box 94689, Seattle, WA 98124-4689; telephone: (206) 684-2489, or obtained on-line at <http://www.seattle.gov/financial-services/comprehensive-annual-financial-report>.

6. ACCOUNTS RECEIVABLE

Accounts receivable at December 31, 2023 and 2022, consist of:

<i>(\$ in millions)</i>	Retail Electric	Wholesale Power	Other Operating	Operating Subtotal	Nonoperating Subtotal	Total
2023						
Accounts receivable	\$ 111.2	\$ 8.4	\$ 37.8	\$ 157.4	\$ 82.6	\$ 240.0
Less allowance for doubtful accounts	<u>(26.7)</u>	<u>-</u>	<u>(19.5)</u>	<u>(46.2)</u>	<u>-</u>	<u>(46.2)</u>
	<u>\$ 84.5</u>	<u>\$ 8.4</u>	<u>\$ 18.3</u>	<u>\$ 111.2</u>	<u>\$ 82.6</u>	<u>\$ 193.8</u>
2022						
Accounts receivable	\$ 111.0	\$ 3.5	\$ 48.3	\$ 162.8	\$ 84.1	\$ 246.9
Less allowance for doubtful accounts	<u>(27.7)</u>	<u>-</u>	<u>(16.1)</u>	<u>(43.8)</u>	<u>-</u>	<u>(43.8)</u>
	<u>\$ 83.3</u>	<u>\$ 3.5</u>	<u>\$ 32.2</u>	<u>\$ 119.0</u>	<u>\$ 84.1</u>	<u>\$ 203.1</u>

There was no exchange energy at fair value under long-term contracts within Wholesale power receivables at December 31, 2023 and 2022. (see Note 20 Long-Term Purchased Power, Exchanges, and Transmission).

7. OTHER ASSETS

Seattle City Council passed resolutions authorizing debt financing and reporting as regulatory assets certain costs in accordance with Statement No. 62 of the GASB, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB & AICPA Pronouncements*. Programmatic conservation costs incurred by the Department and not funded by third parties, Endangered Species Act costs, and environmental costs are reported as regulatory assets in accordance with GASB Statement No. 62. Conservation costs reported as regulatory assets are amortized over 20 years. Endangered Species Act costs reported as regulatory assets are amortized over the remaining license period (see Note 21 Commitments and Contingencies). Environmental costs reported as regulatory assets are amortized over 25 years, beginning in the year costs are paid.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

Other assets, which are not covered under GASB Statement No. 62, consist of:

- Suburban infrastructure long-term receivables are underground electrical infrastructure costs for suburban jurisdictions, which are recovered through rates from customers within the respective jurisdictions for a period of approximately 25 years, as approved by the Seattle City Council.
- Long-term interfund receivable for expected recoveries related to environmental costs covered under GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* (see Note 15 Environmental Liabilities).
- Long-term lease receivable, amortized over the life of various leases (See Note 18 Leases).
- Studies, surveys, and investigations are reported as other assets until such time they result in active projects, or when it is determined no assets will result, at which time they are expensed.
- Long-term customer loans receivable and the remaining components of other assets are not amortized.

Regulatory assets and other assets, net, at December 31, 2023 and 2022, consisted of the following:

<i>(\$ in millions)</i>	2023	2022
Regulatory assets:		
Conservations costs--net	\$ 255.6	\$ 253.7
Environmental costs	116.4	93.1
	<u>372.0</u>	<u>346.8</u>
Other charges and assets--net		
Suburban infrastructure long-term receivables	41.7	43.6
Long-term interfund receivable for environmental costs	7.4	1.2
Long-term customer notes receivable	8.7	7.9
Long-term lease receivable	57.7	62.4
Studies, surveys, and investigations	2.3	2.3
Endangered Species Act costs--net	0.7	0.9
Other	(0.5)	-
	<u>118.0</u>	<u>118.3</u>
Total Other Assets	<u>\$ 490.0</u>	<u>\$ 465.1</u>

8. DEFERRED OUTFLOWS OF RESOURCES

In accordance with the requirements of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27 and Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*, the Department recognizes pension contributions made between the pension plan measurement date and the Department’s fiscal year end as deferred outflows of resources. Also recognized as deferred outflows of resources are losses resulting from differences between projected and actual earnings on plan investments, which are amortized over a closed five-year period, and losses related to differences between expected and actual experience with regard to economic or demographic factors in the measurement of total pension liability, which are amortized to pension expense over a period equal to the expected remaining service life of employees receiving pension benefits. See Note 13 Seattle City Employees’ Retirement System.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

In accordance with the requirements of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB)*, the Department records the contributions subsequent to the net OPEB liability measurement date, but before the end of the reporting period, as deferred outflows of resources. Also, the deferred outflows of resources result from (1) differences between expected and actual experience, (2) changes in assumptions, and (3) differences between projected and actual investment earnings. Deferred outflows of resources from assumption changes and experience differences are amortized using a systematic and rational method over a closed period equal to the average remaining service lives of all plan participants. Deferred outflows from investment earnings differences are amortized over a closed five-year period. See Note 14 Other Postemployment Benefits.

The excess of costs incurred over the carrying value of bonds refunded on early extinguishment of debt are reported as Deferred outflows of resources and amortized as a component of interest expense using the effective interest method over the terms of the issues to which they pertain. See Note 9 Long-term Debt.

Deferred outflows of resources at December 31, 2023 and 2022 consisted of the following:

<i>(\$ in millions)</i>	2023	2022
Deferred outflows of resources:		
Unrealized contributions and losses related to pension	\$ 101.7	\$ 57.7
Unrealized contributions and losses related to OPEB	1.9	2.3
Charges on advance refunding	<u>9.6</u>	<u>12.8</u>
Total	<u>\$ 113.2</u>	<u>\$ 72.8</u>

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

9. LONG-TERM DEBT

At December 31, 2023 and 2022, the Department’s long-term debt consisted of the following prior lien or parity bonds:

LONG-TERM							
(\$ in millions)		Rate	Maturity Year	Original Issuance	2023	2022	
Prior Lien Bonds:							
2023A	ML&P Improvement and Refunding Revenue Bonds	5.000%–5.000%	2053	\$ 273.6	\$ 273.6	\$ -	
2023B	ML&P Refunding Revenue Bonds	variable rates	2046	85.8	85.8	-	
2022	ML&P Improvement and Refunding Revenue Bonds	5.000%–5.000%	2052	257.7	239.5	257.7	
2021A	ML&P Improvement and Refunding Revenue Bonds	4.000%–5.000%	2051	259.8	243.0	251.5	
2021B	ML&P Refunding Revenue Bonds	variable rates	2045	100.6	100.6	100.6	
2020A	ML&P Improvement Revenue Bonds	4.000%–5.000%	2050	198.3	191.7	193.8	
2019A	ML&P Improvement Revenue Bonds	5.000%–5.000%	2049	210.5	196.8	200.3	
2019B	ML&P Refunding Revenue Bonds	5.000%–5.000%	2026	140.3	71.5	95.6	
2018C2	ML&P Refunding Revenue Bonds	variable rates	2046	49.2	-	43.8	
2018C1	ML&P Refunding Revenue Bonds	variable rates	2046	49.2	-	43.8	
2018A	ML&P Improvement Revenue Bonds	4.000%–5.000%	2048	263.8	240.7	245.8	
2017C	ML&P Improvement and Refunding Revenue Bonds	4.000%–5.000%	2047	385.5	306.8	355.8	
2016A	ML&P Revenue Bonds	4.050% -4.050%	2041	31.9	31.9	31.9	
2016B	ML&P Refunding Revenue Bonds	4.000%–5.000%	2029	116.9	74.1	84.4	
2016C	ML&P Improvement and Refunding Revenue Bonds	4.000%–5.000%	2046	160.8	119.6	128.4	
2015A	ML&P Revenue Bonds	4.000%–5.000%	2045	171.9	96.5	131.9	
2014	ML&P Improvement and Refunding Revenue Bonds	4.000%–5.000%	2044	265.2	95.6	137.9	
2013	ML&P Improvement and Refunding Revenue Bonds	2.000%–5.000%	2043	190.8	-	52.5	
2012A	ML&P Improvement and Refunding Revenue Bonds	2.000%–5.000%	2041	293.3	39.3	51.7	
2012C	ML&P Clean Renewable Energy Bonds	3.400%–3.750%	2033	43.0	43.0	43.0	
2011B	ML&P Clean Renewable Energy Bonds	5.750%–5.750%	2027	10.0	10.0	10.0	
2010A	ML&P Build America Bonds	4.447%–5.570%	2040	181.6	162.4	169.8	
2010C	ML&P Recovery Zone Economic Development Bonds	5.590%–5.590%	2040	13.3	13.3	13.3	
Total prior lien bonds				\$ 3,753.0	\$ 2,635.7	\$ 2,643.5	

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

The Department had the following activity in long-term debt during 2023 and 2022:

<i>(\$ in millions)</i>	Balance at 1/1/23	Additions	Reductions	Balance at 12/31/23	Current Portion
2023					
Prior Lien Bonds - fixed rate	\$ 2,455.3	\$ 273.6	\$ (279.6)	\$ 2,449.3	\$ 129.3
Prior Lien Bonds - variable rate	188.2	85.8	(87.6)	186.4	2.3
	<u>\$ 2,643.5</u>	<u>\$ 359.4</u>	<u>\$ (367.2)</u>	<u>\$ 2,635.7</u>	<u>\$ 131.6</u>
 <i>(\$ in millions)</i>					
2022					
Prior Lien Bonds - fixed rate	\$ 2,397.0	\$ 257.7	\$ (199.4)	\$ 2,455.3	\$ 125.5
Prior Lien Bonds - variable rate	190.3	-	(2.1)	188.2	2.2
	<u>\$ 2,587.3</u>	<u>\$ 257.7</u>	<u>\$ (201.5)</u>	<u>\$ 2,643.5</u>	<u>\$ 127.7</u>

Prior Lien Bonds—In July 2023, the Department issued \$273.6 million of tax-exempt Municipal Light and Power (ML&P) Improvement and Refunding Revenue Bonds (2023A Bonds) and in August 2023 defeased \$93.5 million of tax-exempt ML&P Improvement and Refunding Revenue Bonds (2014, 2015A and 2017C Bonds). Proceeds from the 2023A Bonds were used to finance certain capital improvement and conservation programs and to refund \$12.4 million of the 2012A Bonds and \$48.3 million of the 2013 Bonds on a current basis. In October 2023 the Department issued \$85.8 million of variable rate demand Municipal Light and Power (ML&P) Refunding Revenue Bonds (2023B Bonds) which initially bear interest at a daily interest rate and are subject to mandatory purchase upon conversion to a Weekly Interest Rate, Long-Term Interest Rate, or Index Floating Rate. Payments of principal, purchase price, and redemption price of and interest on the 2023B Bonds will be initially supported by an irrevocable transferable direct-pay letter of credit that has a scheduled termination date of October 25, 2028 subject to extension or earlier termination. The Letter of Credit is issued by the Letter of Credit provider in accordance with the terms of the Reimbursement Agreement between the City and the Letter of Credit provider and dated as of October 1, 2023. Proceeds from the 2023B Bonds were used to refund \$85.4 million of the 2018C C1, C2 Bonds. The 2023A Bonds had coupon interest rates of 5.00% and mature serially from March 1, 2024 through March 1, 2043, with term bonds maturing from March 1, 2044 through March 1, 2053. The arbitrage yield was 3.23% for the 2023A Bonds and 4.03% for the 2023B Bonds. Arbitrage yield, when used in computing the present worth of all payments of principal and interest on the Bonds in the manner prescribed by the Internal Revenue Code, produces an amount equal to the issue price of the Bonds.

The debt service on the 2023A Bonds requires a cash flow over the life of the bonds of \$463.0 million, including \$189.4 million in interest. The refunding gain on the 2023A Bonds was \$3.6 million and there was no gain or loss on the 2023B Bonds. The difference between the cash flows required to service the old and new debt and to complete the refunding for the 2023A Bonds totaled \$4.6 million and the aggregate economic gain on refunding totaled \$3.1 million at present value. Bonds defeased in August 2023 partially refunded certain 2014, 2015A Bonds and 2017C Bonds on an advanced refunding basis. Advance refunding is a refunding in which the refunded issue(s) remains outstanding for a period of more than 90 days after a bond defeasance transaction, the proceeds of which are held in escrow invested in securities and used to pay principal and interest on the refunded issue(s). The source of refunding for the 2014, 2015A and 2017C bonds was from operating cash whereby \$99.1 million of state and local government securities were purchased and placed in escrow to pay principal and interest on the refunded bonds and the accounting gain on refunding for 2023 was \$3.9 million.

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NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

Prior Lien Bonds—In July 2022, the Department issued \$257.7 million of tax-exempt Municipal Light and Power (ML&P) Improvement and Refunding Revenue Bonds (2022 Bonds) and defeased \$27.5 million of tax-exempt ML&P Improvement and Refunding Revenue Bonds (2013 and 2014 Bonds). Proceeds from the 2022 Bonds were used to finance certain capital improvement and conservation programs, to make a deposit to the bond reserve fund, \$5.5 million, and to refund \$50.8 million of the 2012A Bonds on a current basis. The 2022 Bonds had coupon interest rates of 5.00% and mature serially from July 1, 2023 through July 1, 2044, with term bonds maturing from July 1, 2045 through July 1, 2052. The arbitrage yield was 3.32% for the 2022 Bonds. Arbitrage yield, when used in computing the present worth of all payments of principal and interest on the Bonds in the manner prescribed by the Internal Revenue Code, produces an amount equal to the issue price of the Bonds.

The debt service on the 2022 Bonds requires a cash flow over the life of the bonds of \$444.2 million, including \$186.4 million in interest. The refunding gain on the 2022 Bonds was \$4.8 million. The difference between the cash flows required to service the old and new debt and to complete the refunding for the 2022 Bonds totaled \$2.5 million and the aggregate economic gain on refunding totaled \$2.4 million at present value. Bonds defeased in July 2022 partially refunded certain 2013 Bonds and 2014 Bonds on an advanced refunding basis. Advance refunding is a refunding in which the refunded issue(s) remains outstanding for a period of more than 90 days after a bond defeasance transaction, the proceeds of which are held in escrow invested in securities and used to pay principal and interest on the refunded issue(s). The source of refunding for the 2013 and 2014 bonds was from operating cash whereby \$28.7 million of state and local government securities were purchased and placed in escrow to pay principal and interest on the refunded bonds. The accounting gain on refunding for 2022 was \$1.3 million.

The Department has certain bonds outstanding that provide a refundable tax credit, or federal subsidy, paid to state or local governmental issuers by the U.S. Treasury. The amount of the federal subsidy is equal to the lesser of the amount of interest payable based on the coupon interest rate or a percentage of the amount of interest payable based on the tax credit rate on the sale date with respect to those bonds. This federal subsidy ultimately results in a net decrease to debt service, although debt service payments are paid gross. The federal subsidies are recorded as nonoperating revenues on the statements of revenues, expenses, and changes in net position.

Federal Sequestration—The sequestration provisions of the Budget Control Act of 2011 went into effect on March 1, 2013. The only direct impact of sequestration on the Department for 2023 was a 5.7% reduction through the end of 2023 in the amount the Department expects to receive from the federal government in connection with its ML&P Revenue Bonds, 2010A (Taxable Build America Bonds—Direct Payment); ML&P Revenue Bonds, 2010C (Taxable Recovery Zone Economic Development Bonds—Direct Payment); ML&P Improvement Revenue Bonds, 2011B (Taxable New Clean Renewable Energy Bonds—Direct Payment); ML&P Improvement Revenue Bonds, 2012C (Taxable New Clean Renewable Energy Bonds—Direct Payment); and ML&P Revenue Bonds, 2016A (Taxable New Clean Renewable Energy Bonds—Direct Payment). Because of this reduction, the Department received \$0.3 million less in interest subsidies than originally anticipated for 2023. The Department has sufficient revenues to pay the interest without these subsidies. The effect for the accrual of federal subsidies as of December 31, 2023 was inconsequential. The effect during 2024 is estimated to be lower federal subsidies by approximately \$0.3 million. The effect thereafter for federal subsidies is indeterminable. Sequestration was originally in effect through 2021 and has subsequently been extended through approximately September 30, 2030.

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Debt service requirements for prior lien bonds, excluding federal subsidies for the 2016, 2012, 2011 and 2010 bonds are shown in the table below. Future debt service requirements on the variable 2021B and 2023B Bonds are estimated based on actual interest rates in effect as of December 31, 2023.

Years Ending December 31	Fixed Rate Bonds		Variable Rate Bonds		Total
	Principal Redemptions	Interest Requirements	Principal Redemptions	Interest Requirements	
2024	\$ 129.3	\$ 111.7	\$ 2.3	\$ 7.3	\$ 250.6
2025	120.4	103.9	2.4	7.5	234.2
2026	114.5	98.2	5.9	7.4	226.0
2027	93.4	92.6	6.1	7.1	199.2
2028	96.8	87.8	6.4	6.9	197.9
2029 – 2033	422.2	376.1	35.9	30.2	864.4
2034 – 2038	484.8	275.7	43.8	22.0	826.3
2039 – 2043	488.8	166.2	53.5	12.1	720.6
2044 – 2048	364.6	73.0	30.1	1.8	469.5
2049 – 2053	134.5	13.8	-	-	148.3
Total	<u>\$ 2,449.3</u>	<u>\$ 1,399.0</u>	<u>\$ 186.4</u>	<u>\$ 102.3</u>	<u>\$ 4,137.0</u>

Reserve Fund—The Department has created and is required under Ordinance No. 125459 (Bond Ordinance) to maintain a Reserve Fund for the purpose of securing the payment of the principal of and interest on all Parity Bonds outstanding and all amounts due under Parity Payment Agreements. The Reserve Fund is a pooled reserve and is an account within the books of the Department.

Reserve Fund Requirement—Under the Bond Ordinance, the aggregate Reserve Fund Requirement for all Parity Bonds is equal to the sum of the Reserve Fund Requirements established for each issue of Parity Bonds outstanding. The Bond Ordinance permits the City to establish the Reserve Fund Requirement (if any) for each issue of the Bonds or of Future Parity Bonds in connection with approving the sale of each such issue. Solely for purposes of setting the Reserve Fund Requirement, all series issued together under a single bond sale resolution are treated as a single “issue”. Upon issuance of the 2023B Bonds, the aggregate Reserve Fund Requirement for all Parity Bonds outstanding was \$163.6 million. The Reserve Fund Requirement is satisfied by cash held in the Reserve Fund and the current value of the surety bond (see below). The reserve fund balance of \$106.3 million at December 31, 2023 consisted of \$103.1 million in cash and \$3.2 million in interest. The reserve fund balance at December 31, 2022 of \$103.1 million consisted of \$103.1 million in cash.

Surety Bond—Under the Bond Legislation, the City is permitted to provide for the Reserve Fund Requirement with an Alternate Reserve Security consistent with the Bond Legislation requirements. Under the Bond Legislation, a surety bond qualifies as Qualified Insurance for purposes of satisfying the Reserve Fund Requirement if the provider’s ratings are in one of the top two rating categories at the time the policy is issued. The Bond Legislation does not require that the Reserve Fund be funded with cash or an Alternate Reserve Security if the provider of qualified insurance is subsequently downgraded. The City currently has a surety bond (the “Surety Bond”) purchased from Assured Guaranty Municipal Corporation (AGM), with a policy limit that is equal to \$71.5 million. This amount is used to satisfy a large proportion of the aggregate Reserve Fund Requirement.

AGM is currently rated A1, AA, and AA+ by Moody’s Investors Service, Standard & Poor’s Global Ratings, and Kroll Bond Rating Agency, respectively.

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NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

Irrevocable Trust Accounts—\$99.1 million from operating cash was placed in a separate irrevocable trust account to partially defease the 2014, 2015A, and 2017C Bonds on an advanced refunding basis. There were balances outstanding in the irrevocable trust account during 2023 for prior lien bonds advance refunded or defeased in 2023 with balances outstanding for prior lien bonds advance refunded in 2022. The ending balance of irrevocable trust accounts for the defeased bonds outstanding was \$107.4 million and \$161.3 million as of December 31, 2023 and 2022, respectively. During 2023, \$235.0 million of the defeased bonds were called and paid from the 2023 irrevocable trust account. Neither the assets of the trust accounts nor the liabilities for the defeased bonds are reflected in the Department’s financial statements. Funds held in the irrevocable trust accounts at December 31, 2023 are sufficient to service and redeem the defeased bonds outstanding.

Bond Ratings—The 2023A and 2022 Bonds, along with other outstanding parity bonds, were rated “Aa2” and “AA”; and “Aa2” and “AA”, by Moody’s Investors Service, Inc. and Standard Poor’s Rating Services, respectively. The 2023B Bonds were rated Aa1 and AA- (Long-term), and VMIG 1 and A-1+ (Short-term), by Moody’s and Standard Poor’s Rating Services, respectively.

Revenue Pledged— Revenue bonds are special limited obligations payable from and secured solely by the gross revenues of the Department, less charges for maintenance and operations, and by money in the debt service account and Reserve Fund. Principal and interest paid during 2023 and 2022 was \$241.3 million and \$230.3 million, respectively. Total revenue available for debt service as defined for the same periods was \$412.5 million and \$568.3 million, respectively. Annual interest and principal payments are expected to require 60.4% of revenues available for debt service for 2023 and 42.5% in 2022.

Federal Arbitrage Regulations—Revenue bonds are subject to federal arbitrage regulations and the Department has complied with these regulations. As of December 31, 2023 and 2022, arbitrage liability existed for certain bonds outstanding totaling \$0.3 million and \$0.2 million, respectively.

Certain Disclosures Related to Debt – There were no direct borrowings, direct placements, or conduit debt for the Department as of December 31, 2023 and 2022, respectively.

The Department has an arrangement with the City of Seattle Department of Finance regarding potential sources of funds that could be accessed if cash resources of the Department are insufficient for a period of less than 90 days. The Department relies on ready access to the City’s consolidated cash pool via interfund loans as a source of short-term emergency liquidity. Interfund loans of longer than 90 days require review by the Debt Management Policy Advisory Committee (DMPAC) and City Council approval. As of December 31, 2023, and 2022, there were no interfund loans outstanding. Also, there were no financed purchases of underlying assets or accounts payable for finance leases as of December 31, 2023 and 2022, respectively.

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

If any Bond of a Series is not paid when properly presented at its maturity or redemption date, the City will be obligated to pay, solely from the Seattle Municipal Light Revenue Parity Bond Fund (the “Parity Bond Fund”) and the other sources pledged in the Bond Ordinance, interest on that Bond at the same rate provided in that Bond from and after its maturity or redemption date until that Bond, principal, premium, if any, and interest, is paid in full or until sufficient money for its payment in full is on deposit in the Parity Bond Fund and that Bond has been called for payment by giving notice of that call to the Registered Owner of that Bond.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

Other— There were no liens on property or revenue pertaining to parity bonds and all bond covenants were in compliance for the Department’s prior lien bonds as of December 31, 2023 and 2022, respectively.

Amortization— Discounts and premiums are amortized using the effective interest method over the term of the bonds. The excess of costs incurred over the carrying value (refunding loss), or the excess of carrying value over costs (refunding gain) of bonds refunded on early extinguishment of debt is amortized as a component of interest expense using the effective interest method over the terms of the issues to which they pertain. Net refunding losses and gains amortized to interest expense totaled \$(4.4) million in 2023 and \$(0.5) million in 2022. Charges on advance refunding in the amount of \$9.6 million and \$12.8 million are included as a component of Deferred Outflows of Resources on the 2023 and 2022 statements of net position, respectively. Gains on advance refunding included as a component of Deferred Inflows of Resources were \$6.2 million in 2023 and \$5.6 million in 2022.

10. NONCURRENT LIABILITIES

The Department had the following activities during 2023 and 2022:

(\$ in millions)

	Balance at 1/1/23	Additions	Reductions	Balance at 12/31/23
2023				
Net pension liability	\$ 171.7	\$ 130.9	\$ -	\$ 302.6
Accumulated provision for injuries and damages	83.9	27.4	(0.1)	111.2
Compensated absences	20.7	-	(0.4)	20.3
Other	8.1	-	(0.9)	7.2
Total	<u>\$ 284.4</u>	<u>\$ 158.3</u>	<u>\$ (1.4)</u>	<u>\$ 441.3</u>
2022				
Net pension liability	\$ 199.5	\$ -	\$ (27.8)	\$ 171.7
Accumulated provision for injuries and damages	111.6	0.5	(28.2)	83.9
Compensated absences	20.2	0.5	-	20.7
Other	10.3	-	(2.2)	8.1
Total	<u>\$ 341.6</u>	<u>\$ 1.0</u>	<u>\$ (58.2)</u>	<u>\$ 284.4</u>

Additional information on the Net pension liability can be found in Note 13 Seattle City Employees’ Retirement System. Information about the provision for injuries and damages can be found in Note 11 Provision for Injuries and Damages and Note 15 Environmental Liabilities. Other includes primarily a liability for Other Postemployment Benefits; see Note 14 Other Postemployment Benefits.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

11. PROVISION FOR INJURIES AND DAMAGES

The Department establishes liabilities for claims based on estimates of the ultimate projected cost of claims. Environmental related expenses are discussed in Note 15 Environmental Liabilities. The length of time for which such costs must be estimated varies depending on the nature of the claim. Actual claims costs depend on such factors as inflation, changes in doctrines of legal liability, damage awards, and specific incremental claim adjustment expenses. Claims liabilities are recomputed periodically using actuarial and statistical techniques to produce current estimates, which reflect recent settlements, claim frequency, industry averages, City-wide cost allocations, and economic and social factors. For 2023 and 2022, liabilities for lawsuits, claims, and workers' compensation were discounted over a period of 30 to 35 years at the City's average annual rate of return on investments, which was 1.80% and 1.15%, respectively.

To address the risk for certain losses arising from personal and property damage claims by third parties and for job-related illnesses and injuries to employees, the Department as part of the City of Seattle, has been self-insured for most of its general liability risks, for workers' compensation, and for employees' health care benefits. For the June 1, 2023 to June 1, 2024 coverage period, the City had general liability insurance coverage for losses over a \$10.0 million self-insured retention per occurrence with a \$20.0 million limit per occurrence in the aggregate. The Department had no settled claims exceeding coverage in the last three years.

The City also purchased an all-risk comprehensive property insurance policy that provides \$500.0 million in limits subject to various deductible levels. This includes a \$100.0 million earthquake and flood sublimit. Hydroelectric and certain other utility producing and processing projects are not covered by the property policy. The City also purchased insurance for excess workers' compensation, cyber, fiduciary and crime liability, inland marine transportation, an assortment of medical/accidental death and dismemberment, and miscellaneous policies. Bonds are purchased for public officials, public notaries, pension exposures, and specific projects and activities as necessary.

The changes in the provision for injuries and damages at December 31, 2023 and 2022 are as follows:

<i>(\$ in millions)</i>	2023	2022
Beginning unpaid claims liability	\$ 17.6	\$ 16.8
Payments	(8.6)	(7.7)
Incurred Claims	<u>7.2</u>	<u>8.5</u>
Ending balance	<u>\$ 16.2</u>	<u>\$ 17.6</u>

The provision for injuries and damages included in current and noncurrent liabilities at December 31, 2023 and 2022 is as follows:

<i>(\$ in millions)</i>	2023	2022
Noncurrent liabilities	\$ 11.2	\$ 9.6
Accounts payable and other current liabilities	<u>5.0</u>	<u>8.0</u>
Ending balance	<u>\$ 16.2</u>	<u>\$ 17.6</u>

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**NOTES TO FINANCIAL STATEMENTS
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12. ACCOUNTS PAYABLE

Accounts Payable and Other Current Liabilities— The composition of accounts payable and other current liabilities at December 31, 2023 and 2022, is as follows:

(\$ in millions)	2023	2022
Vouchers payable	\$ 57.3	\$ 38.5
Power accounts payable	36.7	56.3
Taxes payable	20.8	14.5
Claims payable	8.0	12.8
Guarantee deposit and contract retainer	45.0	35.3
Other accounts payable	6.9	4.1
Total	<u>\$ 174.7</u>	<u>\$ 161.5</u>

13. SEATTLE CITY EMPLOYEES’ RETIREMENT SYSTEM

Plan Description— The Seattle City Employees’ Retirement System (SCERS) is a cost-sharing multiple-employer defined benefit public employee retirement system, covering employees of the City and administered in accordance with Chapter 41.28 of the Revised Code of Washington and Chapter 4.36 of the Seattle Municipal Code. SCERS is a pension trust fund of the City. SCERS is administered by the Retirement System Board of Administration (the Board). The Board consists of seven members including the Chair of the Finance Committee of the Seattle City Council, the City of Seattle Finance Director, the City of Seattle Personnel Director, two active members and one retired member of the System who are elected by other system members, and one outside board member who is appointed by the other six board members. Elected and appointed board members serve for three-year terms.

All employees of the City are eligible for membership in SCERS with the exception of uniformed police and fire personnel who are covered under a retirement system administered by the State of Washington. Employees of the King County Departments of Transportation and Public Health who established membership in SCERS when these organizations were City departments were allowed to continue their SCERS membership.

Beginning with employees with hire dates of January 1, 2017, all new members are enrolled in SCERS Plan II, which has contribution and benefit calculation rates different than the SCERS I Plan.

Following is membership data for employees covered by the benefit terms as of the reporting date, December 31, 2023, and the measurement date, December 31, 2022 and the reporting date December 31, 2022, and the measurement date December 31, 2021:

	2023	2022
Active members	9,827	9,436
Retired members and beneficiaries receiving benefits	7,689	7,550
Vested terminated employees entitled to benefits	1,711	1,611

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NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

Summary of Significant Accounting Policies—SCERS financial statements and schedules are presented using the economic resources measurement focus and the accrual basis of accounting. For purposes of measuring the net pension liability (NPL), deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of SCERS and additions to and deductions from SCERS fiduciary net position have been determined on the same basis as they are reported by SCERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value in accordance with GASB 72.

The NPL was measured as of December 31, 2022 and December 31, 2021, and the total pension liability used to calculate the NPL was based on an actuarial valuation as of January 1, 2022 and January 1, 2021, respectively.

Pension Benefits— Service retirement benefits are calculated on the basis of age, salary, and service credit.

SCERS I – Members are eligible for retirement benefits after 30 years of service, at age 52 after 20 years of service, at age 57 after 10 years of service, and at age 62 after 5 years of service. Annual retirement benefits are calculated as 2% multiplied by years of creditable service, multiplied by average salary, based on the highest 24 consecutive months, excluding overtime. Members who retire before meeting the age and/or years of service requirement receive a 0.1% reduction for each year that retirement precedes the date of eligibility. Retirement benefits vest after 5 years of credited service.

SCERS II – Members are eligible for retirement benefits at age 55 after 20 years of service, at age 57 after 10 years of service, and at age 60 after 5 years of service. Annual retirement benefits are calculated as 1.75% multiplied by years of creditable service, multiplied by average salary, based on the highest 60 consecutive months, excluding overtime. Members who retire before meeting the age and/or years of service requirement receive a 0.1% reduction for each year that retirement precedes the date of eligibility. Retirement benefits vest after 5 years of credited service.

Disability Benefits—An active member is eligible to receive disability benefits when: (a) member has achieved 10 years of credited service within the 15 years preceding disability retirement, or (b) the disability occurs in the course of City employment in which no service requirement exists. The amount of the disability benefit is the greater of (a) 1.5% times the final compensation times completed years of creditable service, or (b) 1.5% times final compensation total years of service that could have been earned to age 62, but not to exceed one-third of final compensation. Disability benefits vest after 10 years of credited service.

Death Benefits—Death benefits may be paid to a member’s designated beneficiary. If a member’s death occurs before retirement, the benefit options available are (a) payment to the beneficiary of accumulated contributions, including interest, or (b) if the member had completed 10 years of service at the time of death, a surviving spouse or registered domestic partner may elect to receive, in place of (a) above, either: (1) A monthly allowance for life equal to the benefit the spouse would have received had the member just retired with a 100% contingent annuitant option in force, or (2) A cash payment of no more than one-half of the member’s accumulated contributions, along with a correspondingly reduced retirement allowance. If a member’s death occurs after retirement, the death benefit received by the beneficiary (if any) is based on the retirement plan the member selected at retirement. Death benefits vest after 10 years of credited service.

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**NOTES TO FINANCIAL STATEMENTS
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Contributions— Member and employer contributions rates are established by Seattle Municipal Code Chapter 4.436. The overall contribution rate is determined by the actuarial formula identified as the Entry Age Cost Method. Member contribution rates are also set via collective bargaining contracts. The overall formula determines the amount of contributions necessary to fund the current service cost, representing the estimated amount necessary to pay for benefits earned by the employees during the current service year and the amount of contributions necessary to pay for prior service costs. Total required contributions, including amounts necessary to pay administrative costs, are determined through annual actuarial valuations. Contribution rates and amounts were as follows as of the reporting dates, December 31, 2023 and December 31, 2022, and the measurement dates, December 31, 2022 and December 31, 2021:

	Contributions					
	Rates				Amounts	
	SCERS I Employer	SCERS I Employee	SCERS II Employer	SCERS II Employee	City	Department
2023	15.91%	10.03%	15.56%	7.00%	\$150.0	\$29.6
2022	16.20%	10.03%	15.72%	7.00%	\$145.0	\$29.0

Net Pension Liability—The Department reported a liability of \$302.6 million and \$171.7 million for its proportionate share of net pension liability as of December 31, 2023 and December 31, 2022, respectively. The Department’s proportion of the NPL as of December 31, 2023 and December 31, 2022 was based on contributions to SCERS during the fiscal year ended December 31, 2022 and December 31, 2021, respectively. The Department’s proportionate share was 20.00% and 20.72% for the years ended December 31, 2022 and December 31, 2021, respectively. The net pension liability was measured as of December 31, 2022 and December 31, 2021, and the total pension liability used to calculate the net pension liability was based on an actuarial valuation as of January 1, 2022 and January 1, 2021, respectively.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

	Changes in Net Pension Liability	
	(\$ In millions)	
	Fiscal Year Ended December 31	
	2023	2022
<u>Total Pension Liability</u>		
Service cost	\$ 25.6	\$ 26.3
Interest on total pension liability	67.0	69.5
Effect of economic/demographic gains or losses	(2.2)	(1.1)
Effect of assumptions changes or inputs	0.0	26.9
Benefit payments	(46.9)	(46.2)
Refund of contributions	(5.8)	(4.3)
Net change in total pension liability	<u>37.7</u>	<u>71.1</u>
Total pension liability, beginning of period	1,028.5	941.4
Effect of change in proportionate share	(35.8)	16.0
Adjusted total pension liability, beginning of period	<u>992.7</u>	<u>957.4</u>
Total pension liability, end of period	<u>1,030.4</u>	<u>1,028.5</u>
<u>Plan fiduciary net position</u>		
Benefit payments	(46.9)	(46.2)
Refunds of contributions	(5.8)	(4.3)
Administrative expenses	(1.6)	(1.3)
Member contributions	16.6	16.9
Employer contributions	29.1	28.9
Net investment income	(90.6)	108.3
Net change in Plan fiduciary net position	<u>(99.2)</u>	<u>102.3</u>
Plan fiduciary net position, beginning of period	856.8	741.9
Effect of change in proportionate share	(29.8)	12.6
Adjusted fiduciary net position, beginning of period	<u>827.0</u>	<u>754.5</u>
Plan fiduciary net position, end of period	<u>727.8</u>	<u>856.8</u>
Net pension liability, end of period	<u>\$ 302.6</u>	<u>\$ 171.7</u>

The Department incurred pension expense of \$34.3 million and (\$2.5) million for the years ended December 31, 2023, and 2022, respectively.

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**NOTES TO FINANCIAL STATEMENTS
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Actuarial assumptions— The total pension liability at December 31, 2023 and 2022 was based on actuarial valuations as of December 31, 2022 and 2021, respectively, using the following actuarial methods and assumptions:

Actuarial Cost Method	Individual Entry Age Normal
Amortization Method	
Level percent or level dollar	Level percent
Closed, open, or layered periods	Closed
Amortization period and start date	30 years as of January 1, 2013 Valuation
Amortization growth rate	3.35%
Asset Valuation Method	
Smoothing period	5 years
Recognition method	Non-asymptotic
Corridor	None
Inflation	2.60%
Investment Rate of Return	6.75%
Cost of Living Adjustments	Annual compounding COLA of 1.5% assumed. Additional restoration of purchasing power benefits available based on an assumed 2.6% if purchasing level decreases to 65%.
Mortality	Various rates based on PubG-2010 mortality tables and using generational projection of improvement using MP-2021 Ultimate projection scale.

All other actuarial assumptions used in the December 31, 2022 valuation and the December 31, 2021 valuation were based on the results of an actuarial experience study for the period January 1, 2018 through December 31, 2021.

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NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

Discount Rate—The discount rate used to measure the total pension liability for FY 2023 and FY 2022 was 6.75%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and the participating governmental entity contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods on projected benefit payment to determine the total pension liability.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and gross of administrative expenses) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The following table reflects long-term expected (30 year) real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. The expected inflation rate for FY 2023 and FY 2022 is projected at 2.60% for both periods.

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Equity		
Public Equity	48%	4.90%
Private Equity	11%	7.50%
Fixed Income		
Core Fixed Income	18%	2.10%
Credit Fixed Income	7%	5.30%
Real Assets		
Real Estate	12%	3.00%
Infrastructure	4%	4.40%

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Sensitivity of the Net Pension Liability to Changes in the Discount Rate—The following table presents the Department’s proportionate share of the net pension liability of SCERS, calculated using a discount rate of 6.75% for FY 2023 and FY 2022, as well as what the Department’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher:

Discount Rate	Discount Rate Sensitivity (In millions)	
	Net Pension Liability at December 31,	
	2023	2022
1% decrease - 5.75%	\$ 432.2	
Current discount Rate - 6.75%	302.6	
1% increase - 7.75%	194.3	
1% decrease - 5.75%		\$ 301.6
Current discount Rate - 6.75%		171.7
1% increase - 7.75%		63.1

Plan Fiduciary Net Position—Detailed information about the SCERS’s fiduciary net position is available in the separately issued, audited financial statements as of December 31, 2023, which are publicly available at <http://www.seattle.gov/retirement/forms-and-publications/publications>.

Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension— The following table presents information about the pension-related deferred outflows of resources and deferred inflows of resources for the Department at December 31, 2023, and December 31, 2022:

(\$ in millions)	December 31,	
	2023	2022
<u>Deferred outflows of resources</u>		
Differences between expected and actual experience	\$ 0.4	\$ 0.6
Changes of assumptions	18.9	28.1
Net difference between projected and actual earnings	52.8	-
Contributions made subsequent to measurement date	29.6	29.0
Total deferred outflows of resources	<u>\$ 101.7</u>	<u>\$ 57.7</u>
<u>Deferred inflows of resources</u>		
Differences between expected and actual experience	\$ 3.9	\$ 4.2
Net difference between projected and actual earnings	-	86.5
Changes in employer proportion and differences between employer contributions and proportionate share of contributions	8.5	3.9
Total deferred inflows of resources	<u>\$ 12.4</u>	<u>\$ 94.6</u>

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Department contributions made in 2023 in the amount of \$29.6 million are reported as deferred outflows of resources and will be recognized as a reduction of the net pension liability in the year ended December 31, 2024. These contributions along with the net difference between projected and actual earnings reported as deferred outflows of resources will be recognized as pension expense in the future as shown in the following table.

Year Ending December 31 (\$ in millions)	Amortization
2024	\$ (0.1)
2025	9.0
2026	21.2
2027	30.4
2028	(0.8)
Total	<u>\$ 59.7</u>

14. OTHER POSTEMPLOYMENT BENEFITS

Plan Description – Health care plans for active and retired employees are administered by the City of Seattle as single-employer defined benefit public employee health care plans.

Employees retiring under the City may continue their health insurance coverage under the City’s health insurance plans for active employees. When a retired participant dies, the spouse remains fully covered until age 65 and covered by the Medicare supplement plan thereafter. Employees that retire with disability retirement under the City may continue their health coverage through the City with same coverage provisions as other retirees. Eligible retirees self-pay 100 percent of the premium based on blended rates which were established by including the experience of retirees with the experience of active employees for underwriting purposes. The postemployment benefit provisions are established and may be amended by ordinance of the Seattle City Council and as provided in Seattle Municipal Code 4.50.020. The City provides an implicit rate subsidy of the post-retirement health insurance costs and funds the subsidy on a pay-as-you-go basis. The City of Seattle covers 11,472 active employee plan participants and 414 retiree, disabled, and survivor plan participants as of the January 1, 2022 valuation date.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and on the pattern of sharing of costs between the employer and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future. Actuarial calculations reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Based on the latest biennial actuarial valuation date the significant methods and assumptions are as follows:

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Actuarial data and assumptions – the demographic assumptions of mortality, termination, retirement, and disability are set equal to the assumptions used for City pension actuarial valuations based on a Seattle City Employees’ Retirement System Experience Report for the period 2018-2021.

Valuation date	FY 2023: January 1, 2022 FY 2022: January 1, 2022
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Discount rate	FY 2023: 3.72% FY 2022: 2.06%
Participation	25% of Active Employees who retire participate

Health care cost trend rates - The health care cost trend assumptions shown below were based on national average information from a variety of sources, including S&P Healthcare Economic Index, NHCE data, plan renewal data, and vendor Rx reports, with adjustments based on the provisions of the benefits sponsored by City of Seattle.

<u>Year</u>	<u>Pre-65</u>		
	<u>Medical</u>	<u>Rx</u>	<u>Composite</u>
2022–2023	6.09%	8.00%	6.53%
2023–2024	6.75%	8.00%	7.04%
2024–2025	6.47%	7.56%	6.73%
2025–2026	6.19%	7.13%	6.41%
2026–2027	5.91%	6.69%	6.09%
2027–2028	5.63%	6.25%	5.78%
2028–2029	5.34%	5.81%	5.46%
2029–2030	5.06%	5.38%	5.14%
2030–2031	4.78%	4.94%	4.82%
2031–2032	4.50%	4.50%	4.50%

Mortality

General Service

- Actives: PubG-2010 Employee Table multiplied by 95%
- Retirees: PubG-2010 Retired Mortality Table multiplied by 95%
- Disabled: PubG-2010 Disabled Mortality Table multiplied by 95%
- Rates are projected generationally using Scale MP-2021 ultimate rates.

Dependent Coverage – 25% of members electing coverage are assumed to be married or have a registered domestic partner. Male spouses are assumed to be two years older than their female spouses. It is assumed that children will have aged off of coverage.

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Health Care Claims Development – The sample per capita claim cost assumptions shown below by age and plan represent the true underlying baseline experience estimated for the City of Seattle’s sponsored postretirement benefits and costs.

Pre-65 Medical, Rx, and Admin Combined				
Age	Aetna Preventive	Aetna Traditional	Kaiser Standard	Kaiser Deductible
50	\$ 14,137	\$ 12,657	\$ 8,212	\$ 6,639
55	\$ 17,449	\$ 15,622	\$ 10,136	\$ 8,195
60	\$ 21,640	\$ 19,375	\$ 12,571	\$ 10,163

The average medical and prescription drug per capita claims costs were developed from 2023 calendar year self-funded premium rates. Premium-equivalent rates were provided by City of Seattle’s health pricing actuary. The average medical and prescription drug per capita “adult-equivalent” claims costs were based on the respective pre-65 enrollment weighted average of the 2023 four-tier rate structure including the add-on cost of dependent children and trended back from 2023 to 2022 to be centered at the mid-point of the annual period following the valuation date. Average medical/Rx per capita claims costs were then age-adjusted based on the demographics of the rating population, and the assumed health care aging factors shown in the table below.

Morbidity Factors – The claim costs for medical and prescription drugs were assumed to increase with age according to the table below.

Age Band	Medical	Rx	Composite
40-44	3.00%	4.80%	3.3%
45-49	3.70%	4.70%	3.8%
50-54	4.20%	4.70%	4.3%
55-59	4.40%	4.60%	4.4%
60-64	3.70%	4.60%	3.8%

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Net OPEB Liability – The Department reported an OPEB liability of \$6.9 million and \$7.9 million for the years ended December 31, 2023 and 2022, respectively. The OPEB liability is included under Other noncurrent liabilities on the Department’s statements of net position. The Department’s proportionate share of the OPEB liability was 13.88% and 14.17% for the years ended December 31, 2023 and 2022, respectively. Based on the actuarial valuation date of January 1, 2022 and measurement dates January 1, 2023 and January 1, 2022, details regarding the Department’s Total OPEB Liability, Plan Fiduciary Net Position, and Net OPEB Liability as of December 31, 2023 and 2022 are shown below.

(\$ in millions)	Changes in Net OPEB Liability	
	Fiscal Year Ended December 31,	
	2023	2022
<u>Total OPEB Liability</u>		
Service cost	\$ 0.5	\$ 0.6
Interest on the total OPEB liability	0.2	0.2
Differences between expected and actual experience	-	(2.3)
Changes of assumptions	(1.2)	(0.2)
Benefit payments	(0.3)	(0.4)
Net Changes	<u>(0.8)</u>	<u>(2.1)</u>
Total OPEB liability, beginning of period	10.0	9.1
Effect of change in proportionate share	(2.3)	0.9
Adjusted total OPEB liability, beginning of period	<u>7.7</u>	<u>10.0</u>
Total OPEB liability, end of period	<u>6.9</u>	<u>7.9</u>
<u>Plan fiduciary net position</u>		
Benefit payments	(0.3)	(0.4)
Employer contributions	0.3	0.4
Net change in Plan fiduciary net position	<u>-</u>	<u>-</u>
Plan fiduciary net position, beginning of period	-	-
Effect of change in proportionate share	-	-
Adjusted fiduciary net position, beginning of period	<u>-</u>	<u>-</u>
Plan fiduciary net position, end of period	<u>-</u>	<u>-</u>
Net OPEB liability, end of period	<u>\$ 6.9</u>	<u>\$ 7.9</u>

The Department recorded an expense for OPEB of (\$0.1) million and \$0.4 million in 2023 and 2022, respectively. The Health Care Subfund of the General Fund is reported in The City of Seattle’s Annual Report.

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Discount Rate and Healthcare Cost Trend Rates – The discount rate used to measure the total OPEB liability is 3.72% and 2.06% for the years ended December 31, 2023 and 2022, respectively. The following tables present the sensitivity of net OPEB liability calculation to a 1% increase and a 1% decrease in the discount rate used to measure the total OPEB liability:

(In millions)	Discount Rate Sensitivity	
	Net OPEB Liability at December 31,	
	2023	2022
<u>Discount Rate</u>		
1% decrease - 2.72%	\$ 7.6	
Current discount Rate - 3.72%	6.9	
1% increase - 4.72%	6.4	
1% decrease - 1.06%		\$ 8.6
Current discount Rate - 2.06%		7.9
1% increase - 3.06%		7.2

The following table presents the impact of healthcare cost trend sensitivity on the net OPEB liability calculation to a 1% increase and a 1% decrease in the healthcare cost trend rates:

(In millions)	Healthcare Cost Trend Rate Sensitivity			
	Net OPEB Liability at December 31,			
	2023		2022	
<u>Discount Rate</u>				
1% decrease	\$ 6.1		\$ 7.0	
Trend rate	6.9		7.9	
1% increase	7.9		9.0	

Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB – The following table presents information about the OPEB-related deferred outflows of resources and deferred inflows of resources for the Department at December 31, 2023 and December 31, 2022.

(\$ in millions)	December 31,	
	2023	2022
	<u>Deferred outflows of resources</u>	
Difference between actual and expected experience	\$ 1.2	\$ 1.5
Assumption changes	0.4	0.4
Contributions made after measurement date	0.3	0.4
Total deferred outflows of resources	\$ 1.9	\$ 2.3
<u>Deferred inflows of resources</u>		
Difference between actual and expected experience	\$ 1.7	\$ 2.0
Assumption changes	3.1	2.7
Total deferred inflows of resources	\$ 4.8	\$ 4.7

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Department contributions made in 2023 in the amount of \$0.3 million are reported as deferred outflows of resources and will be recognized as a reduction of the net OPEB liability in the year ended December 31, 2024. These contributions will be recognized in the future as shown in the following table. Note that additional future deferred outflows and inflows of resources may impact these amounts.

Year Ending December 31 <i>(\$ in millions)</i>	Amortization
2024	\$ (0.5)
2025	(0.5)
2026	(0.5)
2027	(0.4)
2028	(0.4)
Total Thereafter	(0.9)
Total	<u>\$ (3.2)</u>

15. ENVIRONMENTAL LIABILITIES

Environmental liabilities were \$103.1 million and \$79.1 million at December 31, 2023, and 2022 respectively.

The following is a brief description of the significant Superfund sites:

- The Harbor Island Superfund Site* – In 1983, the U.S. Environmental Protection Agency (EPA or Agency) designated this site as a federal Superfund site. The Department and other entities are sharing costs equally for investigating contamination in the East Waterway (EW) alongside Harbor Island. The City of Seattle’s (City) share is split between the Department 45% and Seattle Public Utilities (SPU) 55%. The Department’s involvement stems from its sale of transformers to a company on Harbor Island. The Port of Seattle (POS) is performing the work. EPA approved the RI report in January 2014 and approved the final FS in June 2019. The EPA released the Proposed Plan in April 2023. The next major milestone for the project is EPA’s release of the Record of Decision (ROD), which is anticipated in May 2024. The clean-up construction timing and cost estimates will not be known until the Agency identifies a preferred remedy; the final FS has identified a range of costs on which the clean-up estimate is based. The Department does not own EW.

The City anticipates that EPA will issue a notification letter to Potential Responsible Parties (PRP) informing them of their potential liability for the EW Cleanup. The timing of this notification is unknown. The current EW Group is working to define an allocation or mediation process that will commence once additional PRPs are identified. The Department owns property adjacent to the EW but does not own any of the waterway or sediments. The Department recorded a liability of \$72.1 million as of December 31, 2023 and \$52.4 million as of December 31, 2022 respectively. The ultimate liability is indeterminate.

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- *The Lower Duwamish Waterway Superfund Site (LDW)* – In 2001, the EPA designated this site as a federal Superfund site for contaminated sediments. The Department’s involvement is attributable to its land ownership or use of property along the river. In 2000, the City was one of four parties who signed an Administrative Order on Consent (AOC) with the EPA and Washington State Department of Ecology (DOE) to conduct a Remedial Investigation (RI) and Feasibility Study (FS) to prepare a site remedy. The EPA approved the RI in 2010 and the FS in November 2012. In February 2013, the EPA issued the Proposed Plan for cleanup of the Lower Duwamish Waterway. In December 2014, the EPA issued its final ROD. The selected remedy includes dredging, capping and enhanced or monitored natural recovery. EPA estimated the cost of the preferred alternative clean-up with an estimated cost of \$342.0 million (in discounted 2014 dollars, or \$394.0 million in non-discounted dollars). The City estimates the future costs are \$734.0 million due to inflation and revised estimates. EPA recently updated the cost estimate to approximately \$667.0 million. The LDW project team estimate for the project is more than the EPA estimate as the project team have better idea of construction cost after the completion of the Upper Reach design as well as the implementation of the yearly inflation escalation process implemented in 2018.

There are currently three PRP’s (The City, King County and Boeing), participating in the project. They are collectively called the Lower Duwamish Waterway Group (LDWG). The POS, previously an active LDWG member, is not currently an active participant. The POS is continuing to pay their share of the AOC4 and AOC5 for now. The City and the other three parties that signed the AOC in 2001 have agreed with EPA on several amendments to the order. Under the current amendments (AOC4 and AOC5), the parties are designing the remedy for the upper two-thirds of the Comprehensive Environmental Response Compensation and Liability Act (CERCLA) site.

The design work for the upper third of the waterway began in 2019 pursuant to amendments to the existing EPA order. 100% design was submitted to EPA in January 2024. Contractor procurement began in Q1 2024, Contractor Award and Notice to Proceed are expected in Q2 and Q3 with construction in the Upper Reach beginning in the late 2024. Pre-design work for the Middle Reach began in 2022 and is ongoing. The EPA, the City and other parties have been negotiating a Consent Decree that will supersede the administrative order and govern implementation of the remedy. They are trying to finalize the Consent Decree and have it approved by the Court no later than October 2024 so that construction of the remedy in the Upper Reach may begin during the 2024 fish window.

From 2016 to mid-2022, the City and over forty other parties participated in a confidential alternative dispute resolution process (the “allocation process”) to resolve their respective shares of past and future costs. Since then, nearly all the allocation parties have been engaged in settlement negotiations with the goal of finalizing settlements in 2024. If the Consent Decree and settlements with other allocation parties are finalized as expected, going forward the City will be paying about 30.1% of the costs. City Light pays 15% of the City’s costs and SPU pays the rest. City Light owns some properties adjacent to the Waterway but does not own any of the waterway channel or its sediments. The Department recorded a liability of \$23.7 million as of December 31, 2023 and \$17.5 million as of December 31, 2022 respectively. The Department’s ultimate liability is indeterminate.

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- *Terminal 117 Upland & Sediments, Duwamish Waterway Sediments (T-117)* – The City is responsible for investigation and cleanup of the Port of Seattle Terminal 117 Streets, Upland and Sediments sites, which is an Early Action Area of LDW. The T-117 is not owned by City Light. City Light has been sharing costs with the POS to study and clean-up contaminated sediments at the T-117 EAA. During 2007 the T-117 site was expanded to include the upland parcel adjacent to the sediments and the nearby streets (discussed below). Current PRPs include the City and POS. The POS is the lead on the sediment and upland cleanup. A Settlement Agreement between the City, Malarkey, Sannes and the Duwamish Manufacturing Company, the POS and King County was effective July 30, 2008. The Engineering Evaluation and Cost Analysis (EE/CA) was finalized in 2010 and an Agreed Order was signed June 6, 2011. The clean-up of the sediments and the upland began in May 2013 and was finished in 2015. EPA approval of the final construction closeout and project closeout was received in July 2018. The Long-Term Monitoring and Maintenance Plan (LTMMP) was approved by EPA in September 2018. Long term monitoring events are completed in accordance with the LTMMP. An annual report is submitted in March each year. Annual monitoring reports were submitted in 2018, 2019, 2020, 2022, and 2023. The annual monitoring report covering January 1 through December 31, 2023, was submitted to EPA in March 2024. The Department recorded a liability of \$3.3 million as of December 31, 2023 and \$2.3 million as of December 31, 2022 respectively. The ultimate liability is indeterminate.
- *South Park Marina (SPM)* – The DOE has notified the City that it is a Potentially Liable Party (PLP) for contamination at SPM, which is adjacent to Terminal 117. The Department is the lead for the City at this site. Negotiations for an Agreed Order between the DOE and PLP's (City, POS and SPM) resulted in an Agreed Order to conduct an RI. The Agreed Order was finalized in April 2019. The Common Interest for Cost Sharing agreement between PLPs was signed in 2019. The City, the POS and SPM have agreed to share costs equally with the City administering the contract with a common consultant. The City share is split between the Department 97.5% and SPU 2.5%. In 2019, the City contracted with a consultant to complete the RI. A draft workplan was submitted to the DOE in May 2020 and comments were received. A revised draft workplan was submitted in December 2020. Phase 1 field activities and some data analyses were completed in 2021. Approval of the Source Control memorandum and preparation of workplan addendum for Phase 2 Field activities were completed in 2022. Phase 2 field sampling and preparation and submittal of the draft RI report were completed in 2023. The Department recorded a liability of \$0.7 million as of December 31, 2023 and \$0.9 million as of December 31, 2022 respectively. The ultimate liability is indeterminate.
- *North Boeing Field/Georgetown Steam Plant (NBF/GTSP)* –The City, King County, and Boeing signed an Administrative Order issued by the DOE requiring them to investigate and possibly remove contamination in an area that encompasses the NBF, the Department's GTSP, and the King County Airport. This site was also the subject of the lawsuit brought by the City against Boeing. Boeing agreed to pay 67% of the costs for DOE's implementation of the current order. The order requires completion and then implementation of a RI and FS. The final RI work plan was issued in November 2013. In January 2015, all parties executed the First Amendment to the NBF/GTSP Agreed Order, making the PLP's responsible for conducting and completing remedial action at the site. The City is responsible for one third of the costs, with the Department's share at 95% and SPU's share at 5%. The draft RI was submitted in June 2016. DOE directed additional investigation in offsite areas following the submittal of RI. The additional investigation and negotiation on RI comments delayed the submittal of the revised draft RI. The revised draft RI was submitted in late 2023.

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In 2022, the DOE notified the PRP's that **Perfluoroalkyl** and Polyfluoroalkyl Substances (PFAS) were determined to be hazardous substances under Model Toxic Control Act (MTCA) and additional investigation was necessary to address these potential contaminants. Current activities include negotiations with DOE to determine the scope and schedule for the PFAS investigation and preparation of the revised draft RI report.

The FS process will begin following approval of RI which may not occur until the after the PFAS investigation is complete. The timing of the approval is currently unknown. Boeing and the City will each pay 100% of costs for remedial action at their own facilities. Storm drain sampling conducted during the RI revealed the presence of chemicals in the storm lines that drain the GTSP roof. City light agreed with DOE to replace the GTSP roof as an interim action prior to finalization of the RI/FS. Roof replacement began in December 2020 and was completed in early 2021. The Department recorded a liability of \$0.8 million as of December 31, 2023 and \$0.9 million as of December 31, 2022 respectively. The ultimate liability is indeterminate.

- *Newhalem The Ladder Creek Settling Tank* – This project is one of three sites within City Light's Skagit River Hydroelectric Project being conducted under a 2019 Settlement Agreement with the National Park Service (NPS). The project is located near Newhalem, WA and is a cleanup of contaminated debris and soil resulting from the incineration of a building structure that covered a large water settling tank during the 2015 Goodell Creek Forest Fire. The removal work was completed in 2018 to comply with CERCLA requirements under a Time Critical Removal Action (TCRA) administered by NPS. The final TCRA Completion Report has been approved, and a final reporting of two years of post-TCRA vegetative restoration monitoring has been approved. NPS will keep the project open while conducting periodic vegetative restoration monitoring through approximately 2025. NPS owns the land.

Newhalem Penstock – This project is the second of three sites within City Light's Skagit River Hydroelectric Project being conducted under the 2019 Settlement Agreement with NPS. The project is also located near Newhalem and includes preparation of an Engineering Evaluation and Cost Analysis (EE/CA) to comply with CERCLA requirements under a Non-time Critical Removal Action administered by NPS. The draft EE/CA was completed in 2022 and the final was approved in 2023, and fully executed in Q1 2024. NPS owns the land.

Diablo Dry Dock – This project is the third of three sites within City Light's Skagit River Hydroelectric Project being conducted under the 2019 Settlement Agreement with NPS. The project is located near Diablo, WA and includes preparation of an EE/CA to comply with CERCLA requirements under a Non-time Critical Removal Action administered by the NPS. GeoSyntec is under a contract to provide City Light with consulting services related to the EE/CA. The first phase of the EE/CA field investigation was completed in October 2023, and the draft and final EE/CA Reports are planned for 2023-2025. NPS owns the land.

The Department recorded a liability of \$1.5 million as of December 31, 2023 and \$1.7 million as of December 31, 2022 for all three Skagit sites respectively. The ultimate liability is indeterminate.

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- *Substations* – Cleanup activities are being conducted at a number of substation sites. At Magnolia Substation, site assessment performed in 1999 identified Polychlorinated Biphenyl's (PCB's) on two concrete pads located outside of the concrete substation yard. Further evaluation done in 2015 identified pesticide, cadmium, and PCB contamination on the property. The site has a designated Environmental Critical Area along the eastern property line, a steep slope, requiring the cleanup to be permitted with the Seattle Department of Construction and Inspections (SDCI). Cleanup and restoration of most of the site was completed in 2020 and 2021. One small area of contamination was left in place and covered with a protective layer of soil due to desired preservation of an overlying mature tree. Removal of this soil is not currently planned. Soil within an enclosed courtyard on the property is planned for characterization and possible cleanup during 2024. The department recorded a liability of \$0.2 million as of December 31, 2023 and \$1.0 million as of December 31, 2022 respectively. The ultimate liability is indeterminate.
- *Ross Dam* – The tunnel that houses a bypass penstock designed to convey water from Ross reservoir beneath Ross Dam is contaminated with metals residues from former coating operations. To prevent their release into Skagit River, work to remove the accumulated sediment in the lower tunnel system was completed in 2023. Due to unanticipated conditions, physical constraints and significant delays caused by the Sourdough Creek wildfire, portions of the upper tunnel could not be addressed during the 2023 work. On-going monitoring of the system and water quality is planned to be implemented in 2024 and 2025. The department recorded a liability of less than \$0.1 million as of December 31, 2023 and \$1.4 million as of December 31, 2022 respectively. The department's ultimate liability is indeterminate.
- *Cedar Falls Lead Abatement* – In 2008, lead contamination exceeding State cleanup levels in soil was discovered in several locations along City Light's Cedar Falls penstocks and associated structures during an investigation related to planned seismic upgrades. The penstocks are located in Seattle's Cedar River Municipal Watershed. An assessment of the nature and extent of contamination along the entirety of the Penstock System conducted from 2009 through 2012 determined that, in some locations, soil near the penstocks and bridges contained lead and arsenic above state cleanup standards. Paint coatings in some areas, including three locations directly over the Cedar River, also contained lead and asbestos. Mercury was also discovered in soils in one isolated area. Future project costs include continuing implementation of a Long-term Environmental Management Plan, including several contaminant source removal activities and associated monitoring. City Light owns the penstocks and most associated structures. SPU owns the land.

This program currently includes two general areas of work: Overall Penstocks System Environmental Management Plan Implementation and Source Control/Removal projects. Lead-based paint removal and recoating on the three penstock bridges was completed in November 2016 under a public works contract, Upper Truss Bridge bank soil stabilization was completed in spring 2017, a Trestle Bridge contaminated soil stability survey was completed in summer 2019 and Gatehouse lead paint abatement progressed in 2022 and 2023. Other planned projects and their general timelines include complete Gatehouse lead paint abatement (2024) and Gatehouse mercury soil cleanup (2025). City Light is responsible for 100% of these costs. The Department recorded a liability of \$0.4 million as of December 31, 2023 and \$0.1 million as of December 31, 2022 respectively. The ultimate liability is indeterminate.

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- *Ground Water Sites* – Environmental assessments have found contamination exceeding the state residential cleanup thresholds at three of City Light’s properties: the Interbay, University Rectifier, and Roy Street Shops sites. ELLBU contracted with a consultant during 2022 and has begun assessments of the University Rectifier and Interbay sites. Remedial assessment and possible remedial design work for the other two sites will be completed during 2024-2025. The department’s ultimate liability is indeterminate. The Department has included in the estimated environmental liability those portions of the environmental remediation work that are currently deemed to be reasonably estimable.

Cost estimates were developed using the expected cash flow technique in accordance with GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. Estimated outlays were based on current cost and no adjustments were made for discounting or inflation except as noted earlier for LDW. Cost scenarios were developed that defined a particular solution for a given site. Scenarios considered relevant potential requirements and alternatives for remediation of a site. Costs were calculated on a weighted average that was based on the probabilities of each scenario being selected and reflected cost-sharing agreements in effect. In addition, certain estimates were derived from independent engineers and consultants. The estimates were made with the latest information available; as new information becomes available, estimates may vary significantly due to price increases or reductions, technology, or applicable laws or regulations.

The Department is aggressively pursuing other third parties that may have contributed to the contamination of Superfund sites for appropriate cost sharing. The Department’s estimate for realized recoveries was \$0.2 million as of December 31, 2023, and \$1.6 million as of December 31, 2022 respectively, primarily representing an interfund receivable from SPU for recovery of remediation costs incurred related to the lower Duwamish Waterway site. The Department’s estimate for not yet realized recoveries from other parties for their share of remediation work performed that partially offset the Department’s estimated environmental liabilities was zero at December 31, 2023. As of December 31, 2023, and 2022, environmental costs of \$116.4 million and \$93.1 million were deferred primarily for cleanup estimates of the Department’s responsibility for the LDW and EWW Superfund Sites; and these costs are being amortized and will be recovered through future rates in accordance with GASB Statement No. 62.

The changes to the deferred environmental costs at December 31, 2023 and 2022 were as follows:

<i>(\$ in millions)</i>	2023	2022
Beginning Deferred Environmental Costs	\$ 93.1	\$ 118.8
Incurred	(6.7)	4.8
Amortization	(0.9)	(0.6)
Adjustment of items directly booked to Regulatory Asset	-	(1.6)
True-up of Realizable Recoveries from SPU and Other Parties	0.2	1.6
Sharing Percentage change	30.6	(29.9)
Trailing Transaction	0.1	-
Ending Deferred Environmental Costs net of Recoveries	<u>\$ 116.4</u>	<u>\$ 93.1</u>

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The changes in the provision for environmental liabilities at December 31, 2023, and 2022 were as follows:

<i>(\$ in millions)</i>	2023	2022
Beginning Environmental Liability, Net of Recoveries	\$ 79.1	\$ 108.9
Payments	(6.6)	(4.7)
Incurring Environmental Liability	<u>30.6</u>	<u>(25.1)</u>
Ending Environmental Liability, Net of Recoveries	<u>\$ 103.1</u>	<u>\$ 79.1</u>

The provision for environmental liabilities included in current and noncurrent liabilities at December 31, 2023 and 2022, was as follows:

<i>(\$ in millions)</i>	2023	2022
Noncurrent Liabilities	\$ 100.0	\$ 74.3
Accounts Payable and Other Current Liabilities	<u>3.1</u>	<u>4.8</u>
Ending Non-Current Liabilities	<u>\$ 103.1</u>	<u>\$ 79.1</u>

16. OTHER LIABILITIES

Other liabilities include unearned capital fees which are amortized to revenues as earned, deposits and certain other unearned revenues which expire at contract completion.

Other liabilities at December 31, 2023 and 2022 consisted of the following:

<i>(\$ in millions)</i>	2023	2022
Other liabilities:		
Unearned capital fees	\$ 30.1	\$ 28.9
Customer deposits—sundry sales	3.2	4.7
Unearned revenues—other	<u>3.0</u>	<u>2.7</u>
 Total	 <u>\$ 36.3</u>	 <u>\$ 36.3</u>

17. DEFERRED INFLOWS OF RESOURCES

Seattle City Council passed resolutions authorizing the reporting of certain credits as regulatory deferred inflows of resources in accordance with Statement No. 62 of the GASB, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB & AICPA Pronouncements*.

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The unearned revenue for the Rate Stabilization Account for 2023 and 2022 is the result of spreading retail electric revenues and related activity over multiple periods to reduce the need for rapid and substantial rate increases (see Note 4 Rate Stabilization Account). Payments received from Bonneville's Energy Conservation Agreement are amortized to revenues over 20 years.

In accordance with the requirements of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, decreases in Net Pension Liability resulting from changes in employer proportion and differences between contributions and proportionate share of pension expense are recognized as deferred inflows of resources. These deferred inflows are amortized over a closed five-year period. See Note 13 Seattle City Employees' Retirement System for more information.

In accordance with the requirements of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB)*, amounts related to assumption changes are recognized as deferred inflows of resources, which are amortized over a closed five-year period. See Note 14 Other Postemployment Benefits for more information.

In accordance with the requirements of GASB Statement No. 87, *Leases*, for lessor arrangements, deferred inflows will increase due to the recognition of a deferred inflow of resources related to the leases. This deferred inflow will initially be measured at the amount of the lease receivable. This deferred inflow will be amortized over the life of the leases as revenues are recognized. See Note 18 Leases for more information.

The Department purchases electric energy from the U.S. Department of Energy, Bonneville Power Administration under the Block and Slice Power Sales Agreement, exclusively purchasing Block. Seattle City Council affirmed the Department's practice of recognizing the effects of reporting the fair value of exchange contracts in future periods for rate making purposes and maintaining regulatory accounts to spread the accounting impact of these accounting adjustments, in Resolution No. 30942 adopted January 16, 2007. See Note 19 Long-Term Purchased Power, Exchanges, and Transmission for more information.

In 2020, the Department became aware that the Federal Energy Regulatory Commission (FERC) overcharged the Department for the use of approximately 5,200 acres of federal land located in the High Ross Inundation Zone. In 2021, FERC agreed to refund \$11.2 million paid by the Department for the period of 1996 to 2019 in the form of credit to future invoices beginning 2022. The refund of \$11.2 million was recognized as a deferred inflow and is being amortized as applied to future FERC invoices.

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Deferred inflows of resources at December 31, 2023 and 2022 consisted of the following:

(\$ in millions)	2023	2022
Deferred inflows of resources:		
Unearned revenue—rate stabilization account	\$ 40.8	\$ 50.0
Changes in Net Pension Liability	12.4	94.6
Changes in OPEB Liability	4.8	4.7
Gains on advanced refunding	6.2	5.6
Bonneville energy conservation agreement	40.1	38.3
Lease related amounts	62.1	67.3
FERC land use fee refund	3.3	7.2
Other deferred inflows	<u>0.1</u>	<u>0.3</u>
Total	<u>\$ 169.8</u>	<u>\$ 268.0</u>

18. LEASES

GASB Statement No. 87, *Leases*, requires the recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. The standard establishes a single model for lease accounting based on the foundational principle that leases are financings of the right-to-use an underlying asset. Under the Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, which enhances the relevance and consistency of information about leasing activities.

The Department has not identified any leases as of December 31, 2023, in which the Department is the lessee that meets the requirements of Statement No. 87.

As of December 31, 2023, the Department is a lessor that meets the requirements of Statement No. 87. The table below presents the inflow of resources for comparative purposes at December 31, 2023 and 2022.

(\$ in millions)	2023	2022
Lease Revenue	\$ 5.2	\$ 5.2
Lease Interest Revenue	\$ 1.0	\$ 1.1

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Lease balances at December 31, 2023 and 2022, where the Department is the lessor, are summarized below.

Balances as of December 31, 2023
(\$ in millions)

Lease Classification	Lease Receivable	Current Portion of Receivable	Deferred Inflow of Resources	Lease Terms in Years	Implicit Interest Rate
Buildings	\$ 0.1	\$ -	\$ 0.1	11	0.4%
Land	11.2	0.4	10.8	23 - 75	0.3% - 3.5%
Other - Wireless Pole Attachments	44.4	2.2	44.4	20	1.6%
Other - Wireline Pole Attachments	6.7	2.2	6.7	5	0.5%
Total	\$ 62.4	\$ 4.8	\$ 62.0		

Balances as of December 31, 2022
(\$ in millions)

Lease Classification	Lease Receivable	Current Portion of Receivable	Deferred Inflow of Resources	Lease Terms in Years	Implicit Interest Rate
Buildings	\$ 0.1	\$ -	\$ 0.1	11	0.4%
Land	11.6	0.4	11.3	23 - 75	0.3% - 3.5%
Other - Wireless Pole Attachments	46.5	2.1	47.0	20	1.6%
Other - Wireline Pole Attachments	8.9	2.2	8.9	5	0.5%
Total	\$ 67.1	\$ 4.7	\$ 67.3		

On the statements of net position, the current portion of lease receivables is located in current receivables (see Note 6 Accounts Receivable) and the long-term lease receivable is located within other assets (see Note 7 Other Assets). The deferred lease inflows are reported within the deferred inflows of resources (see Note 17 Deferred Inflows of Resources).

The wireless and wireline pole attachment leases contain variable payment components determined annually per SMC 21.49.065 that are not included in the measurement of the lease receivable under Statement No. 87. The inflow of resources due to variable components during 2023 were \$0.43 million and \$0.45 million respectively.

The Department has not identified any leases as of December 31, 2023, where City Light, as the lessor, has issued debt for which the principal and interest payments are secured by the lease payments.

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NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

19. SHORT-TERM ENERGY CONTRACTS AND DERIVATIVE INSTRUMENTS

The Department engages in an ongoing process of resource optimization, which involves the economic selection from available energy resources to serve the Department's load obligations and using these resources to capture available economic value. The Department makes frequent projections of electric loads at various points in time based on, among other things, estimates of factors such as customer usage and weather, as well as historical data and contract terms. The Department also makes recurring projections of resource availability at these points in time based on variables such as estimates of stream flows, availability of generating units, historic and forward market information, contract terms, and experience. Based on these projections, the Department purchases and sells wholesale electric capacity and energy to match expected resources to expected electric load requirements, and to realize earnings from surplus energy resources. These transactions can be up to 60 months forward. Under these forward contracts, the Department commits to purchase or sell a specified amount of energy at a specified time, or during a specified time in the future.

Except for limited intraday and interday trading to take advantage of owned hydro storage, the Department does not take market positions in anticipation of generating profit. Energy transactions in response to forecasted seasonal resource and demand variations require approval by the Department's Risk Oversight Council. In April 2020 the Department entered the California ISO Energy Imbalance Market (EIM) which is an energy market system that balances fluctuations in supply and demand by automatically finding lower cost resources to meet real-time power needs and serve consumer demand across the western region. The EIM manages congestion on transmission lines to maintain grid reliability and supports integrating renewable resources. In addition, the EIM makes excess renewable energy available to participating utilities at low cost.

It is the Department's policy to apply the normal purchase and normal sales exception of Statement No. 53 of the GASB, *Accounting and Financial Reporting for Derivative Instruments*, as appropriate. Certain forward purchase and sale of electricity contracts meet the definition of a derivative instrument but are intended to result in the purchase or sale of electricity delivered and used in the normal course of operations. Accordingly, the Department considers these forward contracts as normal purchases and normal sales under GASB Statement No. 53. These transactions are not required to be recorded at fair value in the financial statements.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

The undiscounted aggregate contract amounts, fair value, and unrealized gain or (loss) of the Department's commodity derivative instruments qualifying as normal purchases and normal sales at December 31, 2023 and 2022 consisted of the following:

(\$ in millions)

	Aggregate Contract Amount	Aggregate Fair Value	Unrealized Gain (Loss)
2023			
Sales	\$ 0.1	\$ 0.1	\$ -
Purchases	3.8	3.8	-
Total	<u>\$ 3.9</u>	<u>\$ 3.9</u>	<u>\$ -</u>
2022			
Sales	\$ 18.1	\$ 30.7	\$ (12.6)
Purchases	0.2	1.6	1.4
Total	<u>\$ 18.3</u>	<u>\$ 32.3</u>	<u>\$ (11.2)</u>

All derivative instruments not considered as normal purchases and normal sales are to be recorded within the financial statements using derivative accounting according to GASB Statement No. 53. In 2010, the Seattle City Council adopted a resolution granting the Department authority to enter into certain physical put and call options that would not be considered normal purchases and normal sales under GASB Statement No. 53. The Department did not have any such activity for 2023 and 2022. In addition, the Seattle City Council has deferred recognition of the effects of reporting the fair value of derivative financial instruments for rate-making purposes, and the Department maintains regulatory accounts to defer the accounting impact of these accounting adjustments in accordance with GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* (see Note 7 Other Assets and Note 17 Deferred Inflows of Resources).

Market Risk—Market risk is, in general, the risk of fluctuation in the market price of the commodity being traded and is influenced primarily by supply and demand. Market risk includes the fluctuation in the market price of associated derivative commodity instruments. Market risk may also be influenced by the number of active, creditworthy market participants, and to the extent that nonperformance by market participants of their contractual obligations and commitments affects the supply of, or demand for, the commodity. Because the Department is active in the wholesale energy market, it is subject to market risk.

Credit Risk—Credit risk relates to the potential losses that the Department would incur as a result of nonperformance by counterparties of their contractual obligations to deliver energy or make financial settlements. Changes in market prices may dramatically alter the size of credit risk with counterparties, even when conservative credit limits are established. The Department seeks to mitigate credit risk by entering into bilateral contracts that specify credit terms and protections against default; applying credit limits and duration criteria to existing and prospective counterparties; and actively monitoring current credit exposures. The Department also seeks assurances of performance through collateral requirements in the form of letters of credit, parent company guarantees, or prepayment.

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The Department has concentrations of suppliers and customers in the electric industry including electric utilities; electric generators and transmission providers; financial institutions; and energy marketing and trading companies. In addition, the Department has concentrations of credit risk related to geographic location as it operates in the western United States. These concentrations of counterparties and concentrations of geographic location may impact the Department's overall exposure to credit risk, either positively or negatively, because the counterparties may be similarly affected by changes in conditions.

Other Operational and Event Risk—There are other operational and event risks that can affect the supply of the commodity, and the Department's operations. Due to the Department's primary reliance on hydroelectric generation, the weather, including springtime snow melt, runoff, and rainfall, can significantly affect the Department's operations. Other risks include regional planned and unplanned generation outages, transmission constraints or disruptions, environmental regulations that influence the availability of generation resources, and overall economic trends.

20. LONG-TERM PURCHASED POWER, EXCHANGES, AND TRANSMISSION

Bonneville Power Administration—The Department purchases electric energy from the U.S. Department of Energy, Bonneville Power Administration (Bonneville) under the Block and Slice Power Sales Agreement, a 17-year contract, for the period October 1, 2011 through September 30, 2028. Effective October 1, 2017 there was an amendment to the agreement whereby the Department no longer participates as a Slice customer and will exclusively purchase Block. Block quantities are expected to be recalculated periodically during the term of the contract. Rates will be developed and finalized every two years. Accordingly, certain estimates and assumptions were used in the calculations in the estimated future payments table below.

Lucky Peak—In 1984, the Department entered into a purchase power agreement with four irrigation districts to acquire 100% of the net surplus output of a hydroelectric facility that began commercial operation in 1988 at the existing Army Corps of Engineers Lucky Peak Dam on the Boise River near Boise, Idaho. The irrigation districts are owners and license holders of the project, and the FERC license expires in 2030. The agreement, which expires in 2038, obligates the Department to pay all ownership and operating costs, including debt service, over the term of the contract, whether or not the plant is operating or operable.

The Department incurred \$9.5 million and \$7.5 million in 2023 and 2022, respectively, including operations costs and royalty payments to the irrigation districts. The Department provided and billed Lucky Peak \$0.3 million in both 2023 and 2022 for operational and administrative services. These amounts are recorded as offsets to purchased power expense.

The Department's receivables from Lucky Peak were less than \$0.1 million on December 31, for 2023 and 2022. The Department's payables to Lucky Peak were \$0.0 million on December 31, for 2023 and 2022.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

British Columbia—High Ross Agreement— In 1984, an agreement was reached between the Province of British Columbia and the City under which British Columbia will provide the Department with energy equivalent to that which would have resulted from an addition to the height of Ross Dam. Delivery of this energy began in 1986 and is to be received for 80 years. In addition to the direct costs of energy under the agreement, the Department incurred costs of approximately \$8.0 million in prior years related to the proposed addition and was obligated to help fund the Skagit Environmental Endowment Commission through four annual \$1.0 million payments. The final fixed capital payment was made to BC Hydro in 2020. Operations and maintenance payments will be made through the life of the agreement. These other costs are included in utility plant-in-service as an intangible asset and are being amortized to purchase power expense over 15 years, from 2021 through 2035 (see Note 3 Utility Plant).

Expenses incurred, and energy received under these and other long-term purchased power agreements at December 31, 2023 and 2022 were as follows:

(\$ in millions)	Expense		Average Megawatts	
	2023	2022	2023	2022
Long-term purchased power-Bonneville	\$ 138.2	\$ 106.5	461.1	434.3
Lucky Peak	9.5	7.5	37.9	26.7
British Columbia - High Ross Agreement	13.0	13.0	34.6	34.9
Grant County Public Utility District	1.4	1.4	2.2	3.1
Columbia Basin Hydropower	6.0	8.4	28.5	30.0
Bonneville South Fork Tolt billing credit	(3.7)	(3.6)	-	-
Renewable energy - State Line Wind	-	2.9	-	8.5
Renewable energy - Other	5.9	7.2	9.8	11.1
Exchanges and loss returns energy at fair value	5.1	8.8	51.4	47.5
Long-term purchased power booked out	-	(1.6)	-	(4.9)
Long-term purchase power-other	<u>37.2</u>	<u>44.0</u>	<u>164.4</u>	<u>156.9</u>
Subtotal	<u>\$ 175.4</u>	<u>\$ 150.5</u>	<u>625.5</u>	<u>591.2</u>
Condon Wind - Reported as short-term purchased power	1.2	-	3.8	-
Total	<u>\$ 176.6</u>	<u>\$ 150.5</u>	<u>629.3</u>	<u>591.2</u>

Renewable Energy Purchase and/or Exchanges— The Energy Independence Act, Chapter 19.285 Revised Code of Washington, requires all qualifying utilities in Washington State with more than 25,000 customers to meet certain annual targets of eligible new renewable resources and/or equivalent renewable energy credits (RECs) as a percentage of total energy delivered to retail customers. The annual target is at least 15% for 2023 and 2022. The law also has a compliance option for utilities with declining load to spend 1% of revenue requirements on eligible RECs and/or resources. The Department met the requirements of the compliance option in both 2023 and 2022.

Fair Value of Exchange Energy— During 2023 and 2022, exchange energy settled deliveries were valued using Dow Jones U.S Daily Electricity Price Indices.

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**NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022**

Estimated Future Payments Under Purchased Power, Transmission and Related Contracts— The Department’s estimated payments for purchased power and transmission, RECs, and other contracts for the period from 2024 through 2065, undiscounted, are as follows:

<i>\$ in millions</i> Years Ending December 31	Estimated Payments
2024	\$ 270.1
2025 ^(a)	264.9
2026	224.5
2027	221.0
2028 ^(b)	173.2
2029-2033	205.3
Thereafter (through 2065) ^(c)	<u>126.0</u>
Total	<u><u>\$ 1,485.0</u></u>

(a) Bonneville transmission agreement expires July 31, 2025.
 (b) Bonneville Block & Slice agreement expires September 30, 2028.
 (c) Lucky Peak contract expires September 30, 2038.

21. COMMITMENTS AND CONTINGENCIES

2024 Capital Program—The budget for the Department’s 2024 program for capital improvement, conservation, and deferred operations and maintenance including required expenditures on assets owned by others is \$446.0 million. At December 31, 2023, the Department had approximately \$155.1 million in commitments relating thereto. Department overhead costs and other allocations associated with the capital program are included in the budget amount.

2024 Operations and Maintenance Budget—The Department’s 2024 Operating and Maintenance budget is \$1,085.4 million for labor and related benefits, purchased power, outside services, supplies, taxes, injuries and damages, interest, debt-related costs, maintenance of Department assets, and other non-capital expenditures incurred in the normal course of operations.

Federal Energy Regulatory Commission Fees—Estimated Federal land use and administrative fees related to hydroelectric licenses total \$140.7 million through 2055; these estimates are subject to change. The estimated portion of fees attributed to the Skagit and Tolt licenses are excluded after 2025, when their existing FERC licenses expire. The estimated portion of Boundary fees is included through 2055, the year the current license issued by FERC expires. The Boundary FERC license and related issues are discussed below.

Current Boundary License—The Department’s FERC license for the Boundary Project was re-issued on March 20, 2013 with a 42-year life and a total cost of \$48.6 million. The terms and conditions of the new license have been evaluated and the Department continues the license implementation process, which imposes mitigation of endangered species including water quality standards and conservation management.

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NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

As part of the license renewal process, the Department negotiated a settlement with external parties such as owners of other hydroelectric projects, Indian tribes, conservation groups and other government agencies. The settlements sought to preserve the Department's operational flexibility at Boundary Dam while providing for natural resource protection, mitigation and enhancement measures.

The cost projections for such mitigation over the expected 42-year life of the license, included in the Department's license application, were estimated to be \$410.0 million adjusted to 2023 dollars, of which \$158.3 million were expended through 2023. Projected mitigation cost estimates are subject to revision as more information becomes available.

Skagit and South Fork Tolt Licensing Mitigation and Compliance—In 1995, the FERC issued a license for operation of the Skagit hydroelectric facilities through April 30, 2025. On July 20, 1989, the FERC license for operation of the South Fork Tolt hydroelectric facilities through July 19, 2029, became effective. As a condition for both licenses, the Department has taken and will continue to take required mitigating and compliance measures.

Total Skagit license mitigation costs from the effective date until expiration of the federal operating license were estimated at December 31, 2023, to be \$178.5 million, of which \$172.6 million has been expended. Total South Fork Tolt license mitigation costs were estimated at \$2.5 million, of which \$2.5 million were expended through 2022 for the rest of the life of the license with no additional costs in 2023. In addition to the costs listed for South Fork Tolt mitigation, the license and associated settlement agreements required certain other actions related to wildlife studies and wetland mitigation for which no set dollar amount was listed. Requirements for these actions have been met, and no further expenditures need to be incurred for these items.

Capital improvement, other deferred costs, and operations and maintenance costs are included in the estimates related to the settlement agreements for both licenses. Amounts estimated are adjusted to 2023 dollars. Department labor and other overhead costs associated with the activities required by the settlement agreements for the licenses are not included in the estimates.

Hydroelectric projects must satisfy the requirements of the Endangered Species Act (ESA) and the Clean Water Act to obtain a FERC license. ESA and related issues are discussed below.

Endangered Species—Several fish species that inhabit waters where hydroelectric projects are owned by the Department, or where the Department purchases power, have been listed under the ESA as threatened or endangered. Although the species were listed after FERC licenses were issued for all the Department's hydroelectric projects, the ESA listings still affect operations of the Department's Boundary, Skagit, Tolt, and Cedar Falls hydroelectric projects.

Federal Regulations in response to the listing of species affect flow in the entire Columbia River system. As a result of these regulations, the Department's power generation at its Boundary Project is reduced in the fall and winter when the region experiences its highest sustained energy demand. The Boundary Project's firm capability is also reduced.

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The Department, with the support of City Council, elected to take a proactive approach to address issues identified within the ESA. The Department is carrying out an ESA Early Action program in cooperation with agencies, tribes, local governments, and watershed groups for bull trout, Chinook salmon, and steelhead in the South Fork Tolt and Skagit Watersheds. The ESA Early Action program is authorized by City Council but is separate from any current FERC license requirements. The program includes habitat acquisition, management and restoration. The ESA Early Action has been successful in protecting listed species. Total costs for the Department's share of the Early Action program from inception in 1999 through December 31, 2023, are estimated to be \$19.7 million, and \$1.8 million has been allocated for the program in the 2024 budget.

Project Impact Payments—Effective May 2020, the Department renewed its contract with Pend Oreille County and committed to pay a total of \$29.8 million over 10 years ending in 2029 to Pend Oreille County for impacts on county governments from the operations of the Department's hydroelectric projects. Effective January 2024, the Department renewed its contract with Whatcom County committing to pay annual impact compensation payments subject to an escalator tied to the Consumer Price Index and ending in 2038. The payments compensate the counties, and certain school districts and towns located in these counties, for loss of revenues and additional financial burdens associated with the projects. The Boundary Project, located on the Pend Oreille River, affects Pend Oreille County, and Skagit River hydroelectric projects affect Whatcom County. The impact payments totaled \$3.0 million to Pend Oreille County in 2023 and 2022, respectively, and \$1.2 million to Whatcom County in 2023 and 2022, respectively.

Akopyan v. City of Seattle - Plaintiff Estate alleges that City Light failed to adequately light a street in the City of Shoreline. The decedent attempted to cross the North Richmond Beach Road at night on September 2, 2020 and was hit by a car. City Light's ultimate liability is indeterminate.

Brooks-Joseph v. City of Seattle, Seattle City Light, et. al. - Plaintiff alleges discrimination based on race. Gender and age, negligent supervision and retention, wrongful discharge and violation of the Washington State Whistleblower Act. Plaintiff also names City Light employee Britt Luzzi and SPU employee Lourdes Podwall as individual defendants. On October 5, 2023, the court granted the City's Motion for Summary Judgment and dismissed this action. On March 19, 2024, the court denied the plaintiff's Motion for Reconsideration. However, the plaintiff has thirty (30) days to appeal to the 9th Circuit Court of Appeals. An adverse result could be reversal of the summary judgment dismissal and remand for further trial proceedings, which could include awards of compensatory damages and attorneys' fees. At this juncture, City Light's ultimate liability is indeterminate.

Del Castillo v. City of Seattle & Seattle City Light - Plaintiff Del Castillo alleges discrimination and retaliation based on race, national origin and/or disability, as well as claims of a hostile work environment and wrongful discharge in violation of public policy. An adverse result could include awards of compensatory damages and attorneys' fees. Discovery is ongoing and at this juncture, City Light's ultimate liability is indeterminate. Trial is currently set for September 9, 2024 in King County Superior Court.

Longacre, Lowrie – On August 23, 2023, the claimant filed a tort Claim for Damages alleging gender and disability discrimination, hostile work environment, harassment, and whistleblower retaliation. This case was resolved prior to April 30, 2024. The settlement was immaterial to the financial statements.

Margaret Owens Demand Letter - City Light received an attorney demand letter dated March 14, 2024 from a former City Light employee alleging allegations of sexual harassment. As of the date of this letter, a formal claim has not been filed and City Light's ultimate liability is indeterminate.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

Monica Jones v. City of Seattle, Seattle City Light, et.al. – Plaintiff Jones alleges religious, racial and age discrimination, violation of public policy against discrimination, disparate impact, failure to accommodate, wage theft, and numerous violations of the Washington Constitution, all resulting from the City’s vaccine mandate. On April 4, 2023, the Court dismissed the individual defendants, as they were never properly served by the plaintiff. An adverse result could include awards of compensatory damages and attorneys' fees. Discovery is ongoing and at this juncture, City Light's ultimate liability is indeterminate. The City anticipates filing a Motion for Summary Judgment on April 26, 2024. This matter was filed in federal court in the Western District of Washington and is set for trial on July 29, 2024.

Rochester, et, al. v. City of Seattle - A group of plaintiffs, including twenty-six former City Light employees, allege they were unlawfully separated from employment with various departments within the City of Seattle when they failed to get a COVID-19 vaccine. The matter was filed in King County Superior Court on December 15, 2023, and is currently set for trial on December 16, 2024. Given the number of plaintiffs and the need for extensive discovery, it is likely the trial date will be extended. As detailed below, this matter was filed by plaintiffs' counsel in the SCFF/Jayne case, and includes all the Jayme plaintiffs, plus others the Court would not allow them to add to that matter. On April 2, 2024, the plaintiffs filed a Second Amended Complaint. The City anticipates filing a Motion to Dismiss the Second Amended Complaint on April 15, 2024. Given the uncertainty with vaccine mandate litigation, and the need for extensive discovery, the Department's ultimate liability is indeterminate at this time.

Vaccine Mandate Claims - Several current and former City Light employees have filed tort Claims for Damages related to the City’s implementation of a COVID-19 vaccine mandate in October 2021. These claimants allege a variety of claims, including but not limited to discrimination, wrongful discharge, failure to accommodate and violations of the Washington and federal US Constitutions. Each claim is fact specific to the claimant and dependent on evolving public health guidelines and newly emerging case law in response to the pandemic. City Light’s ultimate liability is indeterminate; however, an adverse result could include awards of compensatory damages and attorneys’ fees.

The following cases from 2022 were resolved:

Deien v. City - Plaintiff brought a purported class action against City Light based on City Light billing practices associated with City Light's transition to advanced meters. On April 4, 2023, the Washington State Court of Appeals approved settlement of this case on a class basis for a \$3.5M payment from the City.

Lavish v. City of Seattle - Plaintiff Lavish alleged he was injured by an electrical arc while attempting to remove a tree near a City power line in 2021. He alleged City negligence caused his injuries. The Plaintiff voluntarily dismissed the City in May of 2023.

Sauk-Suiattle Litigation - In July 2021, the Sauk-Suiattle Indian Tribe (the Tribe) filed the first of three lawsuits against City Light alleging that City Light's operation of the Skagit Hydroelectric Project (the Project) in a manner that de-watered a portion of the Skagit River violates various rights of the Tribe. City Light operates the Project under a thirty-year license from the Federal Energy Regulatory Commission (FERC) granted in 1995. The license allows the de-watering of the Skagit River for a short stretch of the river between the Gorge Dam and the Gorge Powerhouse, and this aspect of the Project has been in place since the 1930s. As of the date of April 30, 2024, all three of these lawsuits are now resolved.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

I. Sauk-Suiattle Litigation — Federal Claim. The initial lawsuit brought by the Tribe was originally filed in Skagit County Superior Court in July 2021. In that suit, the Tribe alleged violations of the Washington and United States constitutions, in addition to the establishing acts of the Territory of Oregon and State of Washington, and other state and federal law, by blocking the passage of fish. The City removed the case to the federal court in the Western District of Washington and moved to dismiss the case. The Tribe moved to remand the case back to Skagit County. Ultimately, the district court denied the Tribe's motion to remand, and then on December 2, 2021, dismissed all of the Tribe's claims. The Tribe appealed this decision to the United States Court of Appeals for the Ninth Circuit (9th Circuit). On December 30, 2022, the 9th Circuit affirmed the district court's dismissal. On January 3, 2023, the Tribe petitioned for rehearing en banc by the 9th Circuit. On January 26, 2023, the 9th Circuit denied the Tribe's petition. On March 28, 2023, the Tribe appealed the 9th Circuit's denial by petitioning for a writ of certiorari in the United States Supreme Court. On October 2, 2023, the Court denied the Tribe's petition for review, which ended the lawsuit in the City's favor.

II. Sauk-Suiattle Litigation - Tribal Court Claim. On January 6, 2022, the Tribe filed its third complaint out of the same set of operative facts. In the Tribal Court, the Tribe makes the following claims: (1) violations of the Tribe's treaty based usufructuary propeliy interests through blocking fish passage; (2) that the "blockage of water" constitutes and arbitraly and capricious seizure of salmon habitat and the Tribe's water property rights in violation of the Fourth Amendment; (3) infringement on the Tribe's members religious and cultural practices protected by the American Indian Religious Freedom Act and the First Amendment; and fraud and intentional or negligent infliction of emotional distress. The City first filed a motion to dismiss these claims in January 2022. In February 2022, the City also filed a complaint in federal court in the Western District of Washington seeking to enjoin the Sauk-Suiattle Tribal Court from exercising jurisdiction. Oral argument in the tribal court occurred on May 24, 2022. On July 5, 2022, the district court issued an order staying the City's case until the tribal court has had a full opportunity to determine its own jurisdiction. On November 10, 2022, the judge in the Sauk-Suiattle Tribal Court dismissed the Tribe's claims against the City finding that it had no jurisdiction. The Tribe appealed this order to the Tribal Court Appeals, with oral argument scheduled for May 2023. Prior to the date of argument, the Parties reached a settlement that dismissed the appeal and vacated the Tribal trial court order. As part of the settlement, the City agreed to dismiss the Federal District Court matter. The litigation has been fully resolved.

III. Sauk-Suiattle Litigation - State Court Claim. The third lawsuit by the Tribe was originally filed in King County Superior Court in September 2021, alleging that City Light was "greenwashing" its operations because it did not allow for fish passage in the stretch of the Skagit River between Gorge Dam and Gorge Powerhouse, and other state law nuisance claims. City Light moved to dismiss this case, which the Comi granted on January 14, 2022. The Tribe appealed the dismissal to Division 1 of the Washington State Comi of Appeals. On March 6, 2023, the Court of Appeals dismissed all of the Tribe's claims except for two nuisance claims and remanded the case to King County Superior Court for further trial proceedings. The Tribe did not reinstate proceedings, and the parties settled and dismissed the case in February 2024.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

Seattle City Frontline Freedom Fighters/Jayme, et, al. v. City of Seattle - A group of current and former City employees allege various forms of discrimination, wrongful discharge, violations of the Washington constitution and seek declaratory relief resulting from the City's vaccine mandate. Nine of the plaintiffs are current or former employees of City Light. On November 20, 2023, the Court granted the City's Motion for Partial Summary Judgment, dismissing all claims except those for discrimination based on religion and failure to accommodate under Title VII and the Washington Law Against Discrimination. The Court also denied the plaintiffs' Motion to Amend their 4th Amended Complaint to add new plaintiffs. The matter was filed in King County Superior Court on October 28, 2022, and was set for trial on May 20, 2024. Plaintiffs' counsel has filed another multi-plaintiff lawsuit involving all Jayme plaintiffs, plus other plaintiffs the Court would not allow to be added to the Jayme case. See *Rochester v. City*, above. On March 29, 2024, the court granted the plaintiffs' Motion for Voluntary Non-Suit and Dismissal of the Jayme case.

Tucker v. City and Andrew Strong- Plaintiff Tucker alleged race discrimination, harassment, and retaliation against City Light and Mr. Strong, as well as a claim against Mr. Strong for aiding and abetting discrimination. Trial was set in state court for May 2, 2022. On March 10, 2023 plaintiff Tucker accepted an Offer of Judgment in the amount of \$150,000, plus attorneys' fees and costs. However, plaintiff then appealed to Division One of the Court of Appeals because the judgment was applied solely against the City, and not against the individual defendant. As Strong was acting in his official capacity and fully indemnified by the City, the City successfully argued that this was a frivolous appeal, and the Court of Appeals dismissed the same. Nevertheless, on January 2, 2024, the plaintiff filed a Petition for Review with the Washington Supreme Court. The City filed its Answer on February 1, 2024, and the Supreme Court denied the Petition for Review on April 10, 2024.

Other Contingencies—In addition to those noted above, in the normal course of business, the Department has various other legal claims and contingent matters outstanding. The Department believes that any ultimate liability arising from these actions will not have a material adverse impact on the Department's financial position, operations, or cash flows.

22. SUBSEQUENT EVENTS

The Department evaluated subsequent events through April 30, 2024 the date that the financial statements were available to be issued, for events requiring recording or disclosure in the financial statements.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

DEFINED BENEFIT PENSION PLAN

The Department's schedule of the employer's proportionate share of the net pension liability for the years ended December 31 (dollar amounts in millions):

	2023	2022	2021	2020	2019	2018	2017	2016
Employer's proportion of the net pension liability	20.00%	20.72%	20.38%	21.10%	21.17%	21.00%	22.13%	24.46%
Employer's proportionate share of total pension liability	\$ 1,030.4	\$ 1,028.5	\$ 941.4	\$ 929.8	\$ 896.9	\$ 831.6	\$ 839.5	\$ 883.5
Employer's proportionate share of plan fiduciary net position	\$ 727.8	\$ 856.8	\$ 741.9	\$ 664.6	\$ 575.3	\$ 599.1	\$ 550.7	\$ 565.7
Employer's proportionate share of the net pension liability	\$ 302.6	\$ 171.7	\$ 199.5	\$ 265.2	\$ 321.6	\$ 232.5	\$ 288.8	\$ 317.8
Employer's covered-employee payroll	\$ 180.3	\$ 179.3	\$ 178.1	\$ 165.3	\$ 163.7	\$ 153.6	\$ 156.5	\$ 157.0
Employer's proportionate share of net pension liability as a percentage of its covered-employee payroll	167.83%	95.75%	112.03%	160.44%	196.42%	151.41%	184.49%	202.44%
Plan fiduciary net position as a percentage of the total pension liability	70.63%	83.31%	78.81%	71.48%	64.14%	72.04%	65.60%	64.03%

Notes to Schedule

This schedule is intended to show information for 10 years. Since 2015 was the first year of this presentation, data on years preceding 2015 are not available. Additional years' data will be included as they become available.

Actuarial Methods and Assumptions:

Actuarial cost method	Individual Entry Age Normal
Amortization method	Level percent
Amortization Growth Rate	3.35% for FY 2022-2023, 3.50% for FY 2019-2021, 4.0% for prior years
Remaining amortization period	30 years as of January 1, 2013 Valuation
Asset valuation method	5 years, Non-asymptotic
Inflation	2.60% for FY 2022-2023, 2.75% for FY 2019-2021, 3.25% for prior years
Investment rate of return	6.75% for FY 2022-2023, 7.25% for FY 2019-2021, 7.50% for prior years
Mortality	Based on PubG-2010 mortality tables using generational projection of improvement using MP-2021 Ultimate projection scale for FY 2022-2023. FY 2019-2021 based on RP-2014 mortality tables. Prior years based on RP- 2000 mortality tables.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

The Department’s proportionate schedule of employer’s contributions (dollar amounts in millions):

	2023	2022	2021	2020	2019	2018	2017	2016
Contractually required contribution	\$ 29.6	\$ 29.0	\$ 28.9	\$ 28.7	\$ 24.8	\$ 24.7	\$ 23.7	\$ 25.3
Contributions in relation to contractually required contribution	29.6	29.0	28.9	28.7	24.8	24.7	23.7	25.3
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 186.2	\$ 180.3	\$ 179.3	\$ 178.1	\$ 165.3	\$ 163.7	\$ 153.6	\$ 156.5
Contributions as a percentage of covered-employee payroll	15.90%	16.08%	16.12%	16.11%	15.00%	15.09%	15.43%	16.17%

Notes to Schedule

This schedule is intended to show information for 10 years. Since 2015 was the first year of this presentation, data on years preceding 2015 are not available. Additional years' data will be included as they become available.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

CHANGES IN THE NET OPEB LIABILITY AND RELATED RATIOS

The Department’s schedule of the employer’s proportionate share of the net OPEB liability for the years ended December 31:

(\$ in millions)

	2023	2022	2021	2020	2019
Employer’s proportion of the net OPEB liability	13.88%	14.17%	14.38%	14.14%	14.34%
Employer’s proportionate share of total OPEB liability	\$ 6.9	\$ 7.9	\$ 10.1	\$ 9.0	\$ 8.7
Employer’s proportionate share of plan fiduciary net position	\$ -	\$ -	\$ -	\$ -	\$ -
Employer’s proportionate share of the net OPEB liability	\$ 6.9	\$ 7.9	\$ 10.1	\$ 9.0	\$ 8.7
Employer’s covered-employee payroll	\$ 159.0	\$ 162.4	\$ 161.7	\$ 159.0	\$ 145.6
Employer’s proportionate share of net OPEB liability as a percentage of its covered-employee payroll	4.36%	4.86%	6.25%	5.66%	6.00%
Plan fiduciary net position as a percentage of the total OPEB liability	-	-	-	-	-

Notes to Schedule

This schedule is intended to show information for 10 years. Since 2018 was the first year of this presentation, data on years preceding 2018 are not available. Additional years' data will be included as they become available.

Actuarial Methods and Assumptions:

Actuarial cost method	Entry Age Normal
Amortization method	Level dollar
Discount Rate	3.72% for FY 2023, 2.06% for FY 2022, 2.12% for FY 2021, 2.74% for FY 2020, 4.10% for FY 2019, and 3.44% for FY 2018
Health care cost trend rate- Medical	6.09% initial, decreasing to an ultimate rate of 4.50% for FY 2022-2023. 6.55% initial, decreasing to an ultimate rate of 4.50% for FY 2020-2021. 7.00% initial, decreasing to an ultimate rate of 4.50% for prior years.
Health care cost trend rate- RX	8.00% initial, decreasing to an ultimate rate of 4.50% for FY 2022-2023. 9.00% initial, decreasing to an ultimate rate of 4.50% for FY 2020-2021. 10.00% initial, decreasing to an ultimate rate of 4.50% for prior years.
Mortality	Based on PubG-2010 mortality tables using generational projection of improvement using MP-2021 Ultimate projection scale for FY 2022-2023. Based on RP-2014 mortality tables using generational projection of improvement using MP-2014 Ultimate projection scale for prior years.

There were no changes to benefit terms in 2023. See Note 14 for details regarding actuarial methods and assumptions.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

OTHER INFORMATION (UNAUDITED)

DEBT SERVICE COVERAGE

Following is a table that provides information for the Department's debt service coverage for years 2023, 2022, and 2021. The target level for debt service coverage was 1.8x on all bonds for 2023, 2022, and 2021 in accordance with current financial policies (which include a Rate Stabilization Account that will result in greater compliance of actual debt service coverage with the policy-specified level).

(\$ in millions)

Debt Service Coverage

	December 31		
	2023	2022	2021
OPERATING REVENUES:			
Retail power revenues	\$ 1,033.7	\$ 1,021.5	\$ 964.3
Short-term wholesale power revenues	56.2	97.7	66.3
Other power-related revenues (a)(b)(c)	71.1	76.5	59.3
Transfers from/(to) rate stabilization account (d)	9.2	24.4	(2.6)
Other operating revenues	20.7	18.5	21.7
Total operating revenues	<u>\$ 1,190.9</u>	<u>\$ 1,238.6</u>	<u>\$ 1,109.0</u>
OPERATING EXPENSES:			
Long-term purchased power—Bonneville and other (b)	\$ 175.4	\$ 150.5	\$ 207.5
Short-term wholesale power purchases	124.5	86.2	38.5
Other power expenses (b)	102.0	111.9	95.2
Transmission (e)	68.2	61.1	55.7
Distribution	84.4	73.2	68.0
Customer service	59.8	42.4	50.8
Conservation	26.4	26.3	28.8
Administrative and general	140.8	96.6	97.1
Taxes	112.4	119.0	101.5
Depreciation and amortization	159.5	156.8	148.6
Total operating expenses	<u>\$ 1,053.4</u>	<u>\$ 924.0</u>	<u>\$ 891.7</u>
NET OPERATING REVENUE (f)	<u>\$ 137.5</u>	<u>\$ 314.6</u>	<u>\$ 217.3</u>
Adjustments to Net Operating Revenue (g)			
City Taxes (h)	\$ 57.6	\$ 66.8	\$ 53.6
Depreciation and amortization	159.5	156.8	148.6
Depreciation & amortization included in operating & maintenance expenses (i)	38.4	49.8	47.1
Pension expense (j)	34.3	(2.5)	1.5
Pension contributions (j)	(29.6)	(29.0)	(28.9)
Valuation on exchange power, net (b)(c)	-	-	-
BPA Conservation Augmentation/Agreement revenue (k)	(2.9)	(2.7)	(2.6)
Investment income (l)	19.0	12.1	8.7
Non-cash expenses (m)	-	1.4	4.4
Other (n)	(1.3)	1.0	(0.7)
Total adjustments	<u>\$ 275.0</u>	<u>\$ 253.7</u>	<u>\$ 231.7</u>
Net Revenue Available for Debt Service	<u>\$ 412.5</u>	<u>\$ 568.3</u>	<u>\$ 449.0</u>
Total Debt Service (o)	<u>\$ 236.5</u>	<u>\$ 224.2</u>	<u>\$ 216.3</u>
Ratio of Available Net Revenue to Debt Service	<u>1.74x</u>	<u>2.53x</u>	<u>2.08x</u>

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

OTHER INFORMATION (UNAUDITED)

Notes

- (a) Includes conservation and renewable credits under the power sales contract with BPA, the recognition of payments from BPA for the purchase of conservation savings, revenue from deliveries of power to Pend Oreille PUD pursuant to the Boundary Project's FERC license, and other energy credits.
- (b) Effective January 1, 2016, the Department adopted GASB Statement No. 72, *Fair Value Measurement and Application*. Non-monetary transactions are measured at fair value and are valued at market. Disclosures required by GASB Statement No. 72 are available in Note 2 Fair Value Measurement.
- (c) Includes significant activity for the valuation of energy delivered under seasonal exchanges, basis sales, and other power exchange contracts. Energy exchanges have both revenue and expense components; therefore, a net revenue or expense adjustment is made for a given year.
- (d) Transfers from/(to) the RSA in accordance with Ordinance No. 123260, primarily to address fluctuations in surplus power sales.
- (e) Includes revenue from the short-term sale of excess transmission capacity.
- (f) Operating Income per audited financial statements.
- (g) 2023 Changes to Debt Service Coverage calculation: Many of the adjustments to Net Operating Revenue for the calculation of Debt Service Coverage are at the discretion of the utility. Effective 2023, expenses for claims are being treated 100% as cash and gains on property sales as opposed to only the cash proceeds will be used (no impact in 2023). Significant non-cash transactions are adjusted from Net Operating Revenue to calculate Revenue Available for Debt Service. Furthermore, some types of revenue in addition to Operating Revenue are included to calculate Revenue Available for Debt Service. These adjustments are listed in the remaining lines within the table.
- (h) City taxes are excluded because the lien on such taxes is junior to debt service in accordance with the Bond Legislation.
- (i) The majority of the depreciation and amortization (non-cash) expenses included in Operating and Maintenance Expense are for amortization of conservation expenses that are recognized over a 20-year period.
- (j) GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, a non-cash item.
Two components: (1) Pension expense is an estimated amount based on actuarial reports. (2) Pension contributions is an adjustment for the payments made by the department to the Seattle City Retirement System after the measurement date of the actuarial reports to classify as deferred outflows. Actual pension expense posts with payroll related to employee expense, and is auto-allocated through payroll. Actuarial pension + pension contributions + minor retirement settlement payouts = FERC 92610 YTD amount. We subtract out this FERC 92610 balance except minor retirement settlement payouts for the debt coverage calculation, because the actual cash contributions were already recorded via payroll.
- (k) Payments received for conservation measures are initially recorded as unearned revenue. The adjustment represents the amount of revenue amortized and recognized over future periods for financial reporting, a non-cash transaction.
- (l) Investment income is not included in Total Revenue in this table; therefore, an adjustment is made to Net Operating Revenue, consisting primarily of interest earnings from City's cash pool and interest receipts from suburban underground charges. This amount excludes unrealized gains and losses, which are non-cash adjustments.
- (m) Effective 2023 expenses for claims are being treated as 100% cash. Effective 2018 includes adjustment for GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* in addition to primarily claim expenses and capital projects expenditures from prior year which were determined not to be capital expenditures.
- (n) Includes proceeds from sale of properties, principal receipts from suburban underground charges from local jurisdictions, and miscellaneous items.
- (o) Net of federal bond subsidies.

DEBT SERVICE COVERAGE: ALL BONDS

Year Ending December 31 (\$ in millions)	Revenue Available for Debt Service	Debt Service Requirements	Debt Service Coverage
2023	\$ 412.5	\$ 236.5	1.74
2022	568.3	224.2	2.53
2021	449.0	216.3	2.08
2020	386.3	223.0	1.73
2019	462.7	220.8	2.10

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

OTHER INFORMATION (UNAUDITED)

INTEREST REQUIREMENTS AND PRINCIPAL REDEMPTION ON LONG-TERM DEBT

Year Ending December 31 (<i>\$ in millions</i>)	Fixed Rate Bonds			Variable Rate Bonds			Total ^(a)
	Principal	Interest	Subtotal	Principal	Interest	Subtotal	
2024	\$ 129.3	\$ 111.7	\$ 241.0	\$ 2.3	\$ 7.3	\$ 9.6	\$ 250.6
2025	120.4	103.9	224.3	2.4	7.5	9.9	234.2
2026	114.5	98.2	212.7	5.9	7.4	13.3	226.0
2027	93.4	92.6	186.0	6.1	7.1	13.2	199.2
2028	96.8	87.8	184.6	6.4	6.9	13.3	197.9
2029	92.8	83.3	176.1	6.6	6.6	13.2	189.3
2030	77.8	79.1	156.9	6.9	6.3	13.2	170.1
2031	80.0	74.9	154.9	7.2	6.0	13.2	168.1
2032	83.4	71.1	154.5	7.4	5.8	13.2	167.7
2033	88.1	67.7	155.8	7.8	5.5	13.3	169.1
2034	89.9	63.7	153.6	8.1	5.1	13.2	166.8
2035	94.7	59.7	154.4	8.4	4.8	13.2	167.6
2036	104.5	55.4	159.9	8.7	4.4	13.1	173.0
2037	95.2	50.7	145.9	9.1	4.0	13.1	159.0
2038	100.5	46.2	146.7	9.5	3.7	13.2	159.9
2039	104.5	41.9	146.4	9.9	3.3	13.2	159.6
2040	108.7	37.3	146.0	10.3	2.9	13.2	159.2
2041	99.0	32.8	131.8	10.7	2.4	13.1	144.9
2042	86.4	29.0	115.4	11.1	2.0	13.1	128.5
2043	90.2	25.3	115.5	11.5	1.5	13.0	128.5
2044	84.4	21.4	105.8	12.0	1.1	13.1	118.9
2045	78.8	17.8	96.6	12.5	0.5	13.0	109.6
2046	73.9	14.5	88.4	5.6	0.2	5.8	94.2
2047	69.5	11.2	80.7	-	-	-	80.7
2048	58.0	8.1	66.1	-	-	-	66.1
2049	45.1	5.8	50.9	-	-	-	50.9
2050	33.3	4.0	37.3	-	-	-	37.3
2051	27.9	2.5	30.4	-	-	-	30.4
2052	19.6	1.2	20.8	-	-	-	20.8
2053	8.7	.2	8.9	-	-	-	8.9
Total	\$ 2,449.3	\$ 1,399.0	\$ 3,848.3	\$ 186.4	\$ 102.3	\$ 288.7	\$ 4,137.0

^(a) Maximum debt service of \$250.6 million is due in 2024. See Note 9 Long-term debt.

Note: All parity bonds of the Department are fixed rate bonds except the 2021B and 2023B bonds which are variable rate bonds.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

OTHER INFORMATION (UNAUDITED)

STATEMENT OF LONG-TERM DEBT

As of December 31, 2023

(\$ in millions)

Bond Series	When Due	Interest Rate (%)	Amount Issued	Amount Outstanding	Amount Due	
					Within One Year	Accrued Interest
Series 2010A	2024	4.947	7.7	7.7	7.7	0.2
Series 2010A	2025	5.047	8.0	8.0	-	0.2
Series 2010A	2026	5.147	8.2	8.2	-	0.2
Series 2010A	2027	5.247	8.5	8.5	-	0.2
Series 2010A	2028-2030	5.470	27.4	27.4	-	0.6
Series 2010A	2031-2040	5.570	102.6	102.6	-	2.3
Series 2010C	2022-2040	5.590	13.3	13.3	-	0.3
Series 2011B	2027	5.750	10.0	10.0	-	0.2
Series 2012A	2037-2041	4.000	49.1	39.3	-	0.1
Series 2012C	2028	3.400	4.3	4.2	-	-
Series 2012C	2029	3.500	7.7	7.7	-	-
Series 2012C	2030	3.500	7.7	7.7	-	-
Series 2012C	2031-2033	3.750	23.4	23.4	-	0.1
Series 2014	2022-2029	5.000	163.2	21.2	13.1	0.2
Series 2014	2030-2038	4.000	53.9	26.3	-	0.4
Series 2014	2039-2040	4.000	14.8	14.8	-	0.2
Series 2014	2041-2044	4.000	33.3	33.3	-	0.5
Series 2015A	2022-2026	5.000	62.9	16.8	6.4	0.1
Series 2015A	2027-2045	4.000	109.0	79.7	-	0.6
Series 2016A	2036-2041	4.050	31.9	31.9	-	0.6
Series 2016B	2022-2028	5.000	103.0	60.2	10.9	0.7
Series 2016B	2029	4.000	13.9	13.9	-	0.2
Series 2016C	2022-2026	5.000	56.9	15.7	9.2	0.2
Series 2016C	2027-2046	4.000	103.9	103.9	-	1.1
Series 2017C	2022-2032	5.000	174.2	95.5	12.9	1.4
Series 2017C	2033-2047	4.000	211.3	211.3	-	3.0
Series 2018A	2022-2029	5.000	60.2	37.1	5.4	0.8
Series 2018A	2030-2048	4.000	203.6	203.6	-	4.2
Series 2019A	2022-2049	5.000	210.5	196.8	3.8	2.5
Series 2019B	2022-2026	5.000	140.3	71.5	25.3	1.5
Series 2020A	2022-2030	5.000	78.5	71.9	2.3	1.6
Series 2020A	2031-2050	4.000	119.8	119.8	-	2.6
Series 2021A	2022-2031	5.000	63.6	46.8	8.8	1.0
Series 2021A	2032-2051	4.000	196.2	196.2	-	4.1
Series 2021B	2022-2045	1.91 - 4.77 ^A	100.6	100.6	-	0.3
Series 2022	2024 - 2052	5.000	257.7	239.5	18.7	6.0
Series 2023A	2024 - 2053	5.000	273.6	273.6	4.8	5.9
Series 2023B	2024 - 2046	2.13 - 4.78 ^A	85.8	85.8	2.3	0.3
Total			\$ 3,200.5	\$ 2,635.7	\$ 131.6	\$ 44.4

^A Range of adjustable rates in effect during 2023.

Note: All parity bonds of the Department are fixed rate bonds except the 2021B bond and 2023B bond, which are variable rate bonds.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

OTHER INFORMATION (UNAUDITED)

POWER COSTS AND STATISTICS

Year ending December 31 (\$ in millions)	2023	2022	2021	2020	2019
POWER COSTS					
Hydroelectric generation ^{(a)(c)}	\$ 57.5	\$ 67.5	\$ 63.0	\$ 58.2	\$ 54.4
Long-term purchased power ^(b)	175.4	150.5	207.5	216.6	215.9
Wholesale power purchases ^{(c)(e)}	124.5	86.2	38.5	10.0	34.3
Fair valuation & other power purchases ^{(b)(e)}	34.8	38.3	34.1	15.2	21.9
Owned transmission ^(a)	21.1	15.3	16.9	16.4	15.7
Wheeling expenses	55.2	53.3	45.9	44.9	43.3
Other power expenses	28.7	24.6	15.9	16.3	14.5
Total power costs	<u>497.2</u>	<u>435.7</u>	<u>421.8</u>	<u>377.6</u>	<u>400.0</u>
Less short-term wholesale power sales ^(c)	(56.2)	(97.6)	(66.3)	(51.3)	(43.2)
Less other power-related revenues	(30.9)	(31.6)	(26.7)	(29.3)	(36.8)
Less fair valuation other power-related ^(b)	(40.2)	(45.0)	(32.6)	(11.4)	(15.4)
Net power costs	<u>\$ 369.9</u>	<u>\$ 261.5</u>	<u>\$ 296.2</u>	<u>\$ 285.6</u>	<u>\$ 304.6</u>
POWER STATISTICS (MWh)					
Hydroelectric generation ^(c)	4,598,884	6,184,745	6,009,237	6,017,176	5,346,373
Long-term purchased power ^(b)	5,591,837	5,343,858	5,945,779	6,173,078	6,243,569
Wholesale power purchases ^{(c)(e)}	1,574,433	1,148,487	1,281,656	633,111	1,028,182
Wholesale power sales ^{(c)(e)}	(1,364,663)	(1,951,244)	(2,543,488)	(2,605,592)	(2,123,263)
Other ^(d)	(761,962)	(907,823)	(1,164,379)	(1,003,455)	(958,287)
Total power available	<u>9,638,529</u>	<u>9,818,023</u>	<u>9,528,805</u>	<u>9,214,318</u>	<u>9,536,574</u>
Less self consumed energy	(26,797)	(27,466)	(26,537)	(26,203)	(26,962)
Less system losses	(571,666)	(472,664)	(423,886)	(549,228)	(387,653)
Total power delivered to retail customers	<u>9,040,066</u>	<u>9,317,893</u>	<u>9,078,382</u>	<u>8,638,887</u>	<u>9,121,959</u>
Net power cost per MWh delivered (Net power costs divided by Total power delivered to retail customers)	<u>\$ 40.91</u>	<u>\$ 28.06</u>	<u>\$ 32.62</u>	<u>\$ 33.05</u>	<u>\$ 33.38</u>

(a) Including depreciation.

(b) Long-term purchased power, fair valuation & other power purchases, and fair valuation other power-related include energy exchanged under seasonal and other exchange contracts are valued at market.

(c) The level of generation (and consequently the amount of power purchased and sold on the wholesale market) can fluctuate widely from year to year depending upon water conditions in the Northwest region.

(d) "Other" includes seasonal exchange power delivered and miscellaneous power transactions.

(e) Bookout purchases are excluded from wholesale power purchases and are reported on a net basis in wholesale power sales, however MWh are presented gross.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

OTHER INFORMATION (UNAUDITED)

HISTORICAL ENERGY RESOURCES (in MWh)

	2023	2022	2021	2020	2019
Department-Owned Generation					
Boundary Project	2,851,570	3,712,739	3,211,443	3,576,351	3,307,074
Skagit Hydroelectric Project:					
Gorge	726,576	989,832	988,738	958,211	832,815
Diablo	551,388	590,907	847,067	703,719	610,968
Ross	413,109	749,013	823,907	655,524	524,516
Cedar Falls/Newhalem	25,809	83,538	83,424	81,065	41,376
South Fork Tolt	30,432	58,716	54,658	42,306	29,624
Subtotal	<u>4,598,884</u>	<u>6,184,745</u>	<u>6,009,237</u>	<u>6,017,176</u>	<u>5,346,373</u>
Energy Purchases					
Bonneville	4,039,150	3,804,606	4,119,204	4,299,280	4,388,973
Priest Rapids	19,221	26,770	23,601	25,596	19,866
Columbia Basin Hydropower	249,373	262,947	265,850	258,498	219,094
High Ross	303,454	305,764	315,101	309,960	307,599
Lucky Peak	332,046	234,067	221,981	254,619	364,089
Stateline Wind Project	-	74,161	360,191	380,795	338,452
Condon	33,437	-	-	-	-
Columbia Ridge	78,333	86,968	92,937	102,421	101,615
Seasonal and Other Exchange ^(a)	536,823	548,575	546,914	541,909	503,881
Wholesale Market Purchases ^(b)	<u>1,574,433</u>	<u>1,148,487</u>	<u>1,281,656</u>	<u>633,111</u>	<u>1,028,182</u>
Subtotal	<u>7,166,270</u>	<u>6,492,345</u>	<u>7,227,435</u>	<u>6,806,189</u>	<u>7,271,751</u>
Total Department Resources	<u>11,765,154</u>	<u>12,677,090</u>	<u>13,236,672</u>	<u>12,823,365</u>	<u>12,618,124</u>
Minus Offsetting Energy Sales					
Firm Energy Sales and Marketing Losses ^{(c) (d)}	187,728	426,932	695,102	505,727	387,615
Seasonal and Other Exchange ^(a)	574,234	480,891	469,277	497,728	570,672
Wholesale Market Sales	<u>1,364,663</u>	<u>1,951,244</u>	<u>2,543,488</u>	<u>2,605,592</u>	<u>2,123,263</u>
Total Energy Resources	<u>9,638,529</u>	<u>9,818,023</u>	<u>9,528,805</u>	<u>9,214,318</u>	<u>9,536,574</u>

(a) Includes exchange contracts with Grant County and Lucky Peak Project

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

(c) Energy provided to Public Utility District of Pend Oreille County under the Boundary Project's FERC license and include incremental losses due to expanded activity in the wholesale market.

(d) Starting in 2015 Power Management stopped reporting secondary area line losses. We have retroactively adjusted Firm Energy Sales and Marketing Losses to reflect this change.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

OTHER INFORMATION (UNAUDITED)

CUSTOMER STATISTICS

Years ended December 31,	2023		2022		2021		2020		2019	
Average number of customers:										
Residential	451,055		441,926		433,686		426,359		419,601	
Industrial	60		60		61		-		-	
Commercial	52,106		51,677		51,408		51,219		50,779	
Total	<u>503,221</u>		<u>493,663</u>		<u>485,155</u>		<u>477,578</u>		<u>470,380</u>	
Megawatt-hours ^(a) :										
Residential	35%	3,158,610	36%	3,334,209	37%	3,320,729	37%	3,192,877	34%	3,091,019
Industrial	8%	758,764	9%	808,355	9%	817,060	0%	-	0%	-
Commercial	57%	5,122,692	55%	5,175,329	54%	4,940,593	63%	5,446,010	66%	6,030,940
Total	100%	<u>9,040,066</u>	100%	<u>9,317,893</u>	100%	<u>9,078,382</u>	100%	<u>8,638,887</u>	100%	<u>9,121,959</u>
Average annual revenue per customer ^(a) :										
Residential	\$ 900		\$ 917		\$ 902		\$ 890		\$ 859	
Industrial	\$ 1,162,685		\$ 1,183,231		\$ 1,126,113		\$ -		\$ -	
Commercial	\$ 10,688		\$ 10,514		\$ 9,779		\$ 10,651		\$ 11,361	

* Seattle City Light changed customer counts to Service Agreement effective September 2016 with the implementation of the new retail electric billing system. Service Agreement determines how Seattle City Light and Seattle Public Utilities charge customers for services provided. An account can have several Service Agreements for the different types of services.

*Beginning 2021, Seattle City Light separated the non-residential category into industrial and commercial categories in the customer statistics table.

Years ended December 31,	2023		2022		2021		2020		2019	
Average annual consumption per customer (kWhs) ^{(a)(b)} :										
Residential	- Seattle	7,003	- Seattle	7,545	- Seattle	7,657	- Seattle	7,489	- Seattle	7,367
	- National	n/a	- National	10,791	- National	10,632	- National	10,715	- National	10,649
Industrial	- Seattle	12,646,067	- Seattle	13,472,583	- Seattle	13,394,426	- Seattle	-	- Seattle	-
	- National	n/a	- National	971,886	- National	978,871	- National	966,514	- National	1,050,440
Commercial	- Seattle	98,313	- Seattle	100,148	- Seattle	96,105	- Seattle	106,329	- Seattle	118,768
	- National	n/a	- National	72,567	- National	69,875	- National	68,651	- National	73,205
Average rate per kilowatt-hour (cents) ^{(a)(b)} :										
Residential	- Seattle	12.85	- Seattle	12.16	- Seattle	11.78	- Seattle	11.88	- Seattle	11.66
	- National	n/a	- National	15.04	- National	13.66	- National	13.15	- National	13.01
Industrial	- Seattle	9.19	- Seattle	8.78	- Seattle	8.41	- Seattle	-	- Seattle	-
	- National	n/a	- National	8.32	- National	7.18	- National	6.67	- National	6.81
Commercial	- Seattle	10.87	- Seattle	10.50	- Seattle	10.18	- Seattle	10.02	- Seattle	9.57
	- National	n/a	- National	12.41	- National	11.21	- National	10.59	- National	10.67

(a) Source of national data: Department of Energy (www.eia.doe.gov/electricity/annual/). 2023 National average annual consumption data and average rate data not available. Certain 2022-2019 national average annual consumption and national average rate data were updated with revised actuals.

(b) Seattle amounts include an allocation for the net change in unbilled revenue. Unbilled revenue excludes retail customer voluntary payments for conservation and solar energy as well as revenue from diverted electricity and electric vehicle charging.

NOTE 1: A comprehensive rate change of 4.5% became effective January 1, 2023

NOTE 2: As of April 2021, the Rate Stabilization Account (RSA) surcharge of 3% was discontinued for all residential and non-residential rates schedules.

NOTE 3: A Bonneville Power Administration (BPA) passthrough adjustment of -1.8% is being applied to all retail energy charges beginning January 1, 2022.

NOTE 4: Notice of public hearings on future rate actions may be obtained on request to:

The Office of the City Clerk, 600-4th Ave, Floor Three, Seattle, WA 98104. Phone number 206-684-8344.

Additional information about city of Seattle Council meetings can be found on the Web at www.seattle.gov/council/calendar.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

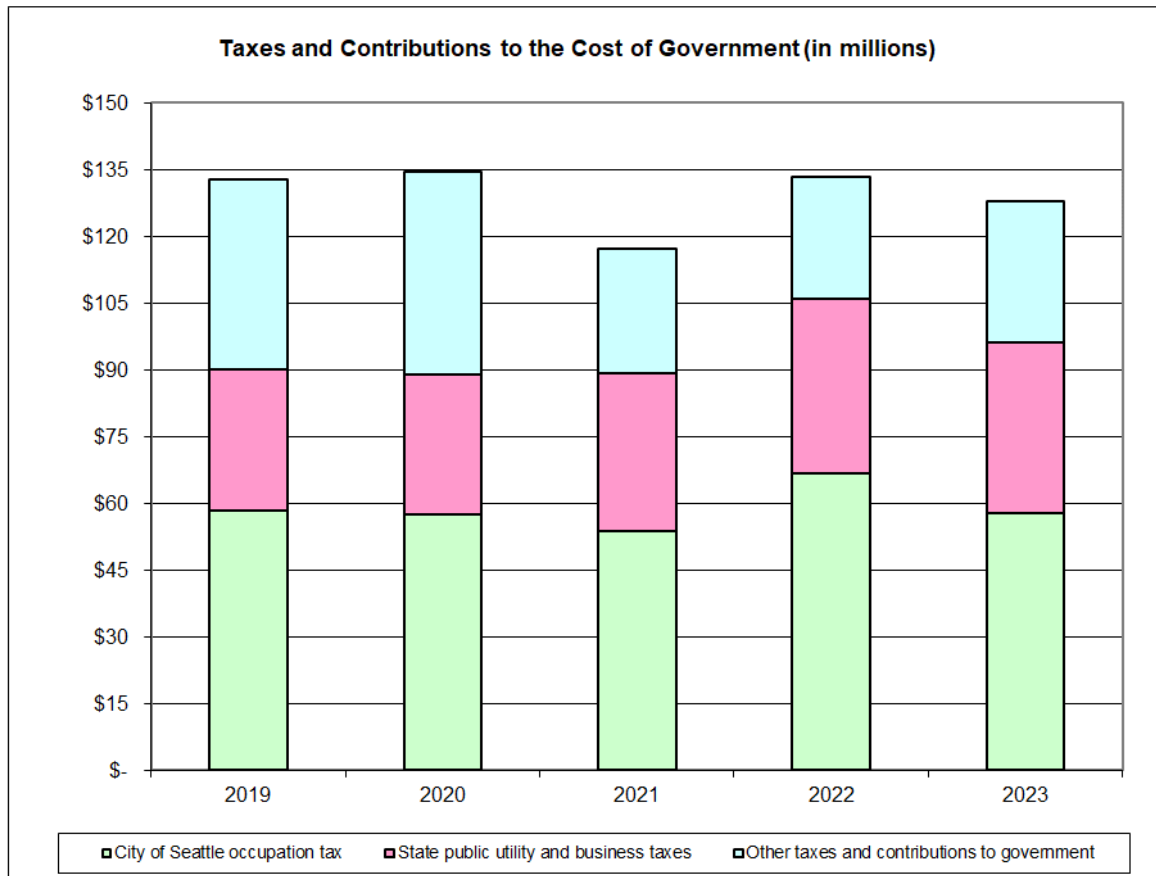
OTHER INFORMATION (UNAUDITED)

TAXES AND CONTRIBUTIONS BY SEATTLE CITY LIGHT TO THE COST OF GOVERNMENT (Unaudited)

(in millions)

Years ended December 31,	2023	2022	2021	2020	2019
Taxes					
City of Seattle occupation utility tax	\$ 57.6	\$ 66.7	\$ 53.6	\$ 57.5	\$ 58.4
State public utility and business taxes	38.6	39.1	35.7	31.3	31.5
Suburban contract payments and other	10.2	7.5	6.9	7.3	6.8
Contract payments for government services	6.0	5.7	5.3	5.1	3.3
Total taxes as shown in statement of revenues and expenses	112.4	119.0	101.5	101.2	100.0
Taxes/licenses charged to accounts other than taxes	1.8	2.4	2.1	16.7	15.5
Other contributions to the cost of government	13.5	11.9	13.4	16.5	17.1
Total miscellaneous taxes	15.3	14.3	15.5	33.2	32.6
Total taxes and contributions	\$ 127.7	\$ 133.3	\$ 117.0	\$ 134.4	\$ 132.6

Note: Electric rates include all taxes. The State Public Utility Tax rate for retail electric power sales was 3.8734%.
The City of Seattle Occupation Utility Tax rate was 6% for in-state retail electric power sales.



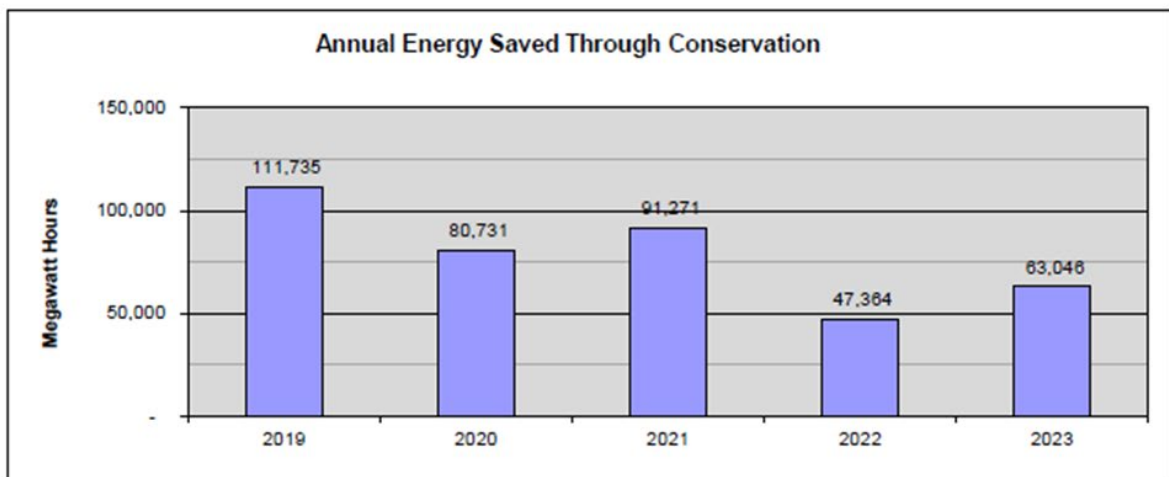
THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

OTHER INFORMATION (UNAUDITED)

PUBLIC PURPOSE EXPENDITURES (Unaudited)

Years ended December 31,	2023	2022	2021	2020	2019
CONSERVATION					
Annual energy savings (megawatt hours) A	63,046	47,364	91,271	80,731	111,735
Programmatic conservation expenses B					
Non-low income	\$ 21.8	\$ 19.1	\$ 19.7	\$ 20.3	\$ 23.8
Low income	3.3	2.4	2.7	1.7	3.1
Non-programmatic conservation expenses C	4.1	4.2	4.7	4.8	6.4
Subtotal	29.2	25.7	27.1	26.8	33.3
OTHER PUBLIC PURPOSE EXPENDITURES					
Low-income energy assistance D	28.4	26.7	29.2	23.4	18.8
Non-hydro renewable resources E	17.5	19.4	38.3	39.7	34.5
Subtotal	45.9	46.1	67.5	63.1	53.3
NET PUBLIC PURPOSE SPENDING	75.1	71.8	94.6	89.9	86.6
Revenue from retail electric sales	\$ 1,033.7	\$ 1,021.5	\$ 964.3	\$ 926.7	\$ 938.9
PERCENT PUBLIC PURPOSE SPENDING TO RETAIL ELECTRIC SALES					
Conservation only	2.8%	2.5%	2.8%	2.9%	3.5%
Low-income assistance & non-hydro renewables	4.4%	4.5%	7.0%	6.8%	5.7%
Total	7.2%	7.0%	9.8%	9.7%	9.2%

- A Energy savings are from completed projects in that year include those from Northwest Energy Efficiency Alliance, residential behavior programs and applicable Transmission & Distribution benefit.
- B Programmatic conservation expenditures are deferred and amortized over a 20-year period in accordance with City Council-passed resolutions and Statement No. 62 of the GASB, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB & AICPA Pronouncements*. Non-low income programmatic conservation includes expenditures for program measures, customer incentives, field staff salaries, energy code enforcement, and direct program administration. They do not include expenditures related to solar or other renewable programs. Low-income programmatic conservation includes these types of expenditures for the Department’s HomeWise and Low-Income Multifamily Programs.
- C Non-programmatic expenditures include program planning, evaluation, data processing, and general administration. These expenses are not associated with measured energy savings.
- D Low-income assistance includes rate discounts and other programs that provide assistance to low income customers.
- E Non-hydro renewable resources include energy generated from various sources bundled with renewable energy certificates (RECs) and purchased RECs which are funded from current revenues to comply with State of Washington Energy Independence Act (RCW 19.285).



**Report on Internal Control
Over Financial Reporting and on Compliance
and Other Matters Based on an Audit of
Financial Statements Performed in Accordance
With *Government Auditing Standards***

Independent Auditors' Report

To the Sustainability, City Light, Arts and Culture Committee of
City of Seattle, City Light Department

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*), the financial statements of the City of Seattle, City Light Department (Department), which comprise the Department's statement of net position as of December 31, 2023, and the related statements of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 30, 2024.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Department's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Baker Tilly US, LLP". The signature is written in a cursive, flowing style.

Madison, Wisconsin
April 30, 2024