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

Seattle Public Utilities – Drainage and Wastewater Fund (An Enterprise Fund of the City of Seattle)

December 31, 2022 and 2021

MOSSADAMS

Table of Contents

	Page
Report of Independent Auditors	1
Management's Discussion and Analysis	5
Financial Statements	
Statements of Net Position	15
Statements of Revenues, Expenses, and Changes in Net Position	17
Statements of Cash Flows	18
Notes to Financial Statements	20
Required Supplementary Information	
Schedule of Seattle Public Utilities' Proportionate Share of the Net Pension Liability	55
Schedule of Seattle Public Utilities' Contributions	55
Schedule of Seattle Public Utilities' Proportionate Share of the OPEB Liability and Related Ratios	56
Other Information (Unaudited)	
Drainage Wastewater Debt Service Coverage Calculation 2022	58
Wastewater System Operating Statistics	59
Drainage and Wastewater – 2022 Accounts and Billed Revenues	59
Major Wastewater Customers – 2022 Annual Billed Revenues and Percentage of Revenue	60
Wastewater Rates	60
Drainage Rates	61

Report of Independent Auditors

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Seattle Public Utilities – Drainage and Wastewater Fund (the Fund), which comprise the statements of net position as of December 31, 2022 and 2021, and the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as of December 31, 2022 and 2021, and the changes in its net assets and its 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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Fund and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. 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 to the financial statements, the Fund adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*, effective January 1, 2021. The financial statements have been retroactively restated in accordance with the requirements of the new accounting standard. Our opinion is not modified with respect to this matter.

Financial Reporting Entity

As discussed in Note 1, the financial statements present only the Fund and do not purport to, and do not, present fairly the financial position of City of Seattle, Washington, as of December 31, 2022 and 2021, the changes in its financial position, or, where applicable, its 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.

Auditor's 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 auditor's 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 Fund'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 management's discussion and analysis, schedule of Seattle Public Utilities' proportionate share of the net pension liability, schedule of Seattle Public Utilities' contributions, and the schedule of Seattle Public Utilities' proportionate share of the OPEB liability and related ratios (collectively, required supplementary information) be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the financial statements, is required by the GASB 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 basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Management is responsible for the other information as listed in the table of contents. The other information comprises the debt service coverage calculation, wastewater system operating statistics, accounts and billed revenues, major wastewater customers annual billed revenues and percentage of revenues, major drainage customers annual billed revenues and percentage of revenue, and wastewater and drainage rates but does not include the basic financial statements and our auditor's 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 27, 2023, on our consideration of the Fund'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 Fund'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 Fund's internal control over financial reporting and compliance.

Moss Adams LLP

Seattle, Washington
April 27, 2023

Management's Discussion and Analysis

As management of Seattle Public Utilities (SPU), a department of the City of Seattle (the City), we offer readers of SPU's financial statements this narrative overview and analysis of the financial activities of the Drainage and Wastewater Fund (the Fund) for the fiscal years ended December 31, 2022 and 2021. The revenues, expenses, assets, deferred outflows and inflows of resources, and liabilities of the City of Seattle's drainage and wastewater system are recorded in the Fund, the functions of which are primarily supported by user fees and charges to customers. The financial situation of other aspects of Seattle City government, including other utility services and general government operations, are reported elsewhere.

Overview of the Financial Statements

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

Basic financial statements – The basic financial statements of the Fund report information similar to the presentation used by private sector companies. These statements offer short-term and long-term financial information about its activities. The basic financial statements begin on page 15 of this report and are comprised of three components: (1) statements of net position, (2) statements of revenues, expenses, and changes in net position, and (3) statements of cash flows.

The statements of net position present information, as of December 31, 2022 and 2021, on all of the Fund's assets, deferred outflows of resources, liabilities, and deferred inflows of resources. The difference between assets combined with deferred outflows of resources and liabilities combined with deferred inflows of resources is reported as net position. They also provide information about the nature and amounts of investments in resources (assets and deferred outflows of resources), obligations to the Fund's creditors (liabilities and deferred inflows of resources), and provide the basis for assessing the liquidity and financial flexibility of the Fund.

The statements of revenues, expenses, and changes in net position present changes in the Fund's net position for the years ended December 31, 2022 and 2021. All changes in net position are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. These statements reflect the results of the Fund's operations for the years identified to provide information about the Fund's credit worthiness and its ability to successfully recover all its costs through service fees and other charges.

The statements of cash flows are required to provide information about the Fund's cash receipts and cash payments during the years ended December 31, 2022 and 2021. To provide answers to questions about sources, uses, and impacts to cash, these statements report cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities for the reporting period.

Notes to the financial statements – The notes are an integral part of the financial statements. They provide additional disclosures that are essential to a full understanding of the data provided in the financial statements, such as for certain estimates and financing details. The notes to the financial statements begin on page 20 of this report.

Financial Analysis

Increases or decreases in net position may serve over time as a useful indicator of whether the Fund's financial position is improving or deteriorating. At December 31, 2022 and 2021, the Fund's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources, resulting in a net position of $736.1 million and $642.8 million, respectively. In 2022, the Fund's overall net position increased $93.2 million (14.5%) as compared to an increase in net position of $107.1 million (20.0%) in 2021.The following summary statements of net position present the assets and deferred outflows of resources of the Fund and show the mix of liabilities, deferred inflows of resources, and net position used to acquire these assets and deferred outflows of resources:

Statements of Net Position

	2022	2021 (as restated*)	2020
ASSETS			
Current assets	$ 361,248,141	$ 298,624,077	$ 290,290,608
Capital assets, net	1,570,690,548	1,458,311,283	1,340,766,313
Other	128,122,797	169,899,860	94,755,675
Total assets	2,060,061,486	1,926,835,220	1,725,812,596
DEFERRED OUTFLOWS OF RESOURCES	24,412,378	18,797,831	19,742,729
Total assets and deferred outflows of resources	$ 2,084,473,864	$ 1,945,633,051	$ 1,745,555,325
LIABILITIES			
Current liabilities	$ 98,003,503	$ 86,423,844	$ 81,095,767
Revenue bonds	788,031,573	836,446,999	792,616,317
Other	415,430,458	355,187,505	320,602,583
Total liabilities	1,301,465,534	1,278,058,348	1,194,314,667
DEFERRED INFLOWS OF RESOURCES	46,954,498	24,735,164	15,544,036
NET POSITION			
Net investment in capital assets	694,682,356	630,159,592	531,961,816
Restricted	21,340,558	22,186,974	21,150,712
Unrestricted	20,030,918	(9,507,027)	(17,415,906)
Total net position	736,053,832	642,839,539	535,696,622
Total liabilities, deferred inflows of resources, and net position	$ 2,084,473,864	$ 1,945,633,051	$ 1,745,555,325

*The restatement is due to implementation of GASB 87

2022 Compared to 2021

Assets – Current assets increased $62.6 million (21%) over the prior year primarily due to increases of $51.2 million in operating cash and equity in pooled investments, and $12.8 million in due from other governments. These increases were offset by a decrease of $1.3 million in accounts receivable, net of allowance for doubtful accounts. The increase in operating cash and equity in pooled investments is primarily due to the lower percentage of capital projects funded with operating cash as compared to the prior year.

Capital assets increased $112.4 million (7.7%) from 2021. Construction in progress and plant assets increased $137.7 million and other property increased $0.5 million; the increase is mostly due to investments in infrastructure, rehabilitation, and improvements. The capital asset increase was offset by a $25.8 million increase in accumulated depreciation (Note 3).

Other assets decreased $41.8 million (-24.6%) from 2021. This is mostly attributable to a $38.4 million decrease in restricted cash and equity in pooled investment, and a $3.9 million decrease in other charges. The decrease was offset by a $0.6 million increase in environmental costs and recoveries. The decrease of restricted cash and equity in pooled investments mainly resulted from spending of bond proceeds on construction projects.

Deferred outflows of resources – Deferred outflows of resources increased $5.1 million (27.2%) from 2021. This increase is attributable to a $6.7 million in pension contributions and changes in assumptions related to pension and other post-employment benefits (OPEB). The increase was offset by a $1.6 million reduction in unamortized loss on refunded debt.

Liabilities – Current liabilities increased $11.6 million (13.4%) from 2021. This is mostly attributable to a $5.9 million increase in accounts payable, a $4.9 million increase in other current liability, a $0.8 million increase in due to other governments, and a $0.5 million increase in due to other funds. This increase was offset by a decrease of $0.6 million in salaries, benefits, and payroll taxes payable.

Noncurrent liabilities increased $11.8 million (1.0%) from 2021. This increase is mostly attributable to a $40.4 million increase in loans, a $30.6 million increase in environmental liabilities, and a $0.8 million increase in claims payable. These increases were offset by a $48.4 million decrease in revenue bonds and related liabilities, a $9.8 million decrease in net pension liability (Note 9), a $0.9 million decrease in other noncurrent liabilities, and a $0.8 million decrease in unfunded other post-employment benefits. The environmental liability increase is mainly due to the Fund's increased percentage of shared cleanup cost.

Deferred inflows of resources – Deferred inflow of resources increased $21.7 million (87.8%) from 2021. This increase is mostly due to a $14.0 million increase in unamortized gain advanced refunding related to bonds refunding and a $7.7 million increase in assumptions related to pension accounting and the difference between expected and actual expense in other post-employment benefits (OPEB).

Net position – The largest portion of the Fund's net position ($694.7 million or 94.4%) reflects the Fund's investment in capital assets such as land, buildings, and equipment, less accumulated depreciation and any related outstanding debt used to acquire those assets. The Fund uses these assets to provide services to customers; consequently, these assets are not available for future spending. Although the Fund's investment in its capital assets is reported net of related debt, the resources needed to repay the debt are provided by fees paid by customers for services provided by these assets. In 2022, net investment in capital assets increased $64.5 million from 2021 due to an increase in capital assets placed in service, net of depreciation offset by the related debt.

The Fund's restricted net position ($21.3 million or 2.9%) represents resources that are subject to restrictions on how they may be used. This portion of net position decreased $0.8 million from 2021.

The remaining portion of the Fund's net position ($20.0 million or 2.7%) represents resources that are unrestricted. The unrestricted portion of net position increased $29.5 million from the prior year mainly due to a lower percentage of capital projects funded with operating cash compared to the prior year.

2021 Compared to 2020

Assets – Current assets increased $8.3 million (2.9%) over the prior year primarily due to a $7.5 million increase in accounts receivable, net of allowance for doubtful accounts; a $7.8 million increase in unbilled revenue; and a $0.5 million increase in operating cash and equity in pooled investments. These increases were offset by a decrease of $7.5 million in due from other governments.

Capital assets increased $117.5 million (8.8%) from 2020. Construction in progress and plant assets increased $146.4 million; the increase is mostly due to infrastructure, rehabilitation, and improvements. Other property, net increased $2.2 million. The capital asset increase was offset by a $31.1 million increase in accumulated depreciation (Note 3).

Other assets increased $75.1 million (79.3%) from 2020. This is mostly attributable to a $78.2 million increase in restricted cash and equity in pooled investments resulting from issuing 2021 Drainage and Wastewater System Improvement and Refunding Revenue Bonds (Note 4). In addition, a restatement of 2021 financial statements due to implementing GASB Statement No. 87, *Leases* in 2022 resulted in a $0.4 million increase in right-of-use asset, net. The increase was offset by a $3.2 million reduction in other charges and a $0.3 million reduction in external infrastructure costs, net.

Deferred outflows of resources – Deferred outflows of resources decreased by $0.9 million (-4.8%) from 2020. This decrease is attributable to a $0.8 million reduction in pension contributions and changes in assumptions related to pension and other post-employment benefits (OPEB), and to a $0.1 million reduction in unamortized loss on refunded debt.

Liabilities – Current liabilities increased by $5.3 million (6.6%) from 2020. This is mostly attributable to a $2.2 million increase in the current portion of bonds payable, a $1.2 million increase in the current portion of loans payable, a $1.2 million increase in claims payable, a $0.8 million increase in environmental liabilities, and a $0.8 million increase in interest payable. These increases were offset by a decrease of $0.5 million in salaries, benefits, and payroll taxes payable; and a $0.5 million decrease in other current liabilities.

Noncurrent liabilities increased $78.4 million (7.0%) from 2020. This increase is mostly attributable to an increase of $43.8 million in revenue bonds and related liabilities from issuing a new bond, and a $44.1 million increase in loans. There is also a $3.4 million increase in long-term environmental liabilities because of changes in estimates, a $3.2 million increase in claims payable, a $0.7 million increase in compensated absences payable and a $0.4 million increase in unfunded other post-employment benefits. In addition, a restatement of 2021 financial statements due to implementing GASB Statement No. 87, *Leases* in 2022 resulted in a $0.4 million increase in lease liability. The increases were offset by a $17.4 million decrease in net pension liability (Note 9) because of contributions and changes in assumptions, and by a $0.2 million decrease in other noncurrent liabilities.

Deferred inflows of resources – Deferred inflow of resources increased by $9.2 million (59.1%) from 2020. This increase is mostly due to assumptions related to pension accounting and the difference between expected and actual expense in other post-employment benefits (OPEB).

Net position – The largest portion of the Fund's net position ($630.2 million or 98.0%) reflects the Fund's investment in capital assets such as land, buildings, and equipment, less accumulated depreciation and any related outstanding debt used to acquire those assets. The Fund uses these assets to provide services to customers; consequently, these assets are not available for future spending. Although the Fund's investment in its capital assets is reported net of related debt, the resources needed to repay the debt are provided by fees paid by customers for services provided by these assets. In 2021, net investment in capital assets increased by $98.2 million from 2020 due to an increase in capital assets placed in service, net of depreciation offset by the related debt.

The Fund's restricted net position ($22.2 million or 3.5%) represents resources that are subject to restrictions on how they may be used. This portion of net position increased by $1.0 million from 2020.

The remaining portion of the Fund's net position (negative $9.5 million or -1.5%) represents resources that are unrestricted. The unrestricted portion of net position increased by $7.9 million from the prior year.

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

	2022	2021 (as restated*)	2020
Operating revenues	$ 519,028,628	$ 502,517,146	$ 460,295,464
Operating expenses	(392,181,826)	(387,228,841)	(385,937,282)
Net operating income	126,846,802	115,288,305	74,358,182
Non-operating revenues and expenses	(21,017,272)	(12,885,906)	(8,400,925)
Capital contributions, grants and environmental remediation	(12,615,237)	4,740,518	17,900,050
Change in net position	$ 93,214,293	$ 107,142,917	$ 83,857,307

*The restatement is due to implementation of GASB 87

2022 Compared to 2021

The current year operating revenues increased $16.5 million (3.3%) from 2021. This is due to an average rate increase of 2.0% for wastewater and 6.0% for drainage, resulting in additional revenues of $7.2 million and $10.4 million, respectively. Other operating revenues decreased $1.1 million.

The current year operating expenses increased $5.0 million (1.3%) from 2021. The increase can be attributed to a $10.2 million increase in intergovernmental payments, and a $1.4 million increase in depreciation and amortization. These increases were offset by a $5.5 million decrease in services expenses and a $1.2 million decrease in other operating expenses. The $10.2 million increase in intergovernmental payments mainly is due to King County wastewater treatment fee increases and an increase in taxes.

Nonoperating revenues net of expenses in 2022 decreased $8.1 million compared to 2021. There was a $9.5 million decrease in investment income, a $2.7 million decrease in other, net. The decreases were offset by a $3.9 million decrease in interest expense and a $0.2 million increase in contributions and grants.

The Fund had environmental remediation expense of $32.9 million in 2022 compared to $6.8 million in 2021 (Note 10), mostly from a change in the percentage share between City entities for the Lower Duwamish Waterway superfund site.

2021 Compared to 2020

The current year operating revenues increased by $42.2 million (9.2%) from 2020. This is due to an average rate increase of 7.2% for wastewater and 7.4% for drainage, resulting in additional revenues of $31.1 million and $9.8 million, respectively. Other operating revenues increased $1.4 million.

The current year operating expenses increased by $1.3 million (0.3%) from 2020. The increase can be attributed to a $7.5 million increase in services expenses, a $2.0 million increase in intergovernmental payments, a $1.6 million increase in depreciation and amortization, and a $0.4 million increase in supplies. These increases were offset by a $5.8 million decrease in other operating expenses and by a $4.4 million decrease in salaries, wages, and personnel benefits.

Nonoperating revenues net of expenses in 2021 decreased by $4.5 million compared to 2020. There was a $10.3 million decrease in investment income. The decreases were offset by a $3.4 million increase in interest expense and a $2.5 million increase in other, net.

The Fund had environmental remediation expense of $6.8 million in 2021 compared to $3.1 million in 2020 (Note 10), resulting from changes in estimated costs for remediation management and construction.

Capital Assets

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

Summary of Capital Assets, Net of Accumulated Depreciation

	2022	2021	2020
Land and land rights	$ 46,662,046	$ 46,662,046	$ 46,644,353
Buildings	12,828,618	13,827,790	14,909,819
Infrastructure	959,084,033	957,421,593	936,517,320
Machinery and equipment	55,965,163	59,128,903	61,984,467
Computer systems	22,850,501	19,898,976	21,622,034
Construction in progress	468,354,639	356,932,019	256,896,036
Artwork	4,945,548	4,439,956	2,192,284
Capital assets, net of accumulated depreciation	$ 1,570,690,548	$ 1,458,311,283	$ 1,340,766,313

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

2022 Compared to 2021

The Fund's investment in capital assets, net of accumulated depreciation, for the year ended December 31, 2022, was $1.6 billion. This represented an increase of approximately $112.4 million (7.7%) compared to 2021.

Highlights of the Fund's major capital assets placed in service during 2022 include the following:

- $13.4 million for pipe rehabilitation and improvement
- $5.4 million for upgrading the core Oracle utilities applications
- $3.4 million for controlling combined sewer overflow in Montlake

Highlights of the Fund's major construction projects in progress at the end of 2022 include the following:

- $230.1 million for construction of a combined sewer overflow storage facility for the Ballard, Fremont, and Wallingford combined sewer overflow basins (Ship Canal Water Quality Project)
- $60.5 million for sewer and storm water system improvements and rehabilitations
- $32.2 million for building a pump station facility near 7th Street and Riverside in South Park
- $25.7 million for controlling combined sewer overflow for Basins 168, 169 and Central Waterfront
- $23.1 million for Natural Drainage Systems
- $17.5 million for drainage infrastructure improvements in South Park
- $11.6 million for fish habitat restoration on Taylor Creek
- $4.7 million for the South Park Stormwater Treatment Facility
- $3.4 million for replacing the 45th Ave SW culvert
- $3.4 million for relocating existing drainage and sewer mains as necessary to accommodate SDOT's Waterfront Seattle Program

- $3.2 million for construction project artwork
- $2.9 million for demolition and replacement of all mechanical equipment at Airlift PS 38

2021 Compared to 2020

The Fund's investment in capital assets, net of accumulated depreciation, for the year ended December 31, 2021, was $1.5 billion. This represented an increase of approximately $117.5 million (8.8%) compared to 2020.

Highlights of the Fund's major capital assets placed in service during 2021 include the following:

- $12.0 million for pipe rehabilitation and improvement
- $8.9 million for stations and force main upgrade in East Montlake
- $3.0 million for pipe replacement
- $2.2 million for artwork projects
- $24.2 million for various other small construction projects

Highlights of the Fund's major construction projects in progress at the end of 2021 include the following:

- $172.7 million for construction of a combined sewer overflow storage facility for the Ballard, Fremont, and Wallingford combined sewer overflow basins (Ship Canal Water Quality Project)
- $43.6 million for sewer and storm water system improvements and rehabilitations
- $26.8 million for combined sewer overflow control
- $26.5 million for building a pump station facility near 7th Street and Riverside in South Park
- $13.3 million for Natural Drainage Systems
- $10.5 million for improvements to Taylor Creek downstream from Rainier Ave South
- $9.0 million for infrastructure improvements in South Park
- $4.8 million for upgrading the core Oracle utilities applications
- $3.7 million for the South Park Stormwater Treatment Facility
- $3.1 million for replacing the 45th Ave SW culvert
- $3.0 million for construction project artwork
- $2.3 million for relocating existing drainage and sewer mains as necessary to accommodate SDOT's Waterfront Seattle Program
- $3.3 million for combined sewer valve and equipment
- $20.6 million for various other small construction projects

Debt Administration

The Fund's debt primarily consists of bonded debt and loans. Bonded debt is secured solely by drainage and wastewater revenues and provides financing for capital improvements. Loans issued by various Washington State Agencies for certain capital improvements are unsecured. The Fund's credit ratings on its bonds were Aa1 and AA+ by Moody's Investors Service Inc. and Standard & Poor's Rating Services, respectively. Additional details about the Fund's revenue bonds and loans are in Notes 4 and 11 of this report.

2022 Compared to 2021

At the end of 2022, the Fund had $730.7 million in bonded debt, as compared to $769.9 million in 2021, all of which was secured solely by drainage and wastewater system revenues. This decrease of $39.2 million is attributed to the issuance of a new revenue and refunding bond, defeasance of old bonds (Note 4) and payment of debt principal.

At the end of 2022, the Fund had an outstanding loan balance of $142.0 million compared to $101.3 million in 2021. This increase is due to a total of $44.4 million drawdowns from loans with the Washington State Department of Ecology. The increase was offset by a $3.7 million payment of debt principal.

2021 Compared to 2020

At the end of 2021, the Fund had $769.9 million in bonded debt, as compared to $742.0 million in 2020, all of which was secured solely by drainage and wastewater system revenues. This increase of $27.9 million is attributed to the issuance of a new revenue and refunding bond, defeasance of old bonds (Note 4) and payment of debt principal.

At the end of 2021, the Fund had an outstanding loan balance of $101.3 million compared to $56.1 million in 2020. This increase is due to a total of $41.0 million drawdowns from loans with the Washington State Department of Ecology and a $7.3 million drawdown from a new loan with the Washington State Department of Commerce. The increase was offset by a $4.0 million payment of debt principal.

Requests for Information

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

Financial Statements

Seattle Public Utilities – Drainage and Wastewater Fund
(An Enterprise Fund of the City of Seattle)
Statements of Net Position
December 31, 2022 and 2021

	2022	2021 (as restated*)
ASSETS		
CURRENT ASSETS		
Operating cash and equity in pooled investments	$ 270,396,363	$ 219,234,623
Receivables		
Accounts, net of allowance	35,154,344	36,482,866
Interest and dividends	266,322	267,830
Unbilled revenues	29,957,144	30,892,100
Due from other funds	1,157,578	616,993
Due from other governments	21,990,531	9,182,977
Materials and supplies inventory	2,291,344	1,912,173
Prepayments and other current assets	34,515	34,515
Total current assets	361,248,141	298,624,077
NONCURRENT ASSETS		
Restricted cash and equity in pooled investments	77,953,097	116,360,934
Prepayments long-term	414,986	449,501
Long-term receivable due from another city department	2,286,529	2,286,529
Environmental costs and recoveries	3,217,742	2,602,646
External infrastructure costs, net	16,985,260	17,278,109
Regulatory assets - bond issue costs	5,348,017	5,005,221
Other charges	21,555,588	25,493,434
Right-of-use asset, net	361,578	423,486
Capital assets		
Land and land rights	46,662,046	46,662,046
Plant in service, excluding land	1,548,133,277	1,521,835,041
Less accumulated depreciation	(497,404,962)	(471,557,779)
Construction in progress	468,354,639	356,932,019
Other property, net	4,945,548	4,439,956
Total noncurrent assets	1,698,813,345	1,628,211,143
Total assets	2,060,061,486	1,926,835,220
DEFERRED OUTFLOWS OF RESOURCES		
Unamortized loss on refunded debt	3,888,144	5,478,663
Pension and OPEB contributions and changes in assumptions	20,524,234	13,319,168
Total deferred outflows of resources	24,412,378	18,797,831
Total assets and deferred outflow of resources	$ 2,084,473,864	$ 1,945,633,051

*The restatement is due to implementation of GASB 87

See accompanying notes.

Seattle Public Utilities – Drainage and Wastewater Fund
(An Enterprise Fund of the City of Seattle)
Statements of Net Position
December 31, 2022 and 2021

	2022	2021 (as restated*)
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	$ 22,378,674	$ 16,477,768
Salaries, benefits, and payroll taxes payable	2,412,121	3,036,768
Compensated absences payable	343,225	341,723
Due to other funds	549,934	51,403
Due to other governments	14,387,797	13,554,286
Interest payable	11,396,919	11,547,880
Taxes payable	621,349	553,942
Revenue bonds due within one year	29,225,000	29,525,000
Claims payable	2,843,964	2,773,063
Environmental liabilities	3,665,776	3,589,550
Loans payable, due within one year	4,342,952	4,052,026
Lease liabilities	59,837	58,785
Other	5,775,955	861,650
Total current liabilities	98,003,503	86,423,844
NONCURRENT LIABILITIES		
Compensated absences payable	6,521,284	6,492,720
Claims payable	9,071,228	8,285,004
Environmental liabilities	211,938,239	181,309,027
Loans	137,667,930	97,292,470
Unfunded other post employment benefits	2,764,770	3,536,572
Net pension liability	44,885,251	54,686,589
Lease liabilities	311,321	371,042
Other noncurrent liabilities	2,270,435	3,214,081
Revenue bonds	730,710,000	769,890,000
Less bonds due within one year	(29,225,000)	(29,525,000)
Bond discount and premium, net	86,546,573	96,081,999
Total noncurrent liabilities	1,203,462,031	1,191,634,504
Total liabilities	1,301,465,534	1,278,058,348
DEFERRED INFLOWS OF RESOURCES		
Unamortized gain on advanced refunding	15,049,572	1,058,942
Deferred inflows - pension and OPEB	31,904,926	23,676,222
Total deferred inflows of resources	46,954,498	24,735,164
NET POSITION		
Net investment in capital assets	694,682,356	630,159,592
Restricted for		
External infrastructure costs	8,258,927	8,023,753
Other charges	13,081,631	14,163,221
Unrestricted	20,030,918	(9,507,027)
Total net position	736,053,832	642,839,539
Total liabilities, deferred inflows of resources, and net position	$ 2,084,473,864	$ 1,945,633,051

*The restatement is due to implementation of GASB 87

See accompanying notes.

Seattle Public Utilities – Drainage and Wastewater Fund
(An Enterprise Fund of the City of Seattle)
Statements of Revenues, Expenses, and Changes in Net Position
Years Ended December 31, 2022 and 2021

	2022	2021 (as restated*)
OPERATING REVENUES		
Charges for services and other revenues	$ 519,028,628	$ 502,517,146
OPERATING EXPENSES		
Salaries, wages, and personnel benefits	51,582,130	51,740,074
Supplies	3,213,639	3,036,534
Services	47,323,529	52,821,347
Intergovernmental payments	241,853,099	231,618,599
Depreciation and amortization	42,741,275	41,346,230
Other operating expenses	5,468,154	6,666,057
Total operating expenses	392,181,826	387,228,841
OPERATING INCOME	126,846,802	115,288,305
NONOPERATING REVENUES (EXPENSES)		
Investment income	(8,803,452)	729,491
Interest expense	(14,753,811)	(18,655,517)
Contributions and grants	827,803	636,979
Other, net	1,712,188	4,403,141
Total nonoperating revenues (expenses)	(21,017,272)	(12,885,906)
INCOME BEFORE CAPITAL CONTRIBUTIONS AND GRANTS, AND SPECIAL ITEMS	105,829,530	102,402,399
CAPITAL CONTRIBUTIONS AND GRANTS	20,320,230	11,542,645
SPECIAL ITEM - ENVIRONMENTAL REMEDIATION	(32,935,467)	(6,802,127)
CHANGE IN NET POSITION	93,214,293	107,142,917
NET POSITION		
Beginning of year	642,839,539	535,696,622
End of year	$ 736,053,832	$ 642,839,539

*The restatement is due to implementation of GASB 87

See accompanying notes.

Seattle Public Utilities – Drainage and Wastewater Fund
(An Enterprise Fund of the City of Seattle)
Statements of Cash Flows
Years Ended December 31, 2022 and 2021

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	$ 509,149,887	$ 497,394,151
Cash paid to suppliers	(216,139,323)	(225,953,824)
Cash paid to employees	(63,081,551)	(61,515,195)
Cash paid for taxes	(68,917,899)	(65,646,749)
Net cash provided by operating activities	161,011,114	144,278,383
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Noncapital grants received	3,032,572	3,804,375
Payments for environmental liabilities	(2,845,125)	(2,643,903)
Net cash provided by noncapital financing activities	187,447	1,160,472
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from long-term debt	171,715,769	189,152,756
Principal payments on long-term debt	(159,943,169)	(88,520,502)
Capital expenditures and other charges paid	(151,420,596)	(142,147,708)
Interest paid on long-term debt	(35,659,787)	(34,531,105)
Build America Bonds federal interest subsidy	1,532,321	1,584,823
Capital fees, reimbursements and grants	35,661,656	8,375,248
Proceeds from sale of capital assets	3,413	153,319
Net cash used in capital and related financing activities	(138,110,393)	(65,933,169)
CASH FLOWS FROM INVESTING ACTIVITIES		
Net change on investment	(10,334,265)	(832,301)
NET CHANGE IN CASH AND EQUITY IN POOLED INVESTMENTS	12,753,903	78,673,385
CASH AND EQUITY IN POOLED INVESTMENTS		
Beginning of year	335,595,557	256,922,172
End of year	$ 348,349,460	$ 335,595,557
CASH AT THE END OF THE YEAR CONSISTS OF		
Operating cash and equity in pooled investments	$ 270,396,363	$ 219,234,623
Noncurrent restricted cash and equity in pooled investments	77,953,097	116,360,934
Total cash at the end of the year	$ 348,349,460	$ 335,595,557

See accompanying notes.

Seattle Public Utilities – Drainage and Wastewater Fund
(An Enterprise Fund of the City of Seattle)
Statements of Cash Flows
December 31, 2022 and 2021

	2022	2021 (as restated*)
RECONCILIATION OF NET OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES		
Operating income	$ 126,846,802	$ 115,288,305
Adjustments to reconcile net operating income to net cash from operating activities		
Adjustment for net pension liability	(8,777,699)	(8,401,511)
Depreciation and amortization	42,741,275	41,346,230
Other cash (payments) receipts	365,061	(653,181)
Changes in operating assets and liabilities		
Accounts receivable	1,328,522	(7,514,389)
Unbilled revenues	934,956	(7,826,565)
Due from other funds	(540,585)	(67,733)
Due from other governments	(12,807,554)	7,549,077
Materials and supplies inventory	(379,172)	(16,854)
Other assets	96,423	(272,614)
Accounts payable	5,900,906	33,235
Salaries, benefits, and payroll taxes payable	(624,647)	(496,109)
Compensated absences payable	30,066	768,731
Due to other funds	498,531	51,403
Due to other governments	833,511	(172,109)
Claims payable	857,125	4,406,026
Taxes payable	67,407	121,687
Other liabilities	3,640,186	134,754
Total adjustments	34,164,312	28,990,078
Net cash from operating activities	$ 161,011,114	$ 144,278,383

*The restatement is due to implementation of GASB 87

See accompanying notes.

Note 1 – Operations and Summary of Significant Accounting Policies

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

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

SPU receives certain services from other departments and agencies of the City, including information technology and others that are normally considered to be general and administrative. The Fund is charged a share of these costs and during 2022 and 2021, paid $ 25,498,571 and $25,945,159, respectively, to the City for its share of these services. Additionally, the Fund pays a business and occupation utility tax to the City's General Fund. The Fund paid $ 60,999,947 and $58,248,201 for these taxes in 2022 and 2021, respectively.

The utility billing function is co-managed by SPU, Seattle City Light (SCL), and the Seattle Information Technology Department (ITD). SPU provides customer service through the call center and walk-in center. ITD maintains the Customer Information System (CIS). SPU and SCL bill and reimburse each other for these services. SPU reimburses ITD for the information technologies services mentioned above. Within SPU, the costs and reimbursements were shared among its three utility funds (Water, Drainage and Wastewater, and Solid Waste). The Fund received reimbursements related to the call center and walk-in center of $2,297,473 and $2,333,999 in 2022 and 2021, respectively. The Fund paid $ 85,104 and $116,971 for the utility billing services in 2022 and 2021, respectively.

Wastewater disposal and drainage services provided to other City departments and agencies are billed at rates prescribed by City ordinances. The Fund collected $4,554,276 in 2022 and $3,205,419 in 2021 from the City for wastewater services provided. The Fund also collected $11,553,874 in 2022 and $10,808,331 in 2021 from the City for drainage services.

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

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

Cash and equity in pooled investments – Cash resources of the Fund are combined with cash resources of the City in a pooled investment portfolio that is managed by the City's Finance and Administration Services Department. The City's investment portfolio consists of fixed income securities authorized by the Revised Code of Washington and other applicable law. The pool operates like a demand deposit account in that all City departments may deposit cash at any time and withdraw cash out of the pool without prior notice or penalty. Interest earned on the pooled investments is prorated to individual funds at the end of each month on the basis of their average daily cash balances during the month when interest was earned. Cash and equity in pooled investments are reported at fair market value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, and GASB Statement No. 72, *Fair Value Measurement and Application*. The Fund's share of the pool is included in the accompanying statements of net position under the caption "cash and equity in pooled investments." Accordingly, the statements of cash flows reconcile to cash and equity in pooled investments. The restricted cash and equity in pooled investments consist of unexpended bond proceeds, bond reserve funds, and vendor's escrow deposits.

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

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

Allowance for doubtful accounts – A reserve has been established for uncollectible accounts receivable based on actual historical write-off trends and knowledge of specific circumstances that indicate collection of an account may be unlikely. As of December 31, 2022 and 2021, the Fund's allowance for doubtful accounts was $2,159,826 and $1,854,640, respectively.

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

Environmental costs and recoveries – The Fund is involved in several remediation efforts around the City (Note 10). When estimated remediation costs are approved to be recovered through rates, the costs, net of recoveries, associated with these efforts are deferred when accrued as a regulatory asset and are amortized over the rate recovery period. Certain environmental remediation costs that are infrequent in occurrence are treated as a special item in the statements of revenues, expenses, and changes in net position.

External infrastructure costs – The Fund has contributed $21,963,686 to a joint project with King County to expand one of their transmission lines to help alleviate sewer overflows in the area. These costs represent the portion of the project that did not result in a capital asset for the Fund. The project was completed in 2005. The Fund has deferred these costs and began amortizing them in 2006 over a 75-year period.

Regulatory assets – GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, allows for certain costs to be capitalized as a regulatory asset instead of charged to expense. A regulatory asset is recorded when it is probable that future revenue in an amount at least equal to the capitalized costs will be recovered through customer rates over some future period. The Fund uses regulatory accounting for debt issuance costs because these costs are included in the rate structure and, as such, will continue to be amortized over the life of the associated bond issues. GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, would have required these costs to be expensed in the period incurred if the Fund had not utilized regulatory accounting for these costs. The Fund uses regulatory accounting for interest costs incurred during the construction of capital assets because these costs are included in the rate structure and, as such, will continue to be amortized over the life of the associated capital assets. GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, would have required these costs to be expensed in the period incurred if the Fund had not utilized regulatory accounting for these costs.

Other charges – Other charges primarily represent costs related to the long-term control plan, which direct the Fund’s construction and monitoring of several combined sewer overflow projects. The Fund amortizes these charges over a 5 to 30-year period.

Capital assets – Capital assets are stated at cost or, if contributed, at fair value at the date of contribution. Costs include direct material, labor, and indirect costs such as engineering, supervision, payroll taxes, pension benefits, and interest relating to the financing of projects under construction. The cost of current repairs and maintenance is charged to expense, while the cost of additions and improvements is capitalized. SPU’s policy is to generally capitalize assets with a cost of $5,000 or more. The Fund received donated assets, such as sewer and drainage pipes, from developers and other government agencies. These donated assets are recorded under capital contributions and grants in the statements of revenues, expenses, and changes in net position.

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

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

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

Buildings and fixtures	10 to 50 years
Laterals, mains, and outfalls	75 years
Detention structures	75 years
Pumping stations, equipment, and overflow structures	10 to 50 years
Machinery and equipment	3 to 20 years
Computer systems	3 to 11 years

Asset depreciation begins in the month the asset is placed in service.

Deferred outflows/inflows of resources – In addition to assets, the statements of net position, when applicable, will report a separate section for deferred outflows of resources. It represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The Fund has deferred loss on refunding debt that qualifies for reporting in this category. A deferred loss on refunding debt results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The Fund has also recorded deferred outflows of resources for certain pension activities including the difference between projected and actual experience, the difference between projected and actual earnings on investments, and contributions made subsequent to the measurement date (Notes 6 and 9).

In addition to liabilities, the statements of net position, when applicable, will report a separate section for deferred inflows of resources. It represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until then. The Fund has also recorded deferred inflows of resources for the difference between projected and actual experience and changes in proportion and differences between employer contributions and proportionate share of contributions (Notes 6 and 9).

Environmental liabilities – The Fund has accrued a liability for pollution remediation activities in accordance with GASB Statement No. 49 (GASB 49), *Accounting and Financial Reporting for Pollution Remediation Obligations*. GASB 49 outlines five specific obligating events that give rise to estimating expected pollution remediation outlays. These outlays may be accrued as a liability and expensed, or if appropriate, capitalized. The Fund will accrue a liability if any of the following obligating events occurs:

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

Most pollution remediation outlays do not qualify for capitalization and the Fund does not anticipate significant capitalized costs in the future. See Note 10 for site descriptions.

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

Postemployment Benefits Other Than Pensions (OPEB) – For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the benefit have been determined on the same basis as they are reported by the City. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms.

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

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

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

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

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

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

Operating expenses – The Fund's operating expenses include the cost of sales and services, administrative expenses, depreciation on capital assets, and amortization of deferred assets.

Taxes – The Fund is charged a public utility tax by the City at a rate of 12.0% for wastewater revenues and 11.5% for drainage revenues, net of certain credits. In addition, the Fund paid a 3.85% public utility tax to the state on a certain portion of revenues identified as sewer collection revenues. The Fund also paid business and occupation tax to the state on certain drainage and other non-utility revenues at the rate of 1.75%.

Nonoperating revenues and expenses – This includes the nonoperating revenues and expenses that arise from transactions not related directly to the major income-earning operations of the utility and are of a recurring nature. Major items are the investment and interest income, interest expense, amortization of debt expenses, amortization of debt discounts, premiums and refunding losses, sale of capital assets, and rental income.

Net position – The statements of net position report all financial and capital resources. Assets and deferred outflows of resources minus liabilities and deferred inflows of resources is net position. There are three components of net position: net investment in capital assets, restricted, and unrestricted.

Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Net position is restricted when constraints placed on net position use are either (1) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or (2) imposed by law through constitutional provisions or enabling legislation. The Fund's restricted net position as of December 31, 2022 and 2021, is related to external infrastructure costs, certain other charges, and retainage. Unrestricted net position is the portion that is not "net investment in capital assets" or "restricted."

Arbitrage rebate requirement – The Fund is subject to the Internal Revenue Code (IRC), Section 148(f), related to its tax-exempt revenue bonds. The IRC requires that earnings on gross proceeds of any revenue bonds that are in excess of the amount prescribed be surrendered to the Internal Revenue Service. As such, the Fund would record such a rebate as a liability. The Fund had no liability for arbitrage as of December 31, 2022 and 2021.

Accounting standard changes – GASB issued Statement No. 87, *Leases,* in June 2017 and it was effective for the Fund for reporting periods beginning after June 15, 2021. Under this standard, leases are all assumed to be capital financings of the underlying asset with only a narrow range of short-term leases that have a maximum possible term of 12 months or less are excluded from the standard. The adoption of this standard increased lease liability by $429,827 and right-to-use assets by $423,486.

SPU adopted the standard as of January 1, 2021, and accordingly the 2021 financial statements have been restated as summarized below:

Statement of Net Position Summary

	2021 As Previously Reported	Restatement Related to Adoption of GASB 87	2021 As Restated
ASSETS			
NONCURRENT ASSETS			
Right-of-use asset, net	$ -	$ 423,486	$ 423,486
Total noncurrent assets	1,627,787,657	423,486	1,628,211,143
Total assets	1,926,411,734	423,486	1,926,835,220
LIABILITIES			
CURRENT LIABILITIES			
Lease liabilities	-	58,785	58,785
Total current liabilities	86,365,059	58,785	86,423,844
NONCURRENT LIABILITIES			
Lease liabilities	-	371,042	371,042
Total noncurrent liabilities	1,191,263,462	371,042	1,191,634,504
Total liabilities	1,277,628,521	429,827	1,278,058,348
NET POSITION			
Unrestricted	(9,500,686)	(6,341)	(9,507,027)
Total net position	642,845,880	(6,341)	642,839,539
Total liabilities, deferred inflows of resources, and net position	$ 1,945,209,565	$ 423,486	$ 1,945,633,051

Summary Statement of Revenues, Expenses and Changes in Net Position

	2021 As Previously Reported	Restatement Related to Adoption of GASB 87	2021 As Restated
OPERATING EXPENSES			
Services	$ 52,877,338	$ (55,991)	$ 52,821,347
Depreciation and amortization	41,285,602	60,628	41,346,230
Total operating expenses	387,224,204	4,637	387,228,841
OPERATING INCOME	115,292,942	(4,637)	115,288,305
NONOPERATING REVENUES (EXPENSES)			
Other, net	4,404,845	(1,704)	4,403,141
Total nonoperating revenues (expenses)	(12,884,202)	(1,704)	(12,885,906)
INCOME BEFORE CAPITAL CONTRIBUTIONS AND GRANTS, AND SPECIAL ITEMS	102,408,740	(6,341)	102,402,399
CHANGE IN NET POSITION	107,149,258	(6,341)	107,142,917
NET POSITION			
Beginning of year	535,696,622	-	535,696,622
End of year	$ 642,845,880	$ (6,341)	$ 642,839,539

Use of estimates – The preparation of the financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect amounts reported in the financial statements. Estimates and assumptions are used to record unbilled revenues, allowance for doubtful accounts, fair market value of cash and equity in pooled investments, accrued sick leave, capitalized interest, depreciation, environmental liabilities, risk liabilities, pension liability, and other contingencies. Changes in these estimates and assumptions may have a material impact on the financial statements.

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

Reclassifications – Certain reclassifications have been made to the prior year footnote presentations to correspond to the current year presentation. These reclassifications had no effect on the operating results of the Fund.

Note 2 – Cash and Equity in Pooled Investments

Per Seattle Municipal Code, SMC 5.06.010 Investment Authority, the City's Director of Finance and Administrative Services (FAS) is authorized to invest all moneys in the City Treasury. Cash resources of the Department are combined with cash resources of the City to form a pool of cash that is managed by the City's Department of Finance and Administrative Services (FAS). Under the City's investment policy, all temporary cash surpluses in the pool are invested. The Fund's share of the pool is included on the balance sheets as cash and equity in pooled investments or as restricted assets. The pool operates like a demand deposit account in that all departments, including the Fund, may deposit cash at any time and can also withdraw cash out of the pool, up to the amount of the Fund's fund balance, without prior notice or penalty. Accordingly, the statements of cash flows reconcile to cash and equity in pooled investments.

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, 2022, and 2021, 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, 2022, and 2021, the City held sufficient cash in its vault for operations. 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 Consolidated Cash Pooled Investment Portfolio (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.

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 Principal Custody Solutions under the state of Washington's statewide custody provider program arranged by the State Treasurer's Office. The City mitigates counterparty risk by settling trades through its custodian on a delivery-versus-payment method.

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

Credit risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Some of the City's pooled investments have credit risk from holdings in commercial paper, corporate notes, and taxable municipal bonds. The City may not hold more than 50% of the Pool's total assets in these credit sensitive sectors.

State statute defines the investments in commercial paper and corporate notes as a "credit portfolio". The credit portfolio may not exceed 25% of the Pool's market value. Credit investments must be diversified by sector and industry. No single issuer shall exceed 3% of the Pool's market value.

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 notes must mature within 5.5 years from the time of purchase and 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. No single issuer rated AA or better may exceed 3% of the Pool's market value. No single issuer rated in the single-A category may exceed 2% of the Pool's market value.

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% of the Pool's market value.

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 12 to 18 months. This portfolio has low duration and high liquidity. Consistent with this profile, and for the purpose of comparing earnings yield, its benchmark is the net earnings rate of the state of Washington's Local Government Investment Pool (LGIP).

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

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

Investments – The Fund's cash resources may be invested by FAS separate from the cash and investments pool. Investments are managed in accordance with the City's Statement of Investment Policy, with limits and restrictions applied at the City-wide level rather than to specific investments of the Fund. As of December 31, 2022 and 2021, the Fund 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. There have been no subsequent changes to the policy.

The City of Seattle has three objectives in managing its investments that define its risk profile and guide implementation of its investment strategy. In order of importance they are safety of principal, maintenance of liquidity, and return on investment.

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

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

- *Ethics and conflict of interest* – Investment officers shall comply with the City's Ethics Code (SMC 4.16.080) and annually submit a Financial Interest Statement to the City's Ethics & Elections Commission that identifies any potential financial interest that could be related to the performance of the City's investment portfolio.

Delegation of authority – The Director of Finance and Administrative Services has delegated management responsibility for the City's investment program to the Director of Finance who has designated day to day management responsibility to investment officers under the supervision of the City's Treasury Services Director. No persons may engage in an investment transaction except as provided under the terms of the City Statement of Investment Policy and the procedures established therein.

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*. 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.

As of December 31, 2021, the City held $415.6 million on deposit 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.

The City reports its investments at fair value and categorizes its fair value measurements within the fair value hierarchy established by U.S. GAAP. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction amongst 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 City uses a combination of the market and cost approach for the valuation of pooled investments.

The City's overnight repurchase agreement with Wells Fargo Bank, N.A., and investment in the State of Washington Local Government Investment Pool (LGIP) are accounted for at cost. The LGIP is an external investment pool and is measured at a net asset value (NAV) per share of $1. The remainder of the City's investments are purchased in the over-the-counter U.S. bond market and accounted for at market.

The City uses market pricing for its over-the-counter investments as provided by its contractual custodial agent, Principal Custody Solutions.

As a basis for considering market participant assumptions in fair value measurements, GASB 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 Fund can access at the measurement date.

Level 2 – Inputs are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.

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

The City's investments in U.S. Treasuries are valued as Level 1. The City's remaining investments are valued as Level 2 or measured at amortized cost. The City does not invest in securities that require Level 3 inputs.

As of December 31, 2022, the City's pooled investments were categorized within the fair value hierarchy as follows (in thousands):

Investments	Fair Value as of December 31, 2022	Fair Value Measurements Using: Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Weighted Average Maturity (Days)
U.S. Government Agency Securities	$ 1,204,123	$ -	$ 1,204,123	$ -	662
U.S. Treasury and U.S. Government-Backed Securities	1,182,412	1,182,412	-	-	765
Local Government Investment Pool	415,588	415,588	-	-	-
U.S. Government Agency Mortgage-Backed Securities	274,968	-	274,968	-	2,126
Municipal Bonds	164,470	-	164,470	-	840
Commercial Paper	78,983		78,983		16
Corporate Bonds	72,116	-	72,116	-	810
International Bank for Reconstruction and Development	47,993	-	47,993	-	1,165
Repurchase Agreements	46,391	46,391	-	-	-
	$ 3,487,044	$ 1,644,391	$ 1,842,653	$ -	
Weighted Average Maturity of the City's Pooled Investments					729

As of December 31, 2021, the City's pooled investments were categorized within the fair value hierarchy as follows (in thousands):

Investments	Fair Value as of December 31, 2021	Fair Value Measurements Using: Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Weighted Average Maturity (Days)
U.S. Treasury and U.S. Government-Backed Securities	$ 745,742	$ 745,742	$ -	$ -	648
U.S. Government Agency Securities	719,409	-	719,409	-	950
Local Government Investment Pool	555,141	555,141	-	-	3
U.S. Government Agency Mortgage-Backed Securities	358,220	-	358,220	-	2,375
Municipal Bonds	203,187	-	203,187	-	603
Repurchase Agreements	125,431	125,431	-	-	3
Corporate Bonds	88,972	-	88,972	-	632
International Bank for Reconstruction and Development	25,364	-	25,364	-	971
	$ 2,821,466	$ 1,426,314	$ 1,395,152	$ -	
Weighted Average Maturity of the City's Pooled Investments					788

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

	2022	2021
Operating cash and equity in pooled investments	$ 270,396,363	$ 219,234,623
Restricted cash and equity in pooled investments	77,953,097	116,360,934
Total	$ 348,349,460	$ 335,595,557
Balance as a percentage of City pool cash and investments	10.0%	11.9%

Concentration of credit 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. State statute and the City's Statement of Investment Policy do not stipulate concentration limits for holdings of U.S. Government or U.S. Government Agency Obligations. However, as noted under credit risk, the City's Statement of Investment Policy outlines maximum percentage allocations for municipal securities and commercial paper, as well as bank notes and corporate notes.

The City's investments in which 5% or more is invested in any single issuer as of December 31 are as follows:

Issuer	2022 Fair Value	2022 Percent of Total Investments	2021 Fair Value	2021 Percent of Total Investments
United States Government	$ 1,182,412	34%	$ 745,742	26%
Local Government Investment Pool	415,588	12%	555,141	20%
Federal Home Loan Bank	355,558	10%	159,614	6%
Federal National Mortgage Association	331,923	10%	412,991	15%
Federal Farm Credit Bank	299,433	9%	129,190	5%
Federal Agriculture Mortgage Corp	263,760	8%	137,701	5%
Federal Home Loan Mortgage Corp	191,788	6%	196,091	7%

Note 3 – Capital Assets

Capital asset activity consisted of the following for the year ended December 31, 2022:

	Beginning Balance	Additions and Transfers In	Retirements and Transfers Out	Ending Balance
Buildings	$ 26,450,533	$ 3,875	$ (81,850)	$ 26,372,558
Infrastructure	1,303,044,345	27,173,015	(2,940,024)	1,327,277,336
Machinery and equipment	122,669,131	4,498,554	(3,418,672)	123,749,013
Computer systems	69,671,032	8,843,387	(7,780,049)	70,734,370
Total capital assets, excluding land	1,521,835,041	40,518,831	(14,220,595)	1,548,133,277
Less accumulated depreciation	(471,557,779)	(36,302,314)	10,455,131	(497,404,962)
	1,050,277,262	4,216,517	(3,765,464)	1,050,728,315
Construction in progress	356,932,019	174,719,546	(63,296,926)	468,354,639
Land and land rights	46,662,046	-	-	46,662,046
Artwork	4,439,956	505,592	-	4,945,548
Capital assets, net	$ 1,458,311,283	$ 179,441,655	$ (67,062,390)	$ 1,570,690,548

Capital asset activity consisted of the following for the year ended December 31, 2021:

	Beginning Balance	Additions and Transfers In	Retirements and Transfers Out	Ending Balance
Buildings	$ 26,571,178	$ (4,447)	$ (116,198)	$ 26,450,533
Infrastructure	1,262,621,593	43,381,147	(2,958,395)	1,303,044,345
Machinery and equipment	118,253,624	5,000,205	(584,698)	122,669,131
Computer systems	68,002,135	1,668,897	-	69,671,032
Total capital assets, excluding land	1,475,448,530	50,045,802	(3,659,291)	1,521,835,041
Less accumulated depreciation	(440,414,890)	(32,931,712)	1,788,823	(471,557,779)
	1,035,033,640	17,114,090	(1,870,468)	1,050,277,262
Construction in progress	256,896,036	181,205,061	(81,169,078)	356,932,019
Land and land rights	46,644,353	17,693	-	46,662,046
Artwork	2,192,284	2,247,672	-	4,439,956
Capital assets, net	$ 1,340,766,313	$ 200,584,516	$ (83,039,546)	$ 1,458,311,283

During 2022 and 2021, the Fund capitalized interest costs as a regulatory asset relating to construction of $ 16,942,126 and $13,379,712, respectively.

Note 4 – Revenue Bonds

The Fund issues bonds to provide financing for capital improvements. Payment of debt service on the bonds is derived solely from the revenues generated by the Fund. The Fund has $30,872,471 in a debt service reserve fund and has obtained reserve insurance policies to meet the remainder of its reserve requirements. The total bonds outstanding as of December 31, 2022 and 2021, were $730,710,000 and $769,890,000, respectively. Revenue bonds outstanding as of December 31, 2022 and 2021, consisted of the following Municipal Drainage and Wastewater bonds:

Name of Issue	Issuance Date	Maturity Years	Interest Rates	Original Issue Amount	Bonds Outstanding 2022	Bonds Outstanding 2021
2009 Improvement, Series A a (Taxable)	12/17/09	2017-2039	4.2-5.5%	$ 102,535,000	$ 83,030,000	$ 86,530,000
2012 Improvement and Refunding	6/27/12	2012-2042	2.0-5.0%	222,090,000	-	106,135,000
2014 Improvement and Refunding	7/10/14	2015-2044	3.0-5.0%	133,180,000	89,315,000	113,265,000
2016 Improvement and Refunding	6/22/16	2016-2046	4.0-5.0%	160,910,000	141,405,000	145,730,000
2017 Improvement and Refunding	6/28/17	2018-2047	4.0-5.0%	234,125,000	201,550,000	207,220,000
2021 Improvement and Refunding	5/19/21	2022-2051	4.0-5.0%	111,010,000	108,990,000	111,010,000
2022 Improvement and Refunding	6/22/22	2022-2042	4.0-5.0%	117,165,000	106,420,000	
				$ 1,117,695,000	$ 730,710,000	$ 769,890,000

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

Years Ending December 31,	Principal	Interest	Total
2023	$ 29,225,000	$ 32,089,953	$ 61,314,953
2024	30,660,000	30,620,846	61,280,846
2025	32,165,000	29,074,846	61,239,846
2026	32,605,000	27,549,846	60,154,846
2027	33,900,000	25,999,434	59,899,434
2028 - 2032	164,290,000	106,407,963	270,697,963
2033 - 2037	163,005,000	69,794,243	232,799,243
2038 - 2042	136,560,000	36,536,530	173,096,530
2043 - 2047	94,085,000	12,551,800	106,636,800
2048 - 2051	14,215,000	1,449,200	15,664,200
	$ 730,710,000	$ 372,074,661	$ 1,102,784,661

The following table shows the revenue bond activity during the year ended December 31, 2022:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable					
Revenue bonds	$ 769,890,000	$ 117,165,000	$ (156,345,000)	$ 730,710,000	$ 29,225,000
Add (deduct) deferred amounts					
Issuance premiums	96,485,926	11,435,246	(20,994,432)	86,926,740	-
Issuance discounts	(403,927)	-	23,761	(380,166)	-
Total bonds payable	$ 865,971,999	$ 128,600,246	$ (177,315,671)	$ 817,256,574	$ 29,225,000

The following table shows the revenue bond activity during the year ended December 31, 2021:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable					
Revenue bonds	$ 742,030,000	$ 111,010,000	$ (83,150,000)	$ 769,890,000	$ 29,525,000
Add (deduct) deferred amounts					
Issuance premiums	78,314,005	29,147,170	(10,975,249)	96,485,926	-
Issuance discounts	(427,688)	-	23,761	(403,927)	-
Total bonds payable	$ 819,916,317	$ 140,157,170	$ (94,101,488)	$ 865,971,999	$ 29,525,000

Defeasance of debt – The Fund defeased certain obligations by placing the proceeds of new bonds and a certain amount of operating cash in an irrevocable trust to provide for all future debt service payments on the old bonds. As a result, the old bonds are considered defeased, and the corresponding liabilities and trust account assets are not included in the statements of net position. In 2022, $125,370,000 bonds were defeased and $154,510,000 bonds were redeemed as shown below:

Name of Issue	Amount Outstanding at December 31, 2021	Additions	Redemptions	Amount Outstanding at December 31, 2022
2012 Improvement and Refunding	$ 48,375,000	$ 106,135,000	$ (154,510,000)	$ -
2014 Improvement and Refunding	-	19,235,000	-	19,235,000
	$ 48,375,000	$ 125,370,000	$ (154,510,000)	$ 19,235,000

In June 2022, the Fund issued $117,165,000 of Drainage and Wastewater Improvement and Refunding Revenue Bonds with varying annual principal payments due beginning 2022 and ending in 2042, at interest rates ranging from 4.0 percent and 5.0 percent. A portion of the proceeds were used to fully refund the remaining 2012 Improvement and Refunding. As a result of the refunding, the Fund reduced total debt service requirements by $10.8 million resulting in an economic gain (difference between the present value of the debt service payments on the old and new debts) of $8.3 million.

In June 2022, the Fund used $19.9 million operating cash to partially defease 2014 bonds. As a result of the partial defeasance, the Fund reduced total debt service requirements by $19.2 million.

Financial covenants – The revenue bonds contain certain financial covenants, the most significant of which requires the Fund to maintain net revenue available for debt service of at least equal to 125% of annual debt service. For 2022, net revenue available for debt service, as defined by the bond covenants, was 388% of annual debt service. Management believes the Fund was in compliance with all debt covenants as of December 31, 2022. For more information, see Other Information (page 58).

Note 5 – Leases

Effective January 1, 2021, SPU adopted GASB No. 87 *Leases*, as discussed in more detail in Note 1. The Fund, as lessee, has entered into various leases for building and equipment with lease terms expiring between 2025 and 2034. Leases that have a maximum possible lease term that are non-cancelable by both lessee and lessor, have a term of more than 12 months, and a present value greater than $5,000 are considered to be “right to use” assets. Unless explicitly stated in the lease agreement, the discount rate used to calculate lease right-of-use assets and liabilities in which the Fund acts as lessee is the City’s incremental borrowing rate based on the expiring date. The rate used for leases beginning in 2021 and 2022 was 0.38%.

The right-to-use assets are included in other property and are presented below for the years ended December 31:

	2022			
	Beginning of the year	Additions	Retirements and Other	End of year
Leased assets being depreciated				
Land	$ 403,242	$ -	$ -	$ 403,242
Building	72,294	-	-	72,294
Equipment	8,578	-	-	8,578
Total leased assets being depreciated	484,114	-	-	484,114
Less accumulated amortization				
Land	(43,990)	(43,991)	-	(87,981)
Building	(15,773)	(15,773)	-	(31,546)
Equipment	(865)	(2,144)	-	(3,009)
Total accumulated depreciation	(60,628)	(61,908)	-	(122,536)
Net, leased assest	$ 423,486	$ (61,908)	$ -	$ 361,578

	2021			
	Beginning of the year	Additions	Retirements and Other	End of year
Leased assets being depreciated				
Land	$ 403,242	$ -	$ -	$ 403,242
Building	72,294	-	-	72,294
Equipment	-	8,578	-	8,578
Total leased assets being depreciated	475,536	8,578	-	484,114
Less accumulated amortization				
Land	-	(43,990)	-	(43,990)
Building	-	(15,773)	-	(15,773)
Equipment	-	(865)	-	(865)
Total accumulated depreciation	-	(60,628)	-	(60,628)
Net, leased assest	$ 475,536	$ (52,050)	$ -	$ 423,486

Minimum lease payments through 2034 are as follows:

Year Ending December 31	Principal Payments	Interest Payments	Total Payments
2023	$ 59,837	$ 1,288	$ 61,027
2024	63,150	1,058	64,208
2025	56,576	818	57,394
2026	45,730	634	46,364
2027	45,904	460	46,364
2028 - 2030	99,961	398	100,359
	$ 371,158	$ 4,656	$ 375,716

Note 6 – Postemployment Benefit Plans

Deferred compensation – The City offers all of its employees a deferred compensation plan (the Plan) created in accordance with Internal Revenue Code (IRC) Section 457. The Plan permits employees to defer a portion of their salaries until future years. The deferred compensation is paid to employees upon termination, retirement, death, or unforeseen emergency.

The Plan is an eligible deferred compensation plan under Section 457 of the IRC of 1986, as amended, and a trust exempt from tax under IRC Sections 457(g) and 501(a). The Plan is operated for the exclusive benefit of participants and their beneficiaries. No part of the corpus or income of the Plan shall revert to the City or be used for, or diverted to, purposes other than the exclusive benefit of participants and their beneficiaries. The Plan is not reported in the financial statements of the City or the Fund.

It is the opinion of the City's legal counsel that the City has no liability for investment losses under the Plan. Under the Plan, participants select investments from alternatives offered by the Plan Administrator, who is under contract with the City to manage the Plan. Investment selection by a participant may be changed from time to time. The City does not manage any of the investment selections. By making the selection, participants accept and assume all risks inherent in the Plan and its administration.

Other postemployment benefits 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 that 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 subsidy of the post-retirement health insurance costs and funds the subsidy on a pay-as-you-go basis.

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:

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.

Actuarial data and assumptions	**2022**
Valuation date	January 1, 2022
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Discount rate	2.06%
Health care cost trend rates – medical	6.09% in 2022, increasing to 6.75% in 2023, and decreasing by varying amounts until 2030 thereafter
Health care cost trend rates – Rx	8.00% in 2022 and in 2023, and decreasing by varying amounts until 2030 thereafter
Participation	25% of active employees who retire participate

Mortality

General Service (Actives)

PubG-2010 Employee Table multiplied by 95%
Rates are projected generationally using Scale MP-2021 ultimate rates

General Service (Retirees)

PubG-2010 Retired Mortality Table multiplied by 95%
Rates are projected generationally using Scale MP-2021 ultimate rates

Marital status – 25% of members electing coverage: married or have a registered domestic partner. Male spouses two years older than their female spouses.

Health care claims development – The sample per capita claim cost assumptions shown below by age, benefit, 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 Plan	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.

Models are used to estimate underlying per capita medical and drug claims costs, subsequently utilized as assumption inputs for valuation models used to develop the liabilities for the 2022 and future valuations. The Aon consulting team leveraged expertise of Health experts within Aon as it relates to reviewing the models used for development of the per capita claims costs and future trend rates.

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

Age	Medical	Rx	Composite
40–44	3.0%	4.8%	3.3%
45–49	3.7%	4.7%	3.8%
50–54	4.2%	4.7%	4.3%
55–59	4.4%	4.6%	4.4%
60–64	3.7%	4.6%	3.8%

Other considerations – Active employees with current spouse and/or dependent coverage elect same plan and coverage. After retirement, it is assumed that children will have aged off coverage and will have $0 liability.

OPEB liability – The Fund reported an OPEB liability of approximately $2.8 million in 2022 and $3.5 million in 2021. The Fund's proportionate share of the OPEB liability was 5.46% and 5.43% for the years ended December 31, 2022 and 2021, respectively. Based on the actuarial valuation date of January 1, 2022, details regarding the Fund's total OPEB liability, plan fiduciary net position, and net OPEB liability as of December 31, 2022, are shown below.

	Total OPEB Liability at December 31,	
	2022	2021
Changes recognized for the fiscal year:		
Service cost	$ 246,558	$ 217,968
Interest on the total OPEB liability	84,822	98,440
Differences between expected and actual experience	(875,278)	-
Changes of assumptions	(85,002)	202,950
Benefit payments	(166,016)	(159,260)
Contributions from the employer	-	-
Other changes	23,114	74,759
Net changes	(771,802)	434,857
Balance recognized at 12/31/2021	3,536,572	3,101,715
Balance recognized at 12/31/2022	$ 2,764,770	$ 3,536,572

The Fund recorded an expense for OPEB of $169,620 in 2022 and $259,035 in 2021. The Health Care Subfund of the General Fund is reported in The City of Seattle's Annual Comprehensive Financial Report.

Discount rate and healthcare cost trend rates – The discount rate used to measure the total OPEB liability is 2.06% for 2022 and 2.12% for 2021. 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:

Discount Rate Sensitivity

	OPEB Liability at December 31,	
	2022	2021
Discount rate		
1% decrease	$ 3,048,463	$ 3,887,333
Current discount rate	2,764,770	3,536,572
1% increase	2,504,455	3,214,748

The following table presents the sensitivity of net Health Plan OPEB liability calculation to a 1% increase and a 1% decrease in the health care cost trend rates used to measure the total health plan OPEB liability:

Healthcare Cost Trend Rate Sensitivity

	OPEB Liability at December 31, 2022	OPEB Liability at December 31, 2021
Discount rate		
1% decrease	$ 2,412,835	$ 3,071,013
Trend rate	2,764,770	3,536,572
1% increase	3,185,117	4,093,772

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 Fund at December 31, 2022:

	Deferred Outflows	Deferred Inflows
Difference between actual and expected experience	$ 541,280	$ 780,448
Assumption changes	160,598	933,177
Contributions made in 2022 after measurement date	133,053	-
Total	$ 834,931	$ 1,713,625

The following table presents information about the OPEB-related deferred outflows of resources and deferred inflows of resources for the Fund at December 31, 2021:

	Deferred Outflows	Deferred Inflows
Difference between actual and expected experience	$ 658,823	$ -
Assumption changes	181,290	1,051,776
Contributions made in 2021 after measurement date	165,016	-
Total	$ 1,005,129	$ 1,051,776

The Fund's contributions made in 2022 in the amount of $133,053 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, 2022. 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,	Amortization
2023	$ (154,662)
2024	(154,662)
2025	(154,662)
2026	(154,662)
2027	(109,527)
Thereafter	(283,570)
Total	$ (1,011,747)

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

Note 7 – Claims Payable

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

For 2022 and 2021, liabilities for workers' compensation claims, as well as other claims, are discounted over a 15-year period at the City's rate of return on investments of 1.725% and 1.378%, respectively. Claims expected to be paid within one year are $ 2,843,964 and $2,773,063 as of December 31, 2022 and 2021, respectively.

The schedules below present the changes in the liability for workers' compensation claims and other claims (risk financing liabilities) as of December 31:

	2022	2021
Beginning liability, discounted	$ 11,058,067	$ 6,652,041
Payments	(2,745,388)	(3,536,966)
Incurred claims and change in estimate	3,602,513	7,942,992
Ending liability, discounted	$ 11,915,192	$ 11,058,067

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

Note 8 – Compensated Absences

The Fund has recorded a liability for earned but unused compensatory and vacation leave, as well as estimated sick leave payments calculated based on the termination payment method. The schedules below show the compensated absences activity during the years ended December 31, 2022 and 2021:

	2022	2021
Beginning liability	$ 6,834,443	$ 6,065,712
Additions	6,260,100	6,753,641
Reductions	(6,230,034)	(5,984,910)
Ending liability	$ 6,864,509	$ 6,834,443

Note 9 – Pension Benefit Plan

Plan description – The Seattle City Employees' Retirement System (the System) is a cost-sharing multiple employer pension plan covering employee of the City of Seattle and is administered in accordance with Chapter 4.36 of the Seattle Municipal Code.

The System is governed by the Retirement System Board of Administration (the Board). The Board consists of seven members including the Chair of the Finance Committee of the Seattle City Council, the City of Seattle Finance Director, the City of Seattle Personnel Director, two active members and one retired member of the System who are elected by other System members, and one outside board member who is appointed by the other six board members. Elected and appointed board members serve for three-year terms.

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

All permanent Fund employees are eligible to participate in the system.

System benefits – Service retirement benefits are calculated on the basis of age, salary, and service credit.

SCERS I – The System provides retirement, death, and disability benefits. Retirement benefits vest after five years of credited service, while death and disability benefits vest after 10 years of service. 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 five 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 five 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 five years of credited service.

Member and employer contributions – member and employer contributions are:

	YEAR	SCERS I	SCERS II
Member contribution	2022	10.03%	7.00%
	2021	10.03%	7.00%
Employer contribution	2022	16.20%	15.72%
	2021	16.20%	15.72%

Member and employer rates are established by the Seattle Municipal Code Chapter 4.36. The Fund's contributions to the System for the years ended December 31, 2022 and 2021, were $9,686,260 and $9,665,999, respectively.

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

Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions – At December 31, 2022 and 2021, the Fund reported a liability of $44,885,251 and $54,686,589, respectively, of its proportionate share of the System's net pension liability. The net pension liability was measured as of December 31, 2021 and 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of those dates. The Fund's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating parties, actuarially determined. At December 31, 2022 and 2021, the Fund's proportion was 6.94% and 6.87%, respectively.

For the years ended December 31, 2022 and 2021, the Fund recognized pension expense of approximately $1,073,000 and $3,539,000, respectively.

The Fund's deferred outflows and inflows of resources are as follows at December 31, 2022:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 208,115	$ 1,232,721
Change of assumptions	8,911,665	-
Difference between projected and actual earnings	-	28,958,580
Contributions made subsequent to measurement date	9,355,334	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	1,214,189	-
Total	$ 19,689,303	$ 30,191,301

The Fund's deferred outflows and inflows of resources are as follows at December 31, 2021:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 264,286	$ 1,747,319
Change of assumptions	2,714,680	-
Difference between projected and actual earnings	-	20,309,503
Contributions made subsequent to measurement date	9,335,073	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	567,624
Total	$ 12,314,039	$ 22,624,446

Other amounts currently reported as deferred outflows and inflows of resources will be recognized in pension expense as follows for years ending December 31:

2023	$ (4,621,656)
2024	(8,970,435)
2025	(5,598,928)
2026	(1,666,690)
2027	1,000,377
Total	$ (19,857,332)

Actuarial assumptions – The total pension liability as of December 31, 2022, was determined using the following actuarial assumptions:

Valuation date	January 1, 2021
Measurement date	December 31, 2021
Actuarial cost method	Individual Entry Age Normal
Amortization method	Level Percent, Closed
Remaining amortization period	30 years as of January 1, 2013 valuation
Asset valuation method	5-Year Non-asymptotic
Inflation	2.60%
Investment rate of return	6.75% compounded annually, net of expenses
Discount rate	6.75%
Projected general wage inflation	2.60%
Postretirement benefit increases	1.5%
Mortality	Various rates based on PubG-2010 mortality tables and using generational projection of improvement using MP-2021 Ultimate projection scale. See the 2022 Investigation of Experience report for details.

The actuarial assumptions that determined the total pension liability as of the measurement date were based on the results of an actuarial experience study for the period January 1, 2014 – December 31, 2017.

The discount rate used to measure the pension liability is based on a projection of cash flows assuming that plan member contributions will be made at the current contribution rate and that participating employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the System's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods on projected benefit payment to determine total pension liability.

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

Best estimates of geometric real rates of return for each major asset class included in the System's target asset allocation as of December 31, 2021, are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return
Equity: Public	4.20%
Equity: Private	7.40%
Fixed Income: Broad	0.50%
Fixed Income: Credit	3.90%
Real Assets: Real Estate	3.50%
Real Assets: Infrastructure	4.00%

Sensitivity analysis – The following presents the Fund's proportionate share of the net pension liability calculated using the discounted rate of 6.75%, as well as what the employer's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (5.75%) or one percentage point higher (7.75%) than the current rate.

1% Decrease 5.75%	Current Discount Rate 6.75%	1% Increase 7.75%
$ 78,849,870	$ 44,885,251	$ 16,482,953

Note 10 – Environmental Liabilities

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

Lower Duwamish Waterway (LDW) Superfund site – The U.S. Environmental Protection Agency (EPA) has indicated that it will require the remediation of the LDW site under its Superfund authority. In order to manage the liability, the City has worked with the EPA and other PRPs to complete a Remedial Investigation (RI) and Feasibility Study (FS). On November 2, 2012, the EPA and Ecology approved the Lower Duwamish Waterway Group's FS. The EPA announced their proposed cleanup plan in February 2013 for public comment. The remaining scope of cleanup by potentially responsible parties (PRPs) has been decided by the EPA in the 2014 Record of Decision. The Fund recorded an estimate of its share of the estimated total cost. Remedial design work began in 2019.

Specific "early action sites" have been cleaned up separately under Administrative Orders on Consent (AOC). The Fund, together with other PRPs, has completed two early action sites identified during the RI under EPA issued AOC: Slip 4 and T-117.

East Waterway Site – In 2006 the EPA issued an AOC for a Supplemental RI and FS for the East Waterway, an operable unit of the Harbor Island Superfund Site. The Port of Seattle (the Port) alone signed the AOC. Both the City and King County signed a Memorandum of Agreement with the Port to participate as cost share partners in the RI/FS work required by the EPA. The RI and FS are complete. The FS identifies a range of alternatives for cleanup construction that range in cost from $256 million to $411 million (2016 dollars). EPA is currently developing the Proposed Plan, which will be followed by a Record of Decision. The schedule for release of EPA's Proposed Plan is 2023. The Record of Decision is expected in late 2023 or 2024. Remedial design activities would start in late 2024 at the earliest. The Fund recorded an estimate of its share of the estimated total cost.

Gas Works Park Sediment Site – In April 2002, the Department of Ecology (DOE) named the City and another party, Puget Sound Energy, as PRPs for contamination at the Gas Works Sediments Site in North Lake Union. The City and Puget Sound Energy signed an Agreed Order with the DOE in 2005 to initiate two RIs and FSs for the sediment site: one in the western portion of the site led by the City, and another in the eastern portion of the site led by Puget Sound Energy. Subsequently, in fall of 2012, the City and Puget Sound Energy entered into a Settlement, Release, and Cost Allocation Agreement that puts Puget Sound Energy in the lead for all additional cleanup work at the site and eliminated the east-west split. Based on the 2012 Agreement, the City pays for 20% of the Shared Costs incurred by Puget Sound Energy for the cleanup work. DOE approved the site RI/FS in January 2023. A Clean-up Action Plan, which is the State's equivalent to a Record of Decision under the Model Toxics Control Act, is expected in 2023, which will be an exhibit to a Consent Decree for design and construction of the sediment cleanup. The Consent Decree is expected in late 2023 at the earliest.

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

Terminal 108 – EPA notified the City in 2019 that it is a Potentially Responsible Party for a site adjacent to the Lower Duwamish Waterway that is known as Terminal 108 or T108. The City's potential liability arises from a former sewage treatment plant that was located there. Other PRPs include the Port of Seattle, which is the current owner of the site, King County, the United States and several private entities. In 2020, the Port of Seattle, City of Seattle (SPU), and King County entered into an agreed Administrative Order with EPA and a cost-sharing agreement among themselves to complete an Engineering Evaluation and Cost Analysis (EE/CA). Work has begun on the investigative phase of the EE/CA at the T108 site in accordance with the Administrative Order, which will lead to a recommended removal or cleanup action. Liabilities are estimated through the EE/CA. The Department's ultimate liability is indeterminate.

South Park Marina – The Washington Department of Ecology notified the City in 2016 that it is a Potentially Liable Party for contamination at the South Park Marina, which is adjacent to Terminal 117. The City Light Department is the lead department for the City at this site. The Potentially Liable Parties (PLPs), which are the City, the Port, and South Park Marina (SPM), signed a final Agreed Order for a Remedial Investigation (RI) in April 2019. A Common Interest and Cost Sharing Agreement among the PLPs was signed in 2019 with an interim cost share of one-third each. In 2019, the City contracted with a consultant to complete the RI. The City's share is split between City Light (97.5%) and SPU (2.5%). The Department's ultimate liability is indeterminate.

The Fund has included in its estimated liability those portions of the environmental remediation work that are currently deemed to be reasonably estimable. Cost estimates were developed using the expected cash flow technique in accordance with GASB 49. For most of the sites, estimated outlays were based on current cost and no adjustments were made for discounting or inflation. The Duwamish site cost estimates were adjusted to remove discounting and to record the costs in 2022 dollars. Cost scenarios were developed for a given site based on data available at the time of estimation and will be adjusted for changes in circumstance. Scenarios consider the relevant potential requirements and are adjusted when benchmarks are met or when new information revises estimated outlays, such as changes in the remediation plan or operating conditions. Costs reflect cost-sharing agreements in effect. In addition, certain estimates were derived from independent engineers and consultants. The estimates were made with the latest information available; however, as new information becomes available, estimates may vary significantly due to scope changes, price fluctuations, technological advances, or applicable laws.

The Fund is aggressively pursuing other third parties that may have contributed to the contamination of the sites noted. The Fund's estimate for not yet realized recoveries from other parties for their share of remediation work that offset the Fund's estimated environmental liability was $3.2 million as of December 31, 2022, and $2.6 million as of December 31, 2021.

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

	2022	2021
Beginning environmental liability, net of recovery	$ 184,898,577	$ 180,758,983
Payments or amortization	(3,707,994)	(2,643,903)
Incurred environmental liability	34,413,432	6,783,497
Ending environmental liability, net of recovery	$ 215,604,015	$ 184,898,577

The following table represents the current and long term portions for the environmental liabilities:

	2022	2021
Environmental liability, current	$ 3,665,776	$ 3,589,550
Environmental liability, noncurrent	211,938,239	181,309,027
Ending liability	$ 215,604,015	$ 184,898,577

Note 11 – Loans

The Fund has various construction projects that are financed by low interest loans issued by the State of Washington. The loan agreements require that the Fund finance a portion of these projects from other sources. These loans have been used to enhance the drainage system.

In 2019, the Fund entered into a 20-year loan agreement with the Washington State Department of Ecology to borrow up to $25.0 million to support the Ship Canal Water Quality Project. Amounts borrowed under this agreement accrue interest at the rate of 2.0% per annum and are to be repaid by June 2042. As of December 31, 2022, the Fund had drawn $23.3 million on the loan. The final draw of $0.3 million was completed on April 26, 2022, bringing the final loan balance to $23,967,096 with accrued interest.

In 2020, the Fund entered into a 20-year loan agreement with the Washington State Department of Commerce Public Work Board to borrow up to $10 million for Pearl Street Drainage & Wastewater Improvement. Amounts borrowed under this agreement accrue interest at the rate of 1.58%. As of December 31, 2022, the Fund had drawn $8.9 million on the loan.

In 2021, the Fund entered into a 20-year loan agreement with the Washington State Department of Ecology to borrow up to $66.0 million, which in 2022 is amended to $125.0 million, to support the Ship Canal Water Quality Project. Amounts borrowed under this agreement accrue interest at the rate of 1.2% per annum and estimated initiation of operation date is January 1, 2025. As of December 31, 2022, the Fund had drawn $74.1 million on the loan.

Loans outstanding as of December 31, 2022 and 2021, are as follows:

Description	Maturity Years	Interest Rate	Amount Borrowed	Loans Outstanding 2022	Loans Outstanding 2021
Midvale	2013-2031	0.25%	$ 4,000,000	$ 1,905,936	$ 2,117,707
Thornton Creek Natural Drainage Systems	2006-2024	0.50%	3,700,000	391,765	587,647
High Point Natural Drainage Systems	2010-2029	1.50%	2,679,413	974,248	1,115,884
South Park Flood Control and Local Drainage Program	2007-2025	0.50%	3,400,000	591,368	788,491
Thornton Creek Water Quality Project	2011-2030	1.50%	6,983,021	2,940,499	3,308,175
Capital Hill Water Quality Project	2014-2033	2.60%	1,880,598	1,185,994	1,277,944
Henderson CSO	2018-2037	2.40%	36,372,252	28,266,065	29,876,802
Ship Canal Water Quality Project (EL190167)	2022-2042	2.00%	23,967,096	23,516,493	17,603,061
Pearl Street	2021-2039	1.58%	8,890,307	8,174,143	8,654,975
Ship Canal Water Quality Project (EL210276)	2025-2044	1.20%	74,064,371	74,064,371	36,013,810
			$ 165,937,058	$ 142,010,882	$ 101,344,496

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

Years Ending December 31,	Principal	Interest	Total
2023	$ 4,342,952	$ 1,365,405	$ 5,708,357
2024	4,413,384	1,284,881	5,698,265
2025	8,009,145	1,635,806	9,644,951
2026	7,482,315	1,956,401	9,438,716
2027	7,597,551	1,833,038	9,430,589
2028 - 2032	37,960,160	7,266,289	45,226,449
2033 - 2037	37,178,691	4,068,516	41,247,207
2038 - 2042	26,844,770	1,488,570	28,333,340
2043 - 2044	8,181,914	123,406	8,305,320
	$ 142,010,882	$ 21,022,312	$ 163,033,194

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

	2022	2021
Net loans, beginning of year	$ 101,344,496	$ 56,054,769
Loan proceeds	44,414,597	48,293,740
Principal payments	(3,748,211)	(3,004,013)
Net loans, end of year	$ 142,010,882	$ 101,344,496
Loans due within one year	$ 4,342,952	$ 4,052,026
Loans, noncurrent	$ 137,667,930	$ 97,292,470

Note 12 – Wastewater Disposal Agreement

The Fund has a wastewater disposal agreement with the King County Department of Natural Resources Wastewater Treatment Division (the Division), which expires in 2036. The monthly wastewater disposal charge paid to the Division is based on the Division's budgeted cost for providing the service. The charges are determined by water consumption and the number of single-family residences as reported by SPU and other component agencies. Payments made by the Fund were $170,521,806 and $164,550,293 for fiscal years 2022 and 2021, respectively.

Required Supplementary Information

Schedule of Seattle Public Utilities' Proportionate Share of the Net Pension Liability

	2022	2021	2020	2019	2018	2017	2016	2015
Employer's proportion of the net pension liability	14.76%	14.62%	14.33%	14.55%	14.73%	15.13%	16.37%	16.96%
Employer's proportionate share of the net pension liability	$ 122,309,887	$ 143,163,797	$ 180,105,232	$ 221,049,893	$ 163,086,154	$ 197,454,529	$ 212,671,200	$ 187,919,945
Employer's covered payroll	$ 126,830,347	$ 127,584,358	$ 112,528,955	$ 111,973,027	$ 107,715,383	$ 106,696,535	$ 105,031,141	$ 102,783,473
Employer's proportionate share of the net pension liability as a percentage of its covered payroll	96.44%	112.21%	160.05%	197.41%	151.40%	185.06%	202.48%	182.83%
Plan fiduciary net position as a percentage of the total pension liability	83.31%	78.81%	71.48%	64.14%	72.04%	65.60%	64.03%	67.70%

Schedule of Seattle Public Utilities' Contributions

	2022	2021	2020	2019	2018	2017	2016	2015
Contractually required employer contribution	$ 20,589,068	$ 20,654,175	$ 17,041,133	$ 17,103,559	$ 16,466,270	$ 16,354,089	$ 16,487,154	$ 15,170,276
Contributions in relation to the contractually required employer contribution	(20,589,068)	(20,654,175)	(17,041,133)	(17,103,559)	(16,466,270)	(16,354,089)	(16,487,154)	(15,170,276)
Employer contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Employer's covered payroll	$ 126,830,347	$ 127,584,358	$ 112,528,955	$ 111,973,027	$ 107,715,383	$ 106,696,535	$ 105,031,141	$ 102,783,473
Employer contributions as a percentile of covered payroll	16.23%	16.19%	15.14%	15.27%	15.29%	15.33%	15.70%	14.76%

Schedule of Seattle Public Utilities' Proportionate Share of the OPEB Liability and Related Ratios

	December 31, 2022	December 31, 2021	December 31, 2020	December 31, 2019	December 31, 2018
Total OPEB Liability					
Normal cost	$ 4,514,549	$ 4,015,249	$ 3,378,925	$ 3,842,152	$ 3,821,876
Interest	1,553,119	1,813,401	2,586,942	2,195,238	2,583,105
Differences between expected and actual experience	(16,026,625)	-	6,956,579	-	13,491,865
Changes in assumptions	(1,556,412)	3,738,597	(7,760,776)	(3,886,702)	(22,126,128)
Benefit payment	(3,039,800)	(2,933,774)	(2,484,320)	(2,333,610)	(2,289,000)
Total OPEB liability – beginning of year	70,257,734	63,624,261	60,946,911	61,129,833	65,648,115
Total OPEB liability – end of year	$ 55,702,565	$ 70,257,734	$ 63,624,261	$ 60,946,911	$ 61,129,833
Covered-employee payroll	$ 1,145,862,502	$ 1,124,692,046	$ 1,124,692,046	$ 1,015,097,334	$ 1,015,097,334
Net OPEB liability as percentage of covered-employee payroll	4.86%	6.25%	5.66%	6.00%	6.02%

Other Information (Unaudited)

Drainage Wastewater Debt Service Coverage Calculation 2022

Operating Revenues		
Wastewater	$	335,756,705
Drainage		177,041,856
Other		6,230,067
Total Operating Revenue		519,028,628
Operating Expense		
Wastewater Treatment Contract		172,140,459
Other Operations and Maintenance		108,258,796
City Taxes		60,999,947
Other Taxes		7,985,359
Total Operating Expenses Before Debt Service		349,384,561
Net Operating Income		169,644,067
Adjustments		
Add: Claim Expense		3,602,513
Add: City Taxes		60,999,947
Add: Investment Interest		6,259,053
Less: DSRF Earnings		(502,502)
Add: BAB's Subsidy		1,532,321
Add (Less): Net Other Nonoperating Revenues/(Expenses)		1,160,351
Add: Proceeds from Sale of Assets		3,413
Total Adjustments		73,055,096
Net Revenue Available for Debt Service	$	242,699,163
Net Revenue Available for Debt Service (w/o City Taxes)	$	181,699,216
Annual Debt Service	$	63,045,805
Less: DSRF Earnings		(502,502)
Adjusted Annual Debt Service	$	62,543,303
Coverage		3.88
Coverage without taxes		2.91

Statistics Required for Revenue Bond Continuing Disclosure

Wastewater System Operating Statistics

	2018	2019	2020	2021	2022
Population Served	707,555	724,144	737,015	742,400	762,500
Billed Wastewater Revenues ($1,000's)	$ 280,554	$ 303,935	$ 302,829	$ 324,630	$ 337,634
Billed Wastewater Volume (Thousand CCF)					
Residential	7,613	7,723	7,851	7,867	7,429
Commercial	13,504	13,554	11,995	12,127	12,818
Total	21,117	21,277	19,846	19,994	20,247
Gallons Used Per Day Per Capita	61.13	60.18	55.15	55.16	54.38

Drainage and Wastewater – 2022 Accounts and Billed Revenues

	Drainage	Wastewater
Customer Accounts		
Residential	$ 157,483	$ 157,736
Commercial	66,820	19,343
Total	$ 224,303	$ 177,079

	Drainage	Wastewater
Billed Revenue		
Residential	$ 89,812,379	$ 115,337,338
Commercial	85,351,950	222,296,893
Total	$ 175,164,329	$ 337,634,231

Major Wastewater Customers – 2022 Annual Billed Revenues and Percentage of Revenue

Major Wastewater Customers

Name	Revenue	% of Total Revenue
University Of Washington	$ 10,891,992	3.2%
Seattle Housing Authority	6,734,836	2.0%
City of Seattle	4,554,276	1.3%
Equity Residential	3,038,368	0.9%
Marriott International Inc	2,527,180	0.7%
Port of Seattle	1,845,442	0.5%
Seattle Children's Hospital	1,618,034	0.5%
Essex	1,290,249	0.4%
Bellwether Housing	1,286,887	0.4%
Hyatt	1,274,957	0.4%

Major Drainage Customers – 2022 Annual Billed Revenues and Percentage of Revenue

Major Drainage Customers

Name	Revenue	% of Total Revenue
City of Seattle	$ 11,553,874	6.6%
King County	3,705,376	2.1%
Seattle Public Schools	3,621,443	2.1%
University of Washington	3,018,094	1.7%
BNSF	2,700,725	1.5%
Federal Government	1,276,283	0.7%
Seattle Housing Authority	1,194,299	0.7%
Union Pacific	1,018,884	0.6%
Archdiocese Of Seattle	700,437	0.4%
Seattle Community Colleges	672,187	0.4%

Wastewater Rates

	2018	2019	2020	2021	2022	2023
Volume rate per ccf	$ 13.46	$ 14.48	$ 15.55	$ 16.67	$ 17.01	$ 17.63

Note: 1 CCF equals 748 gallons. Wastewater rate increased 2.0% and 7.2% in 2022 and 2021, respectively.

Drainage Rates

Flat Rate per Parcel	2017	2018	2019	2020	2021	2022	2023	% Impervious Space
Single Family Residential*								
0-1,999 sq. ft.	$ 140.46	$ 159.68	$ 169.81	$ 183.47	$ 195.57	$ 204.21	$ 216.23	
2,000 - 2,999 sq. ft.	$ 231.47	$ 259.68	$ 276.51	$ 298.75	$ 320.58	$ 337.13	$ 356.90	
3,000 - 4,999 sq. ft.	$ 319.05	$ 356.15	$ 383.43	$ 414.26	$ 445.25	$ 465.91	$ 493.22	
5,000 - 6,999 sq. ft.	$ 432.45	$ 480.86	$ 516.72	$ 558.27	$ 599.94	$ 632.67	$ 669.75	
7,000 - 9,999 sq. ft.	$ 543.98	$ 603.90	$ 652.61	$ 705.09	$ 757.69	$ 797.99	$ 844.75	
Rate per 1,000 sq. ft.								
Undeveloped								0 - 15%
Regular	$ 34.76	$ 38.78	$ 42.62	$ 46.05	$ 49.49	$ 53.68	$ 56.83	
Low Impact	$ 20.67	$ 23.06	$ 25.36	$ 27.40	$ 29.45	$ 31.11	$ 32.93	
Light								16 - 35%
Regular	$ 53.54	$ 59.24	$ 63.64	$ 68.75	$ 73.92	$ 79.66	84.33	
Low Impact	$ 42.26	$ 46.74	$ 49.85	$ 53.85	$ 57.87	$ 61.92	$ 65.55	
Medium								36 - 65%
Regular	$ 77.60	$ 85.45	$ 90.58	$ 97.86	$ 105.15	$ 112.87	$ 119.48	
Low Impact	$ 62.86	$ 69.28	$ 73.31	$ 79.21	$ 85.00	$ 91.20	$ 96.54	
High	$ 102.48	$ 112.57	$ 119.86	$ 129.50	$ 139.17	$ 149.12	$ 157.85	66 - 85%
Very High	$ 122.94	$ 134.85	$ 143.10	$ 154.60	$ 165.81	$ 177.83	$ 188.24	86 - 100%

* SFR parcels more than 10,000 sq. ft. are billed under the commercial rate structure.

MOSSADAMS