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

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

December 31, 2022 and 2021

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# Report of Independent Auditors

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

## Report on the Audit of the Financial Statements

### *Opinion*

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

### *Other Information*

Management is responsible for the other information as listed in the table of contents. The other information comprises the water fund debt service coverage calculation, water system operating statistics, major retail water customers, and water rates but does not include the basic financial statements and our auditor's report thereon. Our opinion on the basic 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 Water 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 Seattle's water 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 like 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 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, and to provide answers to questions about sources, uses, and impacts to cash. These statements report cash receipts, cash payments, and net changes in cash resulting from operations, investing and financing activities for the reporting period.

**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 surpluses in total net position of $771.3 million and $714.0 million, respectively. In 2022, the Fund's change in net position was an increase of $57.3 million (8.0%) as compared to 2021, which increased $72.2 million (11.3%). The following summary statement of net position presents the assets and deferred outflows of resources of the Fund and shows the mix of liabilities, deferred inflows of resources, and net position used to acquire these assets:

### Summary Statement of Net Position

| | 2022 | 2021 (as restated*) | 2020 |
|---|---|---|---|
| ASSETS | | | |
| Current assets | $ 145,922,174 | $ 154,864,335 | $ 186,462,740 |
| Capital assets, net | 1,368,245,608 | 1,341,563,530 | 1,338,082,729 |
| Other | 181,188,626 | 153,234,482 | 130,344,057 |
| Total assets | 1,695,356,408 | 1,649,662,347 | 1,654,889,526 |
| DEFERRED OUTFLOWS OF RESOURCES | 30,200,083 | 28,252,378 | 31,706,364 |
| Total assets and deferred outflows of resources | $ 1,725,556,491 | $ 1,677,914,725 | $ 1,686,595,890 |
| LIABILITIES | | | |
| Current liabilities | $ 91,639,327 | $ 86,708,929 | $ 81,303,808 |
| Revenue bonds | 688,052,014 | 703,243,284 | 767,000,352 |
| Other | 95,686,864 | 107,081,238 | 122,317,203 |
| Total liabilities | 875,378,205 | 897,033,451 | 970,621,363 |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Revenue stabilization fund | 42,440,724 | 41,720,888 | 59,880,197 |
| Deferred inflows - other | 36,426,777 | 25,146,855 | 14,320,203 |
| Total deferred inflows of resources | 78,867,501 | 66,867,743 | 74,200,400 |
| NET POSITION | | | |
| Net investment in capital assets | 720,227,690 | 662,512,834 | 563,868,163 |
| Restricted | 18,290,404 | 16,440,207 | 13,230,176 |
| Unrestricted | 32,792,691 | 35,060,490 | 64,675,788 |
| TOTAL NET POSITION | 771,310,785 | 714,013,531 | 641,774,127 |
| Total liabilities, deferred inflows of resources and net position | $ 1,725,556,491 | $ 1,677,914,725 | $ 1,686,595,890 |

*The restatement is due to implementation of GASB 87

**2022 Compared to 2021**

**Assets** – Current assets decreased $8.9 million (-5.8%) from 2021. This is primarily due to decreases in operating cash of $14.0 million offset by increase in accounts receivable of $2.5 million, unbilled revenue of $0.6 million and materials and supplies inventory of $1.7 million. The change in operating cash is primarily due to bond refunding and increased spending for capital assets, of which a certain portion of those costs are reimbursed to operating cash from the bond proceeds. The increase in accounts receivable is mostly due to slower than expected payments from customers due to the COVID-19 pandemic.

Capital assets increased $26.7 million (1.9%) from 2021 mainly due to closed projects transferred from construction in progress (Note 3).

Other assets increased $28.1 million (18.5%) from 2021. The largest portion of the change was due to an increase in restricted cash and equity in pooled investments of $26.8 million from proceeds of bonds.

**Deferred outflows of resources** – Deferred outflows of resources increased by $1.9 million (6.9%) from 2021. This change resulted mainly from assumptions related to pension accounting and differences in expected and actual experience in other post-employment benefits.

**Liabilities** – Current liabilities increased $4.9 million (5.7%) from 2021. This change mostly resulted from increases of $1.5 million in accounts payable and $3.4 million in revenue bonds due in one year.

Noncurrent liabilities decreased $26.6 million (-3.3%) over 2021. This is mainly to decrease of $15.2 million in revenue bonds due to refunding, defeasance and making regular payments, $8.3 of net pension liability and $2.0 of loans due to scheduled payments.

**Deferred inflows of resources** – Deferred inflows of resources increased by $12.0 million (17.9%) from 2021. This decrease is mainly due to an increase of $6.6 million increase in pension and OPEB and of $4.7 of unamortized gain on advanced refunding on bond issuance.

**Net position** – Net investment in capital assets was the largest portion of the Fund's net position ($720.2 million or 93.4%). This amount 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 $57.7 million from 2021 primarily from an increase in utility plant and construction in progress. Other contributing factors are decreases in debt and debt related accounts, offset by an increase in construction cash of $26.8 million as a result of bond issuance.

The Fund's restricted net position ($18.3 million or 2.4%) represents resources that are subject to restrictions on how they may be used. Restricted net position increased slightly by $1.9 million.

The Fund's unrestricted net position ($32.8 million or 4.3%) represents resources that are not subject to external restrictions and may be used to meet the Fund's obligations to creditors. This portion decreased $2.3 million in 2022 as compared to 2021 primarily as a result of a decrease in operating cash due to the defeasance of 2015 Bonds.

**2021 Compared to 2020**

**Assets** – Current assets decreased $31.6 million (-16.9%) from 2020. This is primarily due to decreases in operating cash of $32.7 million and fair value of investments of $5.0 million offset by increases in accounts receivable of $4.6 million, unbilled revenue of $0.3 million and due from other governments of $0.9 million. The change in operating cash is primarily due to bond refunding and increased spending for capital assets, of which a certain portion of those costs are reimbursed to operating cash from the bond proceeds. The increase in accounts receivable is mostly due to slower than expected payments from customers due to the COVID-19 pandemic.

Capital assets increased $3.5 million (0.3%) from 2020 mainly due to closed projects transferred from construction in progress (Note 3).

Other assets increased $22.9 million (16.7%) from 2020. The largest portion of the change was due to an increase in restricted cash and equity in pooled investments of $20.1 million from proceeds of bonds.

**Deferred outflows of resources** – Deferred outflows of resources decreased by $3.5 million (-10.9%) from 2020. This change resulted mainly from assumptions related to pension accounting and differences in expected and actual experience in other post-employment benefits.

**Liabilities** – Current liabilities increased $5.3 million (6.5%) from 2020. This change mostly resulted from increases of $3.0 million in due to other funds, other liabilities of $2.9 million and revenue bonds due in one year of $1.1 million offset by decrease in $0.7 million of accounts payable, $0.6 million of interest payable and $0.5 million in salaries and benefits payable.

Noncurrent liabilities decreased $80 million (-9.0%) over 2020. This is mainly to decrease of $63.8 million in revenue bonds due to refunding and defeasance, $14.8 of net pension liability and $2.0 of loans due to scheduled payments.

**Deferred inflows of resources** – Deferred inflows of resources decreased by $7.3 million (-9.9%) from 2020. This decrease is mainly due to a decrease of $18.2 million in the revenue stabilization account as a result of withdrawal from the account offset by increase of deferred inflows of $6.9 in pension and OPEB and of $3.9 of unamortized gain on advanced refunding on bond issuance.

**Net position** – Net investment in capital assets was the largest portion of the Fund's net position ($662.5 million or 92.8%). This amount 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 $98.6 million from 2020 primarily from an increase in utility plant and construction in progress. Other contributing factors are decreases in debt and debt related accounts, offset by an increase in construction cash of $38.2 million as a result of bond issuance.

The Fund's restricted net position ($16.4 million or 2.3%) represents resources that are subject to restrictions on how they may be used. Restricted net position increased slightly by $3.2 million.

The Fund's unrestricted net position ($35.1 million or 4.9%) represents resources that are not subject to external restrictions and may be used to meet the Fund's obligations to creditors. This portion decreased $29.6 million in 2021 as compared to 2020 primarily as a result of a decrease in operating cash due to the defeasance of 2012 Bonds.

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

| | 2022 | 2021 (as restated*) | 2020 |
|---|---|---|---|
| Operating revenues | $ 290,868,791 | $ 303,499,096 | $ 278,577,869 |
| Operating expenses | (224,994,613) | (222,136,902) | (213,442,003) |
| Net operating income | 65,874,178 | 81,362,194 | 65,135,866 |
| Other expenses, net of other revenues | (27,201,562) | (18,652,713) | (19,433,866) |
| Fees, contributions, and grants | 18,624,638 | 9,529,923 | 10,211,198 |
| Change in net position | $ 57,297,254 | $ 72,239,404 | $ 55,913,198 |

*The restatement is due to implementation of GASB 87

**2022 Compared to 2021**

Operating revenues decreased approximately $12.6 million (-4.2%) from 2021. The change was mainly driven by decreases in utility services revenue of $10.9 million and wholesale and commercial services of $1.1 million.

Operating expenses increased $2.9 million (1.3%) from 2021. Notable factors affecting this change include increases of $1.5 million in intergovernmental payments, $0.8 million in services, $0.3 million in supplies and $0.7 million in depreciation. These increases are offset by decreases of $1.1 million in amortization.

Other expenses, net of other revenues increased by $8.5 million (45.8%) over 2021. The change was primarily due to a decrease in other non-operating revenue of $6.5 million, investment losses realized and unrealized of $5.0 million and interest and debt service expenses of $3.0 million.

Capital fees, contributions and grants increased by $9.1 million (95.4%) over 2021. The main factors for the increase are $7.4 million increase in donations.

**2021 Compared to 2020**

Operating revenues increased approximately $24.9 million (8.9%) over 2020. The change was mainly driven by a transfer in from the revenue stabilization account of $19.0 million and an increase in retail water utility service of $5.6 million.

Operating expenses increased $8.7 million (4.1%) from 2020. Notable factors affecting this change include increases of $5.5 million in write offs of capital projects and other expenses, $3.2 million in services, $1.6 million of intergovernmental payments, $1.2 million in depreciation and amortization. These increases are offset by decreases of $3.1 million in salaries, wages and benefits.

Other expenses, net of other revenues decreased by $0.8 million (4.0%) over 2020. The change was primarily due to a decrease in interest and debt service expenses of $2.3 million, offset by $5 million increase in recoveries and $2.6 million increase in investment losses realized and unrealized.

Capital fees, contributions and grants decreased by $0.7 million (6.7%) over 2020. The main factors for the decrease are $1.7 million decrease in donations offset by $1.2 increase in capital contributions.

**Capital Assets**

The following table summarizes capital assets, net of accumulated depreciation, by major asset category as of December 31, 2022, 2021, and 2020:

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

| | December 31, | | |
|---|---|---|---|
| | 2022 | 2021 | 2020 |
| Land and land rights | $ 54,511,042 | $ 54,361,920 | $ 54,016,672 |
| Buildings | 125,995,394 | 131,209,658 | 136,701,527 |
| Structures | 831,320,552 | 825,180,582 | 809,255,051 |
| Machinery and equipment | 239,037,009 | 254,893,874 | 270,111,490 |
| Computer systems | 23,765,012 | 19,794,129 | 22,261,534 |
| Construction in progress | 91,176,278 | 53,698,154 | 43,894,329 |
| Artwork | 2,165,809 | 2,150,701 | 1,567,614 |
| Property held for future use | 274,512 | 274,512 | 274,512 |
| Capital assets, net of accumulated depreciation | $ 1,368,245,608 | $ 1,341,563,530 | $ 1,338,082,729 |

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 for the year ended December 31, 2022, was $1.4 billion, net of accumulated depreciation. This represents an increase of $26.7 million (2.0%) compared to 2021. Addition of capital assets was offset by increased depreciation and disposals. Highlights of the Fund's major capital assets placed in service during 2022 include the following:

- $16.1 million for Water infrastructure improvements and rehabilitation
- $8.3 million for technology
- $2.6 million for heavy equipment
- $2.5 million for Cedar Falls power service upgrade.
- $1.3 million reservoir coverings

As of December 31, 2022, the Fund had $91.0 million in construction in progress. Major projects under construction are the following:

- $30.5 million for Water system improvements and rehabilitation
- $9.6 million for Cedar and Tolt infrastructure and facility improvements
- $3.4 million for heavy equipment
- $3.0 million Cedar Falls power service upgrade
- $1.3 million for reservoir covering and security improvement.

**2021 Compared to 2020**

The Fund's investment in capital assets for the year ended December 31, 2021, was $1.34 billion, net of accumulated depreciation. This represents an increase of $3.5 million (0.3%) compared to 2020. Addition of capital assets was offset by increased depreciation and disposals. Highlights of the Fund's major capital assets placed in service during 2021 include the following:

- $19.7 million for Water infrastructure improvements and rehabilitation
- $10.6 million reservoir coverings
- $5.8 million for Cedar and Tolt infrastructure and Facilities
- $1.8 million for Technology

- $ 0.5 million in City facility improvements.

As of December 31, 2021, the Fund had $53.7 million in construction in progress. Major projects under construction are the following:

- $7.2 million for Water system improvements and rehabilitation
- $4.7 million for Technology
- $3.2 million for Cedar and Tolt infrastructure and facility
- $1.6 million in City facility
- $0.4 million in reservoir covering.

**Debt Administration**

The Fund's debt primarily consists of bonded debt and loans. Bonded debt is secured solely by water system revenues and provides financing for capital improvements. Loans issued by the Washington State Agencies for certain capital improvements are unsecured. The Fund's credit ratings on its bonds were AAA and AA+/stable 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 10 of this report.

**2022 Compared to 2021**

At December 31, 2022, the Fund had $655.2 million in bonded debt and $20.7 million in loans, as compared to $664.5 million and $22.7 million, respectively, at December 31, 2021. Bonded debt decreased a net $9.2 million, attributed to scheduled payments of debt principal on existing bonds, issuance of a new revenue and refunding bonds and defeasance of old bonds. Loans also decreased $2.0 million due to scheduled principal payments on existing loans.

**2021 Compared to 2020**

At December 31, 2021, the Fund had $664.5 million in bonded debt and $22.7 million in loans, as compared to $728.5 million and $24.8 million, respectively, at December 31, 2020. Bonded debt decreased a net $64.0 million, attributed to scheduled payments of debt principal on existing bonds, issuance of a new revenue and refunding bonds and defeasance of old bonds. Loans also decreased $2.0 million due to scheduled principal payments on existing loans.

**Requests for Information**

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

# Financial Statements

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

| | 2022 | 2021 |
|---|---|---|
| **ASSETS** | | (as restated*) |
| CURRENT ASSETS | | |
| Operating cash and equity in pooled investments | $ 88,984,265 | $ 103,019,565 |
| Receivables | | |
| Accounts, net of allowance | 26,845,923 | 24,300,001 |
| Interest and dividends | 808,874 | 780,121 |
| Unbilled revenues | 17,351,536 | 16,776,780 |
| Due from other funds | 575,031 | 222,700 |
| Due from other governments | 1,714,026 | 1,860,149 |
| Materials and supplies inventory | 9,570,926 | 7,833,426 |
| Prepayments and other current assets | 71,593 | 71,593 |
| Total current assets | 145,922,174 | 154,864,335 |
| NONCURRENT ASSETS | | |
| Restricted cash and equity in pooled investments | 139,954,210 | 113,183,254 |
| Prepayments long-term | 660,632 | 732,224 |
| Conservation costs | 23,571,297 | 24,838,794 |
| Regulatory assets | 5,119,908 | 8,482,608 |
| Other charges | 10,871,317 | 4,849,956 |
| Capital assets | | |
| Land and land rights | 54,511,042 | 54,361,920 |
| Plant in service, excluding land | 2,203,820,051 | 2,183,917,307 |
| Less accumulated depreciation | (983,702,084) | (952,839,064) |
| Construction in progress | 91,176,278 | 53,698,154 |
| Other property, net | 2,440,321 | 2,425,213 |
| Right to use lease assets | 1,011,262 | 1,147,646 |
| Total noncurrent assets | 1,549,434,234 | 1,494,798,012 |
| Total assets | 1,695,356,408 | 1,649,662,347 |
| **DEFERRED OUTFLOWS OF RESOURCES** | | |
| Unamortized loss on advanced refunding | 11,824,457 | 15,589,025 |
| Pension and OPEB contributions and changes in assumptions | 18,375,626 | 12,663,353 |
| Total deferred outflow of resources | 30,200,083 | 28,252,378 |
| Total assets and deferred outflows of resources | $ 1,725,556,491 | $ 1,677,914,725 |

See accompanying notes.

# Seattle Public Utilities – Water 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 | $ 10,739,276 | $ 9,266,873 |
| Salaries, benefits, and payroll taxes payable | 2,211,346 | 3,077,310 |
| Compensated absences payable | 292,107 | 290,827 |
| Due to other funds | 3,220,611 | 3,198,888 |
| Interest payable | 10,181,478 | 10,072,475 |
| Taxes payable | 884,235 | 887,812 |
| Revenue bonds due within one year | 50,760,000 | 47,345,000 |
| Claims payable | 1,327,286 | 1,404,703 |
| Habitat conservation program liability | 555,873 | 573,279 |
| Loans payable, due within one year | 2,049,935 | 2,049,935 |
| Short term lease liability | 149,537 | 143,667 |
| Other | 9,267,643 | 8,398,160 |
| Total current liabilities | 91,639,327 | 86,708,929 |
| NONCURRENT LIABILITIES | | |
| Compensated absences payable | 5,550,029 | 5,525,719 |
| Claims payable | 3,758,339 | 4,034,671 |
| Habitat conservation program liability | 6,242,636 | 6,369,442 |
| Loans payable | 18,626,884 | 20,676,819 |
| Unfunded other post employment benefits | 2,728,014 | 3,384,866 |
| Net pension liability | 57,103,351 | 65,444,915 |
| Lease liability | 888,380 | 1,021,674 |
| Other noncurrent liabilities | 789,231 | 623,132 |
| Revenue bonds | 604,485,000 | 617,110,000 |
| Bond premiums | 83,567,014 | 86,133,284 |
| Total noncurrent liabilities | 783,738,878 | 810,324,522 |
| Total liabilities | 875,378,205 | 897,033,451 |
| **DEFERRED INFLOWS OF RESOURCES** | | |
| Unamortized gain on advanced refunding | 8,602,110 | 3,905,643 |
| Rate stabilization account | 42,440,724 | 41,720,888 |
| Deferred inflows-pension and OPEB | 27,824,667 | 21,241,212 |
| Total deferred inflows of resources | 78,867,501 | 66,867,743 |
| **NET POSITION** | | |
| Net investment in capital assets | 720,227,690 | 662,512,834 |
| Restricted for | | |
| Other charges | 9,243,040 | 7,450,181 |
| Conservation costs | 3,496,151 | 3,640,400 |
| Habitat conservation program | 5,551,213 | 5,349,626 |
| Unrestricted | 32,792,691 | 35,060,490 |

See accompanying notes.

# Seattle Public Utilities – Water 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 | $ 290,868,791 | $ 303,499,096 |
| OPERATING EXPENSES | | |
| Salaries, wages and personnel benefits | 57,920,657 | 57,800,983 |
| Supplies | 6,225,434 | 5,961,728 |
| Services | 47,728,833 | 46,884,138 |
| Intergovernmental payments | 49,264,112 | 47,726,666 |
| Depreciation | 52,547,624 | 51,836,095 |
| Amortization | 2,972,828 | 4,035,508 |
| Other operating expenses | 8,335,125 | 7,891,784 |
| Total operating expenses | 224,994,613 | 222,136,902 |
| OPERATING INCOME | 65,874,178 | 81,362,194 |
| NONOPERATING REVENUES | | |
| Other nonoperating revenue | 3,568,905 | 10,091,196 |
| Investment income (loss) | (5,856,775) | (885,236) |
| Total nonoperating revenues (expenses) | (2,287,870) | 9,205,960 |
| NONOPERATING EXPENSES | | |
| Interest/debt service expenses | 24,908,884 | 27,852,908 |
| Other nonoperating expenses | 4,808 | 5,765 |
| Total nonoperating expenses | 24,913,692 | 27,858,673 |
| Income before capital contributions and grants | 38,672,616 | 62,709,481 |
| Capital contributions and grants | 18,624,638 | 9,529,923 |
| CHANGE IN NET POSITION | 57,297,254 | 72,239,404 |
| NET POSITION | | |
| Beginning of year | 714,013,531 | 641,774,127 |
| End of year | $ 771,310,785 | $ 714,013,531 |

*The restatement is due to implementation of GASB 87

See accompanying notes.

# Seattle Public Utilities – Water 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 | $ 295,306,731 | $ 288,505,955 |
| Cash paid to suppliers | (68,557,742) | (62,609,932) |
| Cash paid to employees | (67,223,804) | (65,307,700) |
| Cash paid for taxes | (47,266,633) | (45,659,283) |
| Net cash provided by operating activities | 112,258,552 | 114,929,040 |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | |
| Noncapital grants received | 10,776,767 | 3,355,420 |
| Payment for environmental liabilities | - | (1,170) |
| Net cash flows from noncapital financing activities | 10,776,767 | 3,354,250 |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Proceeds from the sales of bonds and other long-term debt | 104,310,712 | 107,723,718 |
| Principal payments on long-term debt | (104,519,935) | (155,969,260) |
| Capital expenditures and other charges paid | (80,805,724) | (59,084,306) |
| Interest paid on long-term debt | (31,404,466) | (34,147,913) |
| Build America Bonds Federal Interest Subsidy | 1,826,551 | 1,884,728 |
| Capital fees and grants received | 7,847,871 | 6,174,503 |
| Proceeds from the sales of capital assets | 157,407 | 191,629 |
| Net cash used in capital and related financing activities | (102,587,584) | (133,226,901) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Net change on investment | (7,712,079) | (2,714,126) |
| NET DECREASE IN CASH AND EQUITY IN POOLED INVESTMENTS | 12,735,656 | (17,657,737) |
| CASH AND EQUITY IN POOLED INVESTMENTS | | |
| Beginning of year | 216,202,819 | 233,860,556 |
| End of year | $ 228,938,475 | $ 216,202,819 |
| CASH AT THE END OF THE YEAR CONSISTS OF | | |
| Operating cash and equity in pooled investments | $ 88,984,265 | $ 103,019,565 |
| Noncurrent restricted cash and equity in pooled investments | 139,954,210 | 113,183,254 |
| Total cash at the end of the year | $ 228,938,475 | $ 216,202,819 |

See accompanying notes.

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

| | 2022 | 2021 |
|---|---|---|
| RECONCILIATION OF NET OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES | | (as restated*) |
| Net operating income | $ 65,874,178 | $ 81,362,194 |
| Adjustments to reconcile net operating income to net cash provided by operating activities | | |
| Adjustment for net pension liability | (7,470,382) | (7,150,223) |
| Depreciation and amortization | 55,520,452 | 55,871,603 |
| Other cash receipts | 1,923,147 | 3,643,341 |
| Changes in operating assets and liabilities | | |
| Accounts receivable | (2,545,922) | (4,256,847) |
| Unbilled revenues | (574,756) | (259,971) |
| Due from other funds | (352,331) | 63,624 |
| Due from other governments | 146,123 | (975,302) |
| Materials and supplies inventory | (1,737,500) | (811,398) |
| Other assets | 207,975 | (1,036,341) |
| Accounts payable | 1,472,403 | (657,316) |
| Salaries, benefits, and payroll taxes payable | (865,964) | (510,030) |
| Compensated absences payable | 25,590 | (108,102) |
| Due to other funds | 21,723 | 3,194,363 |
| Due to other governments | - | (109,515) |
| Claims payable | (353,749) | 207,630 |
| Taxes payable | (3,577) | 76,672 |
| Regulatory liability - revenue stabilization account | 719,836 | (18,159,309) |
| Credits and other | 251,306 | 4,543,967 |
| Total adjustments | 46,384,374 | 33,566,846 |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | $ 112,258,552 | $ 114,929,040 |
| NONCASH TRANSACTIONS | | |
| Contributed infrastructure | $ 10,649,716 | $ 3,251,810 |

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

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

SPU receives certain services from other departments and agencies of the City, including information technology and some that are normally considered to be general and administrative. The Fund is charged a share of these costs and during 2022 and 2021, paid $22,092,298 and $22,719,184, 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 $36,215,378 and $35,036,125 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 $2,229,900 and $2,265,351 in 2022 and 2021, respectively. The Fund paid $82,644 and $113,764 for the utility billing services in 2022 and 2021, respectively.

Water services provided to other City departments and agencies are billed at rates prescribed by City ordinances. The Fund collected $3,961,983 and $4,260,281 in 2022 and 2021, respectively, from the City for water services provided.

The Fund is subject to regulation by the City and the State of Washington. Service rates are authorized by ordinances passed by the Seattle City Council (City Council). Financial reporting is reviewed by the Washington State Auditor's Office and conforms to accounting principles generally accepted in the United States of America (U.S. GAAP) 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 statements of revenues, expenses, and changes in net position 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 Statement 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 are comprised of unexpended bond proceeds, bond reserve account and a revenue stabilization account.

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

**Due from/to other funds and governments** – Activity between 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 $875,337 and $974,384, 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.

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

**Revenue Stabilization Account** – The Revenue Stabilization Account (RSA) was established by City Ordinance 122841 to reduce year-to-year variation in rates. Amounts deposited into the RSA are excluded from the statements of revenues, expenses, and changes in net position and treated as a credit in accordance with GASB Statement No. 62. The RSA is included in the “Revenue Stabilization Account” identified in the Fund’s bond covenants. These covenants provide that withdrawals and deposits from the “Revenue Stabilization Account” shall augment or reduce adjusted net revenue available for the payment of debt service. In 2022, there was no deposit to or withdrawal from the RSA.

**BPA account** – In 2003, the Bonneville Power Administration (BPA) purchased an easement in the amount of $6.0 million from the Fund to construct a power transmission line through the Cedar River Watershed. This $6.0 million, together with $657,149 in timber sales related to the easement, were deposited into the BPA account and classified as restricted assets. At December 31, 2022 and 2021, the cash balance in the BPA account was $511,323 and $503,366, respectively. Monies in the BPA account are considered a portion of the “Revenue Stabilization Account” described in bond covenants, and therefore shall augment or reduce adjusted net revenue available for the payment of debt service. The Fund will recognize the revenues deposited in the BPA account in the calculation of adjusted net revenues available for the payment of debt service as they are withdrawn to fund certain activities in the Cedar River Watershed.

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

**Other charges** – Other charges include costs such as the Water System Plan, leasehold improvements, and the Tolt Levee modification. The Fund amortizes these charges over a 2- to 33-year period.

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

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

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

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

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

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 which qualifies for reporting in this category. A deferred loss on refunding bonds results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The Fund has also recorded deferred outflows of resources for certain pension and OPEB 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 changes in proportion and differences between employer contributions and proportionate share of contributions. The Fund has a revenue stabilization account which qualifies for reporting in this category.

**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.

**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 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.

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

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

**Operating expenses** – 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 15.54% of Fund revenues, net of certain credits and certain revenues. In addition, the Fund paid a 5.03% public utility tax to the State on a certain portion of revenues identified as utility revenues. The Fund also paid business and occupation tax to the City at the rate of 0.22% and to the State at the rate of 1.75% for certain other non-utility revenues.

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

**Net position** – The 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, less accumulated depreciation, reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Net position is restricted when constraints placed on net position use are either (1) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or (2) imposed by law through constitutional provisions or enabling legislation. The Fund's restricted net position as of December 31, 2022, and 2021, are mainly related to conservation costs, HCP and certain other charges.

Unrestricted net positions are those that are not "net investment in capital assets" or "restricted."

Arbitrage rebate requirement – The Fund is subject to the Internal Revenue Code (IRC), Section 148(f), related to its tax-exempt revenue bond. The IRC requires that earnings on gross proceeds of any revenue bonds that are more than the amount prescribed will be surrendered to the Internal Revenue Service. As such, the Fund would record such a rebate as a liability. The Fund had no arbitrage liability 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 $1,272,500 and right-to-use assets by $1,283,816.

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

| | 2021 As Previously Reported | Restatement Related to Adoption of GASB 87 | 2021 As Restated |
|---|---|---|---|
| **ASSETS** | | | |
| NONCURRENT ASSETS | | | |
| Right to use lease assets | $ - | $ 1,147,646 | $ 1,147,646 |
| Total noncurrent assets | 1,493,650,366 | 1,147,646 | 1,494,798,012 |
| Total assets | 1,648,514,701 | 1,147,646 | 1,649,662,347 |
| Total assets and deferred outflows of resources | $ 1,676,767,079 | $ 1,147,646 | $ 1,677,914,725 |
| **LIABILITIES** | | | |
| CURRENT LIABILITIES | | | |
| Short term lease liability | $ - | $ 143,667 | $ 143,667 |
| Total current liabilities | 86,565,262 | 143,667 | 86,708,929 |
| NONCURRENT LIABILITIES | | | |
| Lease liability | - | 1,021,674 | 1,021,674 |
| Total noncurrent liabilities | 809,302,848 | 1,021,674 | 810,324,522 |
| Total liabilities | 895,868,110 | 1,165,341 | 897,033,451 |
| **NET POSITION** | | | |
| Unrestricted | 35,078,185 | (17,695) | 35,060,490 |
| Total net position | 714,031,226 | (17,695) | 714,013,531 |
| Total liabilities, deferred inflows of resources and net position | $ 1,676,767,079 | $ 1,147,646 | $ 1,677,914,725 |

**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 | $ 47,020,613 | $ (136,475) | $ 46,884,138 |
| Amortization | 3,885,933 | 149,575 | 4,035,508 |
| Total operating expenses | 222,123,802 | 13,100 | 222,136,902 |
| OPERATING INCOME | 81,375,294 | (13,100) | 81,362,194 |
| NONOPERATING EXPENSES | | | |
| Other nonoperating expenses | 1,170 | 4,595 | 5,765 |
| Total nonoperating expenses | 27,854,078 | 4,595 | 27,858,673 |
| Income before capital contributions and grants | 62,727,176 | (17,695) | 62,709,481 |
| CHANGE IN NET POSITION | 72,257,099 | (17,695) | 72,239,404 |
| NET POSITION | | | |
| Beginning of year | 641,774,127 | - | 641,774,127 |
| End of year | $ 714,031,226 | $ (17,695) | $ 714,013,531 |

**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, risk liabilities, post-retirement benefits, pension liability, and other contingencies. Changes in these estimates and assumptions may have a material impact on the financial statements.

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

**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 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 percent of the Pool's market value. Credit investments must be diversified by sector and industry. No single issuer shall exceed 3 percent 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 percent of the Pool's market value. No single issuer rated in the single-A category may exceed 2 percent 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 percent 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 twelve to eighteen months. This portfolio has low duration and high liquidity. Consistent with this profile, and for the purpose of comparing earnings yield, its benchmark is the net earnings rate of the State of Washington's Local Government Investment Pool (LGIP).

The Strategic Portfolio consists of cash that is in excess of known and expected liquidity needs. Accordingly, this portfolio is invested in debt securities with longer maturities than the Operating Portfolio, which over a market cycle, is expected to provide a higher return and greater investment income.

Consistent with this profile, and for the purpose of comparing duration, yield and total return, the benchmark for the Strategic portfolio is the Barclays U.S. Government 1–7 year index. The duration of the Strategic Portfolio is targeted between 75% 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, 2022, 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 US 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 | December 31, 2022 | Level 1 Inputs | Level 2 Inputs | Level 3 Inputs | 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 |
|---|---|---|
| Cash and equity in pooled investments | $ 88,984,265 | $ 103,019,565 |
| Restricted cash and equity in pooled investments | 139,954,210 | 113,183,254 |
| Total | $ 228,938,475 | $ 216,202,819 |
| Balance as a percentage of City Pool cash and investments | 6.6% | 7.7% |

**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, commercial paper as well as bank notes and corporate notes.

The City's investments in which five percent or more is invested in any single issuer, as of December 31 are as follows (in thousands):

| | 2022 | | 2021 | |
|---|---|---|---|---|
| Issuer | Fair Value | Percent of Total Investments | Fair Value | Percent of Total Investments |
| United States Government | $ 1,182,412 | 34% | $ 745,737 | 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 | $ 213,549,267 | $ 147,791 | $ (100,000) | $ 213,597,058 |
| Structures | 1,273,226,621 | 48,503,661 | (23,377,958) | 1,298,352,324 |
| Machinery and equipment | 595,155,828 | 3,705,810 | (5,848,747) | 593,012,891 |
| Computer systems | 101,985,591 | 9,310,796 | (12,438,609) | 98,857,778 |
| Total capital assets - excluding land | 2,183,917,307 | 61,668,058 | (41,765,314) | 2,203,820,051 |
| Less accumulated depreciation | (952,839,064) | (52,547,624) | 21,684,604 | (983,702,084) |
| | 1,231,078,243 | 9,120,434 | (20,080,710) | 1,220,117,967 |
| Construction in progress | 53,698,154 | 76,623,875 | (39,145,751) | 91,176,278 |
| Land and land rights | 54,361,920 | 149,122 | - | 54,511,042 |
| Artwork | 2,150,701 | 15,108 | - | 2,165,809 |
| Property held for future use | 274,512 | - | - | 274,512 |
| Capital assets, net | $ 1,341,563,530 | $ 85,908,540 | $ (59,226,461) | $ 1,368,245,608 |

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 | $ 214,518,016 | $ 535,848 | $ (1,504,597) | $ 213,549,267 |
| Structures | 1,237,561,394 | 36,470,896 | (805,669) | 1,273,226,621 |
| Machinery and equipment | 594,087,854 | 2,951,576 | (1,883,602) | 595,155,828 |
| Computer systems | 100,359,144 | 1,626,447 | - | 101,985,591 |
| Total capital assets - excluding land | 2,146,526,408 | 41,584,767 | (4,193,868) | 2,183,917,307 |
| Less accumulated depreciation | (908,196,806) | (47,811,209) | 3,168,951 | (952,839,064) |
| | 1,238,329,602 | (6,226,442) | (1,024,917) | 1,231,078,243 |
| Construction in progress | 43,894,329 | 61,504,581 | (51,700,756) | 53,698,154 |
| Land and land rights | 54,016,672 | 345,248 | - | 54,361,920 |
| Artwork | 1,567,614 | 583,087 | - | 2,150,701 |
| Property held for future use | 274,512 | - | - | 274,512 |
| Capital assets, net | $ 1,338,082,729 | $ 56,206,474 | $ (52,725,673) | $ 1,341,563,530 |

During 2022 and 2021, the Fund capitalized interest costs as a regulatory asset relating to construction of $2,519,976 and $1,967,414, respectively.

### Note 4 – Revenue Bonds

The Fund issues bonds to provide financing for capital improvements. Payment of debt service on the bonds is derived solely from the revenues generated by the Fund. The Fund has set aside $20,884,236 in a debt service reserve account 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 $655,245, and $664,455,000, respectively.

Revenue bonds outstanding as of December 31, 2022 and 2021, consisted of the following Municipal Water bonds:

| Name of Issue | Issuance Date | Maturity Years | Interest Rates | Original Issue Amount | Bonds Outstanding 2022 | Bonds Outstanding 2021 |
|---|---|---|---|---|---|---|
| 2010 Improvement, Series A [a] (Taxable) | 1/21/10 | 2019-2040 | 4.67-5.89% | $ 109,080,000 | $ 94,985,000 | $ 98,680,000 |
| 2012 Refunding | 5/30/12 | 2012-2034 | 2.0-5.0% | 238,770,000 | 10,750,000 | 62,660,000 |
| 2015 Improvement and Refunding | 6/10/15 | 2015-2045 | 2.0-5.0% | 340,840,000 | 209,450,000 | 247,250,000 |
| 2017 Improvement and Refunding | 1/25/17 | 2017-2046 | 4.0-5.0% | 194,685,000 | 167,710,000 | 173,645,000 |
| 2021 Improvement and Refunding | 6/14/21 | 2022-2034 | 4.0-5.0% | 82,220,000 | 79,990,000 | 82,220,000 |
| 2022 Improvement and Refunding | 7/28/22 | 2022-2052 | 5.0% | 93,260,000 | 92,360,000 | - |
| | | | | $ 1,140,615,000 | $ 655,245,000 | $ 664,455,000 |

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

| Years Ending December 31, | Principal | Interest | Total |
|---|---|---|---|
| 2023 | $ 50,760,000 | $ 30,529,795 | $ 81,289,795 |
| 2024 | 44,025,000 | 27,962,999 | 71,987,999 |
| 2025 | 46,170,000 | 25,722,859 | 71,892,859 |
| 2026 | 44,140,000 | 23,446,577 | 67,586,577 |
| 2027 | 42,405,000 | 21,286,301 | 63,691,301 |
| 2028 - 2032 | 181,590,000 | 78,385,268 | 259,975,268 |
| 2033 - 2037 | 127,340,000 | 43,178,996 | 170,518,996 |
| 2038 - 2042 | 68,105,000 | 18,860,634 | 86,965,634 |
| 2043 - 2047 | 38,975,000 | 7,061,150 | 46,036,150 |
| 2048 - 2052 | 11,735,000 | 1,817,250 | 13,552,250 |
| | $ 655,245,000 | $ 278,251,829 | $ 933,496,829 |

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 | $ 664,455,000 | $ 93,260,000 | $ (102,470,000) | $ 655,245,000 | $ 50,760,000 |
| Add (deduct) deferred amounts | | | | | |
| Issuance premiums | 86,133,284 | 11,697,513 | (14,263,783) | 83,567,014 | - |
| Total bonds payable | $ 750,588,284 | $ 104,957,513 | $ (116,733,783) | $ 738,812,014 | $ 50,760,000 |

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 | $ 728,490,000 | $ 82,220,000 | $ (146,255,000) | $ 664,455,000 | $ 47,345,000 |
| Add (deduct) deferred amounts | | | | | |
| Issuance premiums | 84,745,352 | 21,854,979 | (20,467,047) | 86,133,284 | - |
| Total bonds payable | $ 813,235,352 | $ 104,074,979 | $ (166,722,047) | $ 750,588,284 | $ 47,345,000 |

**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, $54,225,000 bonds were defeased and $110,740,000 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 | $ 75,265,000 | $ 35,475,000 | $ (110,740,000) | $ - |
| 2015 Improvement and Refunding | - | 18,750,000 | - | 18,750,000 |
| | $ 75,265,000 | $ 54,225,000 | $ (110,740,000) | $ 18,750,000 |

In July 2022, the Fund issued $93,260,000 of Water System Improvement and Refunding Revenue Bonds with varying annual principal payments due beginning 2022 and ending in 2052, at interest rates of 5.0 percent. A portion of the proceeds were used to partially refund the 2012 Water System Improvement and Refunding bonds. As a result of the refunding, the Fund reduced total debt service requirements by $1.8 million resulting in an economic gain (difference between the present value of the debt service payments on the old and new debts) of $1.7 million.

In July 2022, the Fund used operating cash to partially defease the 2015 bonds, reducing the principal amount owed by $18.8 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 at least equal to 125% of average annual debt service. For 2022, net revenue available for debt service, as defined by the bond covenants, was 232% of annual debt service. As of December 31, 2022, management believes the Fund complied with all debt covenants. For more information, see Other Information (page 55).

**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 2023 and 2030. Leases that have a maximum possible lease term that are non-cancelable by both lessee and lessor, and 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 | $ 1,209,726 | $ - | $ - | $ 1,209,726 |
| Building | 70,613 | - | - | 70,613 |
| Equipment | 16,881 | 20,493 | - | 37,374 |
| Total leased assets being depreciated | 1,297,220 | 20,493 | - | 1,317,713 |
| Less Accumulated amortization: | | | | |
| Land | (131,970) | (131,970) | - | (263,940) |
| Building | (15,406) | (15,407) | - | (30,813) |
| Equipment | (2,198) | (9,500) | - | (11,698) |
| Total accumulated depreciation | (149,574) | (156,877) | - | (306,451) |
| Net, leased assest | $ 1,147,646 | $ (136,384) | $ - | $ 1,011,262 |

| | 2021 | | | |
|---|---|---|---|---|
| | Beginning of the year | Additions | Retirements and Other | End of year |
| Leased assets being depreciated: | | | | |
| Land | $ 1,209,726 | $ - | $ - | $ 1,209,726 |
| Building | 70,613 | - | - | 70,613 |
| Equipment | 3,477 | 13,404 | - | 16,881 |
| Total leased assets being depreciated | 1,283,816 | 13,404 | - | 1,297,220 |
| Less Accumulated amortization: | | | | |
| Land | - | (131,970) | - | (131,970) |
| Building | - | (15,406) | - | (15,406) |
| Equipment | - | (2,198) | - | (2,198) |
| Total accumulated depreciation | - | (149,574) | - | (149,574) |
| Net, leased assest | $ 1,283,816 | $ (136,170) | $ - | $ 1,147,646 |

Minimum payments under the leases for the years ending December 31 are shown below:

| Year ending December 31, | Principal Payments | Interest Payments | Total Payments |
|---|---|---|---|
| 2023 | $ 149,537 | $ 3,651 | $ 153,188 |
| 2024 | 158,600 | 3,071 | 161,671 |
| 2025 | 154,134 | 2,453 | 156,587 |
| 2026 | 138,035 | 1,903 | 139,938 |
| 2027 | 137,712 | 1,381 | 139,093 |
| 2028-2030 | 299,899 | 1,193 | 301,092 |
| | $ 1,037,917 | $ 13,652 | $ 1,051,569 |

## 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 which were established by including the experience of retirees with the experience of active employees for underwriting purposes. The postemployment benefit provisions are established and may be amended by ordinance of the Seattle City Council and as provided in Seattle Municipal Code 4.50.020. The City provides an implicit 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 $2.7 million in 2022 and $3.4 million in 2021. The Fund's proportionate share of the change in the OPEB liability was 4.65% and 4.62% 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 as of December 31, 2022, are shown below.

| | Total OPEB Liability at December 31, 2022 | Total OPEB Liability at December 31, 2021 |
|---|---|---|
| Changes recognized for the fiscal year: | | |
| Service cost | $ 209,836 | $ 185,505 |
| Interest on the total OPEB liability | 72,189 | 83,779 |
| Differences between expected and actual experience | (744,918) | - |
| Changes of assumptions | (72,342) | 172,723 |
| Benefit payments | (141,290) | (135,540) |
| Contributions from the employer | - | - |
| Other changes | 19,673 | 63,624 |
| Net changes | (656,852) | 370,091 |
| Balance recognized at 12/31/2021 | 3,384,866 | 3,014,775 |
| Balance recognized at 12/31/2022 | $ 2,728,014 | $ 3,384,866 |

The Fund recorded an expense for OPEB of $144,357 in 2022 and $220,456 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 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 | OPEB Liability at December 31, 2021 |
|---|---|---|
| Discount rate | | |
| 1% decrease | $ 2,969,455 | $ 3,683,386 |
| Current discount rate | 2,728,014 | 3,384,866 |
| 1% increase | 2,506,469 | 3,110,973 |

The following table presents the sensitivity of net Health Plan OPEB liability calculation to a 1% increase and a 1% decrease in the healthcare 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 | $ 2,428,495 | $ 2,988,645 |
| Trend rate | 2,728,014 | 3,384,866 |
| 1% increase | 3,085,756 | 3,859,079 |

**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 | $ 525,416 | $ 664,211 |
| Assumption changes | 136,679 | 921,717 |
| Contributions made in 2022 after measurement date | 113,236 | - |
| Total | $ 775,331 | $ 1,585,928 |

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 | $ 625,453 | $ - |
| Assumption changes | 154,290 | 1,022,652 |
| Contributions made in 2021 after measurement date | 140,439 | - |
| Total | $ 920,182 | $ 1,022,652 |

The Fund's contributions made in 2022 in the amount of $113,236 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 | $ | (141,223) |
| 2024 | | (141,223) |
| 2025 | | (141,223) |
| 2026 | | (141,223) |
| 2027 | | (100,010) |
| Thereafter | | (258,931) |
| Total | $ | (923,833) |

The Health Care Sub Fund of the General Fund is reported in the City's Comprehensive Annual Financial Report, which can be obtained by writing the Department of Finance, City of Seattle, PO Box 94747, Seattle, Washington 98124-4747 or www.seattle.gov/financial-services/comprehensive-annual-financial-report.

**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 $1,327,286 and $1,404,703 at December 31, 2022 and 2021, respectively. The table below presents the changes in the liability for workers' compensation claims and other claims (risk-financing liabilities) as of December 31:

| | 2022 | 2021 |
|---|---|---|
| Beginning liability, discounted | $ 5,439,374 | $ 5,231,744 |
| Payments | (1,889,280) | (829,841) |
| Incurred claims and changes in estimate | 1,535,531 | 1,037,471 |
| Ending liability, discounted | $ 5,085,625 | $ 5,439,374 |

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 schedule below presents the compensated absences activity during the years ended December 31:

| | 2022 | 2021 |
|---|---|---|
| Beginning liability | $ 5,816,546 | $ 5,924,648 |
| Additions | 6,255,624 | 6,157,247 |
| Reductions for time used | (6,230,034) | (6,265,349) |
| Ending liability | $ 5,842,136 | $ 5,816,546 |

**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 ten 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 ten 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 5 years of credited service.

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

**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 $8,243,625 and $8,226,382, 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 $57,103,351 and $65,444,915, respectively, its proportionate share of the Systems' 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 these 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 5.90 % and 5.85%, respectively.

For the years ended December 31, 2022 and 2021, the Fund recognized pension expense of approximately $913,000 and $3,000,000, 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 | $ 181,371 | $ 1,301,985 |
| Change of assumptions | 8,230,717 | - |
| Net difference between projected and actual earnings | - | 24,645,600 |
| Contributions made subsequent to measurement date | 8,574,551 | |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | 613,654 | 291,154 |
| Total | $ 17,600,293 | $ 26,238,739 |

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 | $ 229,177 | $ 1,739,940 |
| Change of assumptions | 2,956,687 | - |
| Net difference between projected and actual earnings | - | 17,284,684 |
| Contributions made subsequent to measurement date | 8,557,308 | |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | - | 1,193,936 |
| Total | $ 11,743,172 | $ 20,218,560 |

Amounts currently reported as deferred outflows of resources relate to actual experience and difference in actual earnings on pension investments from projected earnings and will be recognized in pension expense as follows for years ending December 31:

| | |
|---|---|
| 2023 | $ (3,979,234) |
| 2024 | (7,723,520) |
| 2025 | (4,820,662) |
| 2026 | (1,435,016) |
| 2027 | 745,435 |
| | $ (17,212,997) |

**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 | 2.6% |
| 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 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, through 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 employers' contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the System's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods on projected benefit payment to determine total pension liability.

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

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 1 percentage point lower (5.75%) or 1 percentage point higher (7.75%) than the current rate.

| 1% Decrease 5.75% | Current Discount Rate 6.75% | 1% Increase 7.75% |
|---|---|---|
| $ 100,313,393 | $ 57,103,351 | $ 20,969,736 |

**Note 10 – Loans**

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

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

| Description | Maturity Years | Interest Rate | Loan Amount | Loans Outstanding 2022 | Loans Outstanding 2021 |
|---|---|---|---|---|---|
| Myrtle Reservoir | 2008-2025 | 1.5% | $ 4,040,000 | $ 673,333 | $ 897,778 |
| Beacon Reservoir | 2008-2026 | 1.5% | 4,040,000 | 850,526 | 1,063,158 |
| West Seattle Reservoir | 2009-2027 | 1.5% | 3,030,000 | 797,369 | 956,842 |
| Maple Leaf | 2011-2029 | 1.5% | 3,030,000 | 1,129,449 | 1,290,799 |
| Maple Leaf ARRA | 2013-2031 | 1.0% | 7,341,758 | 3,670,879 | 4,037,967 |
| Morse Lake Pump Plant #1 | 2014-2037 | 1.5% | 12,120,000 | 9,090,000 | 9,696,000 |
| Morse Lake Pump Plant #2 | 2017-2036 | 1.5% | 6,060,000 | 4,465,263 | 4,784,210 |
| | | | $ 39,661,758 | $ 20,676,819 | $ 22,726,754 |

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

| Years Ending December 31, | Principal | Interest | Total |
|---|---|---|---|
| 2023 | $ 2,049,935 | $ 291,798 | $ 2,341,733 |
| 2024 | 2,049,935 | 262,884 | 2,312,819 |
| 2025 | 2,049,935 | 233,971 | 2,283,906 |
| 2026 | 1,825,490 | 205,057 | 2,030,547 |
| 2027 | 1,612,859 | 179,510 | 1,792,369 |
| 2028 - 2032 | 6,782,876 | 593,371 | 7,376,247 |
| 2033 - 2037 | 4,305,789 | 184,192 | 4,489,981 |
| | $ 20,676,819 | $ 1,950,783 | $ 22,627,602 |

The table below summarizes the activity for the loans for the years ended December 31:

| | 2022 | 2021 |
|---|---|---|
| Net loans, beginning of year | $ 22,726,754 | $ 24,776,689 |
| Loan proceeds | - | - |
| Principal payments | (2,049,935) | (2,049,935) |
| Net loans, end of year | $ 20,676,819 | $ 22,726,754 |
| Loans due within one year | $ 2,049,935 | $ 2,049,935 |
| Loans, noncurrent | $ 18,626,884 | $ 20,676,819 |

**Note 11 – Commitments**

The Fund is required by the Washington State Department of Health (DOH) to complete a program to cover its open, above-ground distribution system reservoirs. The total cost of burying six reservoirs is expected to be approximately $221.6 million through the year 2025; costs beyond 2025 are not estimable as of the date of this report. As of December 31, 2022 and 2021, total cumulative costs incurred were $179.8 million and $177.7 million, respectively.

The City has wholesale contracts with Cascade Water Alliance (CWA) and nineteen individual water districts and municipalities. Sixteen wholesale customers have full and partial requirements contracts which obligate the City to meet the wholesale customers' demand that is not already met by their independent sources of supply. The full and partial requirements contracts include amendment periods where the parties may opt to review and change certain contract terms and conditions in 2022 and 2042. The City and the full and partial requirements Wholesale Customers began the review of certain contract terms in 2021 to determine if any amendments are desired in 2022 under the first amendment period. This review period has been extended one year by mutual agreement, with potential amendments becoming effective in 2024.

Two wholesale customers (including CWA) have block contracts which obligate the City to provide water up to a combined maximum of 41.85 MGD per year. Two other wholesale customers have emergency intertie agreements and do not purchase water from Seattle on a regular basis. The CWA contract expires in 2063 while other wholesale contracts expire in 2062. In 2020, Cascade requested that the City consider selling it additional increments of surplus water that would extend the date at which Cascade's block would begin to decline to sometime past 2039. The City's declining block contract does not obligate the City to sell any additional surplus water to Cascade or any further extensions, unless by mutual agreement. The City began discussions with Cascade in 2022.

The City also has a contract with the City of North Bend to provide untreated water supply up to an average annual amount of 1.1 MGD through 2066 for use in supplementing stream flows.

**Note 12 – Habitat Conservation Program Liability**

SPU has prepared a comprehensive environmental management plan for its Cedar River Watershed. The purpose of the Habitat Conservation Plan (HCP) is to protect all species of concern that may be affected by the operations of SPU and SCL in the Cedar River Watershed, while allowing the City to continue to provide high quality drinking water to the region. The federal government has accepted the HCP. The total cost of implementing the HCP is expected to be $117.0 million (in 2022 dollars) over a period of 50 years (from the year 2000 through the year 2050).

Expenditures are being funded from a combination of the Fund's operating revenues and issuance of revenue bonds. The total amount expended for the HCP through 2022 is $102.9 million. The remaining $14.1 million to complete the HCP is comprised of an $6.8 million liability and an estimate of $7.3 million for construction and operating commitments. The construction activities will add to the Fund's capital assets and the operating activities are mainly research, monitoring, and maintenance of the HCP Program that will be expensed as incurred.

# 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' Pension 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)

**Water Fund Debt Service Coverage Calculation 2022**

| | |
|---|---|
| **Operating Revenues** | |
| Utility Service | $ 221,695,195 |
| Wholesale/Commercial | 56,241,782 |
| Other | 12,931,814 |
| **Total Operating Revenue** | 290,868,791 |
| **Operating Expense** | |
| Salaries and Wages | 40,867,886 |
| Personnel Benefits | 17,052,772 |
| Supplies | 6,225,434 |
| Services | 47,728,833 |
| Intergovernmental Payments | 49,264,112 |
| Other Operating Expense | 8,335,126 |
| **Total Operating Expenses** | 169,474,163 |
| **Net Operating Income** | 121,394,628 |
| **Adjustments** | |
| Add: Capital Contributions Connection Charge | 5,438,490 |
| Add: City Taxes | 36,215,378 |
| Add: Investment Interest | 3,194,095 |
| Less: DSRF Earnings | (328,551) |
| Add: BAB's Subsidy | 1,826,551 |
| Add (Less): Net Other Nonoperating Revenues/(Expenses) | 12,974,172 |
| Add: Proceeds from Sale of Assets | 273,993 |
| **Total Adjustments** | 59,594,128 |
| **Net Revenue Available for Debt Service** | $ 180,988,756 |
| *w/o Credit for City Taxes* | $ 144,773,378 |
| **Annual Debt Service** | |
| Annual Debt Service | $ 78,323,905 |
| Less: DSRF Earnings | (328,551) |
| **Adjusted Annual Debt Service** | $ 77,995,354 |
| Coverage | 2.32 |
| Coverage without taxes | 1.86 |

### Water System Operating Statistics

| | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|
| Population Served | | | | | |
| Retail | 788,000 | 806,000 | 820,000 | ** | ** |
| Wholesale(1) | 718,000 | 729,000 | 741,000 | ** | ** |
| Total Population Served | 1,506,000 | 1,535,000 | 1,561,000 | ** | ** |
| Water Sales Revenues ($000)(2)(3) | | | | | |
| Retail | $ 207,963 | $ 210,994 | $ 207,590 | $ 213,552 | $ 221,695 |
| Wholesale | 57,941 | 56,985 | 56,782 | 57,362 | 56,242 |
| Total Water Sales Revenues | $ 265,904 | $ 267,979 | $ 264,372 | $ 270,914 | $ 277,937 |
| Billed Water Consumption (MG)(3) | | | | | |
| Retail | 20,233 | 19,889 | 18,882 | 19,522 | 19,560 |
| Wholesale | 22,987 | 22,128 | 21,849 | 23,328 | 22,747 |
| Total Billed Water Use | 43,220 | 42,017 | 40,731 | 42,849 | 42,307 |
| Operating Costs ($ per MG) | $ 4,924 | $ 5,250 | $ 5,240 | $ 5,184 | $ 5,476 |
| Gallons Used per Day per Capita(4) | 79 | 75 | 71 | 75 | 74 |
| Retail Meters in Use | 196,634 | 197,747 | 198,726 | 200,152 | 200,706 |
| Number of New Retail Meters | 1,303 | 1,113 | 979 | 1,426 | 554 |
| Total Water Diversions (MGD) | 125.0 | 124.2 | 118.2 | 124.9 | 123.6 |
| Non-Revenue | 6.5 | 9.1 | 7.0 | 7.5 | 7.6 |
| % Non-Revenue | 5.2 | 7.3 | 5.9 | 6.0 | 6.2 |

** 2021 and 2022 population served estimates are unchanged from 2020 estimates. Data used to estimate population is currently not available and is not expected to be available until later in 2023.

(1) This is the estimated total population served by SPU's water supply

(2) Revenues represent payments from customers for service provided at published rates in each year.

Revenues shown do not include the impacts of transfers to/from the Revenue Stabilization Account.

(3) Per capita billed water consumption has been generally decreasing for the past 25 years. Variations in billed water use

(4) Gallons used per Day per Capita in 2021 and 2022 use the population from 2020.

**Major Retail Water Customers – 2022 Annual Revenues and Volumes**

Port of Seattle, University of Washington, City of Seattle, Seattle Housing Authority, King County, Equity Residential, Marriott International Inc., Nucor Steel, Certainteed Gypsum, CenTrio Energy Seattle. In aggregate, charges to these customers represented roughly 10% of the total billed direct service revenue for the year.

# Seattle Public Utilities – Water Fund
## (An Enterprise Fund of the City of Seattle)
## Other Information (Unaudited)

### Water Rates – Effective January 1, 2023

### Effective January 1, 2023

| (a) | (b) | (c) | (d) | (e) | (f) | (g) | (h) | (i) | (j) | (k) | (l) | (m) | (n) | (o) | (p) | (q) | (r) | (s) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Direct Service | | | | | | | | | | | | | | | | | |
| RATE SCHEDULES | Inside City | | | | Outside City | | | | City of Shoreline / City of Lake Forest Park | | | | | Burien | | | | Mercer Island |
| | Residential | MMRD* | Gen Svc | Fire Service | Residential | MMRD* | Gen Svc | Fire Service | Residential | MMRD* | Gen Svc | Fire Service | MMRD* w/PUT | Residential | MMRD* | Gen Svc | Fire Service | Gen Svc |
| Commodity Charge ($/100 Cubic Feet) | | | | | | | | | | | | | | | | | | |
| Offpeak Usage (Sept 16-May 15) | $5.76 | $5.76 | $5.72 | | $6.57 | $6.57 | $6.52 | | $6.99 | $6.99 | $6.94 | | $6.54 | $7.33 | $7.33 | $7.29 | | $6.89 |
| Peak Usage (May 16-Sept 15) | | | | | | | | | | | | | | | | | | |
| Up to 5 ccf** | $5.92 | $5.92 | $7.27 | | $6.75 | $6.75 | $8.29 | | $7.18 | $7.18 | $8.82 | | $6.72 | $7.53 | $7.53 | $9.21 | | $8.75 |
| Next 13 ccf** | $7.32 | $7.32 | $7.27 | | $8.34 | $8.34 | $8.29 | | $8.88 | $8.88 | $8.82 | | $8.31 | $9.26 | $9.26 | $9.21 | | $8.75 |
| Over 18 ccf** | $11.80 | $11.80 | $7.27 | | $13.45 | $13.45 | $8.29 | | $14.31 | $14.31 | $8.82 | | $13.39 | $14.62 | $14.62 | $9.21 | | $8.75 |
| Usage over base allowance | | | | $20.00 | | | | $22.80 | | | | $24.30 | | | | | $24.80 | |
| Utility Credit ($/month) | $24.33 | | $13.25 | | $24.33 | | $13.25 | | $24.33 | | $13.25 | | | $24.33 | | $13.25 | | $13.25 |
| Base Service Charge ($/month/meter) | | | | | | | | | | | | | | | | | | |
| 3/4 inch and less | $19.60 | | $19.55 | | $22.35 | | $22.30 | | $23.75 | | $23.70 | | | $24.85 | | $24.85 | | |
| 1 inch | $20.20 | | $20.15 | | $23.05 | | $22.95 | | $24.50 | | $24.45 | | | $25.60 | | $25.55 | | |
| 1-1/2 inch | $31.15 | $31.15 | $31.10 | | $35.50 | $35.50 | $35.45 | | $37.80 | $37.80 | $37.70 | | $35.40 | $39.15 | $39.15 | $39.15 | | |
| 2 inch | $34.50 | $34.50 | $34.40 | $17.75 | $39.35 | $39.35 | $39.20 | $20.00 | $41.85 | $41.85 | $41.70 | $22.00 | $39.15 | $43.30 | $43.30 | $43.25 | $22.00 | |
| 3 inch | $127.80 | $127.80 | $127.45 | $23.00 | $145.70 | $145.70 | $145.30 | $26.00 | $155.00 | $155.00 | $154.55 | $28.00 | $145.05 | $159.35 | $159.35 | $162.95 | $29.00 | |
| 4 inch | $183.05 | $183.05 | $182.60 | $43.00 | $208.70 | $208.70 | $208.15 | $49.00 | $222.00 | $222.00 | $221.45 | $52.00 | $207.75 | $227.80 | $227.80 | $231.25 | $53.00 | |
| 6 inch | | $225.00 | $225.00 | $73.00 | | $257.00 | $257.00 | $83.00 | | $273.00 | $273.00 | $89.00 | $255.50 | | $280.00 | $284.00 | $90.00 | |
| 8 inch | | $265.00 | $264.00 | $115.00 | | $302.00 | $301.00 | $131.00 | | $321.00 | $320.00 | $139.00 | $300.00 | | $329.00 | $332.00 | $143.00 | $318.00 |
| 10 inch | | $324.00 | $323.00 | $166.00 | | $369.00 | $368.00 | $189.00 | | $393.00 | $392.00 | $201.00 | $368.00 | | $402.00 | $405.00 | $206.00 | $389.00 |
| 12 inch | | $437.00 | $436.00 | $242.00 | | $498.00 | $497.00 | $276.00 | | $530.00 | $529.00 | $293.00 | $496.00 | | $543.00 | $545.00 | $300.00 | |
| 16 inch | | $491.00 | $490.00 | | | $560.00 | $559.00 | | | $595.00 | $594.00 | | $557.00 | | $609.00 | $612.00 | | |
| 20 inch | | $614.00 | $614.00 | | | $700.00 | $700.00 | | | $745.00 | $745.00 | | $697.00 | | $762.00 | $766.00 | | |
| 24 inch | | $771.00 | $771.00 | | | $879.00 | $879.00 | | | $935.00 | $935.00 | | $875.00 | | $956.00 | $960.00 | | |

* Master Metered Residential Development

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