

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

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

December 31, 2025 and 2024



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Report of Independent Auditors

The Director of Seattle Public Utilities
Drainage and Wastewater Fund
Seattle, Washington

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Seattle Public Utilities – Drainage and Wastewater Fund (the Fund), which comprise the statements of net position as of December 31, 2025 and 2024, 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 Seattle Public Utilities – Drainage and Wastewater Fund as of December 31, 2025 and 2024, and the changes in its net position 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 (*Government Auditing Standards*). 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 audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2025 and 2024, the changes in its financial position, or, where applicable, its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

Required Supplementary Information

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

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the drainage wastewater debt service coverage calculation, wastewater system operating statistics, accounts and billed revenues, major wastewater customers' annual billed revenues and percentage of revenue, major drainage customers' annual billed revenues and percentage of revenue, and wastewater and drainage rates, but does not include the basic financial statements and our auditor's report thereon. Our opinion on the basic financial statements do 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 basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 30, 2026, 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, 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.

Baker Tilly US, LLP

Seattle, Washington
April 30, 2026

Management's Discussion and Analysis

Seattle Public Utilities – Drainage and Wastewater Fund (An Enterprise Fund of the City of Seattle) Management’s Discussion and Analysis

As management of Seattle Public Utilities (SPU), a department of the City of Seattle (the City), we offer readers of SPU’s financial statements this narrative overview and analysis of the financial activities of the Drainage and Wastewater Fund (the Fund) for the fiscal years ended December 31, 2025 and 2024. The revenues, expenses, assets, deferred outflows of resources, liabilities, and deferred inflows of resources of the City of Seattle’s drainage and wastewater system are recorded in the Fund, the functions of which are primarily supported by user fees and charges to customers. The financial situation of other aspects of Seattle City government, including other utility services and general government operations, are reported elsewhere.

Overview of the Financial Statements

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

Basic financial statements – The basic financial statements of the Fund report information similar to the presentation used by private sector companies. These statements offer short-term and long-term financial information about the Fund’s 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, 2025 and 2024, on all of the Fund’s assets, deferred outflows of resources, liabilities, and deferred inflows of resources. The difference between assets combined with deferred outflows of resources and liabilities combined with deferred inflows of resources is reported as net position. They also provide information about the nature and amounts of investments in resources (assets and deferred outflows of resources), obligations to the Fund’s creditors (liabilities and deferred inflows of resources) and provide the basis for assessing the liquidity and financial flexibility of the Fund.

The statements of revenues, expenses, and changes in net position present changes in the Fund’s net position for the years ended December 31, 2025 and 2024. 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 creditworthiness and its ability to 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, 2025 and 2024, to provide answers to questions about sources, uses, and impacts on 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 certain estimates and financing details. The notes to the financial statements begin on page 20 of this report.

Seattle Public Utilities – Drainage and Wastewater Fund
(An Enterprise Fund of the City of Seattle)
Management’s Discussion and Analysis

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, 2025 and 2024, the Fund’s assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources, resulting in a net position of \$1,014 million and \$964.9 million, respectively. In 2025, the Fund’s overall net position increased \$49.1 million (5.1%) as compared to an increase of \$192.3 million (24.9%) in 2024. The following summary statements of net position present the assets and deferred outflows of resources of the Fund and show the mix of liabilities, deferred inflows of resources, and net position used to acquire these assets and deferred outflows of resources:

Summary Statements of Net Position

	<u>2025</u>	<u>2024</u>	<u>2023</u>
ASSETS			
Current assets	\$ 627,844,831	\$ 515,178,025	\$ 435,034,343
Capital assets, net	1,964,823,934	1,830,371,804	1,690,340,508
Other	<u>255,996,923</u>	<u>233,104,715</u>	<u>203,379,794</u>
Total assets	2,848,665,688	2,578,654,544	2,328,754,645
 DEFERRED OUTFLOWS OF RESOURCES	 <u>33,007,972</u>	 <u>30,459,765</u>	 <u>37,955,552</u>
Total assets and deferred outflows of resources	<u>\$ 2,881,673,660</u>	<u>\$ 2,609,114,309</u>	<u>\$ 2,366,710,197</u>
 LIABILITIES			
Current liabilities	\$ 138,456,613	\$ 111,399,191	\$ 107,718,459
Revenue bonds	850,574,826	822,735,876	860,313,974
Other	<u>862,020,461</u>	<u>692,157,098</u>	<u>607,834,530</u>
Total liabilities	<u>1,851,051,900</u>	<u>1,626,292,165</u>	<u>1,575,866,963</u>
 DEFERRED INFLOWS OF RESOURCES	 <u>16,586,038</u>	 <u>17,909,659</u>	 <u>18,222,394</u>
 NET POSITION			
Net investment in capital assets	777,391,216	761,367,794	725,635,833
Restricted	16,039,166	17,707,930	20,013,475
Unrestricted	<u>220,605,340</u>	<u>185,836,761</u>	<u>26,971,532</u>
Total net position	<u>1,014,035,722</u>	<u>964,912,485</u>	<u>772,620,840</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 2,881,673,660</u>	<u>\$ 2,609,114,309</u>	<u>\$ 2,366,710,197</u>

Seattle Public Utilities – Drainage and Wastewater Fund

(An Enterprise Fund of the City of Seattle)

Management’s Discussion and Analysis

2025 Compared to 2024

Assets – Current assets increased \$112.7 million (21.9%) from the prior year primarily due to an increase in operating cash and equity in pooled investments of \$115.5 million, an increase of \$4.2 million in net account receivables, and an increase of \$2.7 million in due from other funds. These increases were offset by a decrease of \$6.4 million in unbilled revenues, decrease of \$2.4 million in due from other governments, and a decrease of \$0.96 million in interest and dividends. The increase in operating cash and equity in pooled investments is primarily due to the lower percentage of capital projects funded with operating cash.

Capital assets increased \$134.5 million (7.3%) from the prior year. Construction in progress increased \$82.5 million, plant assets increased \$75.3 million, and land increased \$7 million. The increase is mainly due to investments in infrastructure, rehabilitation, and improvements. The capital asset increase was offset by a \$30.8 million increase in accumulated depreciation and amortization (Note 3).

Other assets increased \$22.9 million (9.8%) from the prior year. This is mostly attributable to a \$25.7 million increase in restricted cash and equity in pooled investment, of which \$21 million is due to the issuance of the 2025 bonds. This is offset by the decrease in other charges of \$3.5 million.

Deferred outflows of resources – Deferred outflows of resources increased \$2.5 million (8.4%) from the prior year. This increase is mostly attributable to \$3 million increase in pension contributions and changes in assumptions related to pension and other post-employment benefits (OPEB). This increase was offset by \$0.4 million reduction in unamortized loss on refunded debt.

Liabilities – Current liabilities increased \$27.1 million (24.3%) from the prior year. This is mostly attributable to an increase in current portion of loans payable of \$11.7 million (this is driven by repayment starting on some of the Ship Canal loans in 2026), a \$9.2 million increase in accounts payable, a \$3.3 million increase in due to other funds, a \$2.3 million increase in environmental liabilities, a \$1.4 million increase in compensated absences payable, a \$1.1 million increase in due to other governments, and a \$0.6 million increase in current portion of bonds payable. These were offset by a decrease of \$2.7 million in interest payable and a \$0.6 million decrease in claims payable.

Noncurrent liabilities increased \$197.7 million (13.1%) from the prior year. This increase is mostly attributable to a \$98.1 million increase in loans, a \$68.3 million increase in environmental liabilities, a \$20.8 million increase in revenue bonds, a \$7.1 million increase in net bond discount and premium, a \$2.2 million increase in net pension liabilities, a \$1 million increase in claims payable, and a \$0.5 million increase in compensated absences payable. These increases were offset by a \$0.2 million decrease in lease and subscription payable and a \$0.1 million decrease in other noncurrent liabilities.

Deferred inflows of resources – Deferred inflows of resources decreased \$1.3 million (-7.4%) from the prior year. This decrease is due to a decrease of \$0.8 million in unamortized gain on advanced refunding, and a decrease of \$0.5 million in assumptions related to pension accounting and the difference between expected and actual expenses in OPEB.

Seattle Public Utilities – Drainage and Wastewater Fund (An Enterprise Fund of the City of Seattle) Management’s Discussion and Analysis

Net position – Net position increased \$49.1 million (5.1%) from the prior year.

A portion of the Fund’s net position of \$777.4 million (76.7%) reflects the Fund’s net investment in capital assets such as land, buildings, and equipment, less accumulated depreciation and amortization, 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 2025, net investment in capital assets increased \$16 million from the prior year due to an increase in capital assets placed in service, net of depreciation, offset by the related debt.

The Fund’s restricted net position of \$16 million (1.6%) represents resources that are subject to restrictions on how they may be used. This portion of net position decreased \$1.7 million from the prior year.

The remaining portion of the Fund’s net position of \$220.6 million (21.7%) represents resources that are unrestricted. The unrestricted portion of net position increased \$34.8 million from the prior year mainly due to a lower percentage of capital projects funded with operating cash compared to the prior year.

2024 Compared to 2023

Assets – Current assets increased \$80.1 million (18.4%) from the prior year primarily due to an increase in operating cash and equity in pooled investments of \$82.7 million, an increase of \$6.8 million in unbilled revenues, and an increase in supplies inventory. These increases were offset by a decrease of \$7.9 million in due from other governments, and a decrease of \$1.6 million in net accounts receivable. The increase in operating cash and equity in pooled investments is primarily due to the lower percentage of capital projects funded with operating cash.

Capital assets increased \$139.9 million (8.3%) from the prior year. Construction in progress and plant assets increased \$168.7 million. The increase is mostly due to investments in infrastructure, rehabilitation, and improvements. The capital asset increase was offset by a \$28.8 million increase in accumulated depreciation and amortization (Note 3).

Other assets increased \$29.7 million (14.6%) from the prior year. This is mostly attributable to a \$33.8 million increase in restricted cash and equity in pooled investment, due to the receipt of \$115.5 million in the settlement of the lawsuit against Monsanto for the pollution of the Duwamish. This is offset by the decrease in construction cash of \$81.5 million and a \$3.8 million decrease in other charges. The decrease was offset by a \$0.7 million increase in environmental costs and recoveries.

Deferred outflows of resources – Deferred outflows of resources decreased \$7.5 million (-19.7%) from the prior year. This decrease is attributable to a \$7.2 million reduction in pension contributions and changes in assumptions related to pension and OPEB, and a \$0.3 million reduction in unamortized loss on refunded debt.

Seattle Public Utilities – Drainage and Wastewater Fund **(An Enterprise Fund of the City of Seattle)** **Management’s Discussion and Analysis**

Liabilities – Current liabilities increased \$3.7 million (3.4%) from the prior year. This is mostly attributable to a \$6.8 million increase in environmental liabilities, a \$3.7 million increase in due to other funds, a \$1.6 million increase in claims payable, a \$1.6 million increase in bonds payable within one year, and a \$0.9 million increase in due to other governments. These increases were offset by a decrease of \$8.8 million in accounts payable and a \$2.4 million decrease in salaries payable.

Noncurrent liabilities increased \$46.7 million (3.2%) from the prior year. This increase is mostly attributable to a \$57.5 million increase in loans, a \$36.8 million increase in environmental liabilities, a \$1.1 million increase in claims payable, and a \$0.5 million increase in compensated absences payable. These increases were offset by a \$37.5 million decrease in bonds payable, an \$11.5 million decrease in net pension liabilities, and unfunded other post-employment benefits.

Deferred inflows of resources – Deferred inflows of resources decreased \$0.3 million (-1.7%) from the prior year. This decrease is mostly due to a \$0.8 million decrease in unamortized gain on advanced refunding, which was offset by a \$0.5 million increase in assumptions related to pension accounting and the difference between expected and actual expenses in OPEB.

Net position – Net position increased \$192.3 million (24.9%) from the prior year.

A portion of the Fund’s net position of \$761.4 million (78.9%) reflects the Fund’s net investment in capital assets such as land, buildings, and equipment, less accumulated depreciation and amortization, 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 2024, net investment in capital assets increased \$35.7 million from 2023 due to an increase in capital assets placed in service, net of depreciation, offset by the related debt.

The Fund’s restricted net position of \$17.7 million (1.8%) represents resources that are subject to restrictions on how they may be used. This portion of net position decreased \$2.3 million from the prior year.

The remaining portion of the Fund’s net position of \$185.8 million (19.3%) represents resources that are unrestricted. The unrestricted portion of net position increased \$158.9 million from the prior year mainly due to the receipt of the \$115.5 million Monsanto settlement and a lower percentage of capital projects funded with operating cash compared to the prior year.

Seattle Public Utilities – Drainage and Wastewater Fund
(An Enterprise Fund of the City of Seattle)
Management’s Discussion and Analysis

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

	2025	2024	2023
Operating revenues	\$ 610,831,312	\$ 576,840,377	\$ 542,933,537
Operating expenses	<u>(518,789,683)</u>	<u>(475,123,315)</u>	<u>(462,989,467)</u>
Operating income	92,041,629	101,717,062	79,944,070
Non-operating revenues and expenses	28,110,880	130,994,273	5,184,034
Capital contributions, grants and environmental, net remediation	<u>(71,029,272)</u>	<u>(40,419,690)</u>	<u>(48,561,096)</u>
Change in net position	<u>\$ 49,123,237</u>	<u>\$ 192,291,645</u>	<u>\$ 36,567,008</u>

2025 Compared to 2024

Operating revenues increased \$34 million (5.9%) from the prior year. This is due to an average rate increase of 5% for wastewater and 5% for drainage, resulting in additional revenues of \$20.8 million and \$12.8 million, respectively. Other operating revenues increased \$0.4 million.

Operating expenses increased \$43.7 million (9.2%) from the prior year. The increase can be attributed to a \$17.5 million increase in intergovernmental payments (this is driven by an increase of \$12 million in payments to King County for wastewater treatment), a \$13.1 million increase in salaries, wages, and personnel benefits (this is driven by an increase of \$6 million in salaries, an increase of \$4.3 million in insurance premiums, and an increase of \$2.6 million in pension expense), a \$10 million increase in other operating expenses (which is driven by an increase of \$9.3 million in bad debt expense, due to the write off grant receivable from 2023), a \$2.7 million increase in services, a \$0.3 million increase in supplies and a \$0.1 million increase in depreciation and amortization. The \$17.5 million increase in intergovernmental payments is mainly due to King County wastewater treatment fee increases and an increase in taxes.

Nonoperating revenues net of expenses decreased \$102.9 million (-78.5%) from prior year. This decrease is mostly due to a \$116.3 million decrease in other judgments and settlements, of which \$115.5 million is from the Monsanto lawsuit from the prior year, and a \$1.6 million decrease in interest expense. These were offset by an increase of \$14.5 million in investment income and an increase of \$0.5 million in contributions and grants.

The Fund had environmental remediation expense of \$78.3 million in 2025 compared to \$46.7 million in 2024 (Note 9), mostly due to the revised estimates and the updated cost sharing from the Unilateral Administrative Order, signed July 18, 2024, which is in effect until the Consent Decree is issued.

2024 Compared to 2023

Operating revenues increased \$33.9 million (6.2%) from the prior year. This is due to an average rate increase of 5% for wastewater and 5% for drainage, resulting in additional revenues of \$21 million and \$12.1 million, respectively. Other operating revenues increased \$0.7 million.

Seattle Public Utilities – Drainage and Wastewater Fund
(An Enterprise Fund of the City of Seattle)
Management’s Discussion and Analysis

Operating expenses increased \$12.1 million (2.6%) from the prior year. The increase can be attributed to an \$18.5 million increase in intergovernmental payments, a \$2.7 million increase in other operating expenses, and a \$1.1 million increase in depreciation and amortization. The increase was offset by a \$4.5 million decrease in salaries, wages, and personnel benefits, a \$4.1 million decrease in supplies, and a \$1.6 million decrease in services. The \$18.5 million increase in intergovernmental payments is mainly due to King County wastewater treatment fee increases and an increase in taxes.

Nonoperating revenues net of expenses increased \$125.8 million from the prior year. This increase is mostly due to a \$116.2 million increase in other judgments and settlements (of which \$115.5 million is from the Monsanto lawsuit), a \$5 million increase in investment income, a \$2 million increase in recoveries, a \$1.3 million decrease in interest expense, and a \$1.6 million decrease in gain/loss on disposal of assets.

The Fund had environmental remediation expense of \$46.7 million in 2024 compared to \$60.2 million in 2023 (Note 9), mostly due to the revised estimates and the updated cost sharing from the Unilateral Administrative Order, signed July 18, 2024, which is in effect until the Consent Decree is issued.

Capital Assets

The following table summarizes capital assets, net of accumulated depreciation and amortization, by major asset category as of December 31, 2025, 2024, and 2023:

Summary of Capital Assets, Net of Accumulated Depreciation and Amortization

	<u>2025</u>	<u>2024</u>	<u>2023</u>
Land and land rights	\$ 54,458,325	\$ 47,433,829	\$ 47,433,829
Buildings	9,873,655	10,847,824	11,834,651
Infrastructure	1,118,552,311	1,063,637,137	1,036,921,066
Machinery and equipment	53,502,161	57,054,873	54,433,503
Computer systems	8,471,623	14,135,343	20,163,663
Construction in progress	713,530,341	631,013,356	513,223,964
Artwork	6,352,995	5,958,750	5,806,464
Intangible right-to-use	82,523	290,692	523,368
Capital assets, net of accumulated depreciation and amortization	<u>\$ 1,964,823,934</u>	<u>\$ 1,830,371,804</u>	<u>\$ 1,690,340,508</u>

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

2025 Compared to 2024

The Fund’s capital assets, net of accumulated depreciation and amortization, for the year ended December 31, 2025, were \$2 billion. This represented an increase of approximately \$134.5 million (7.3%) compared to 2024.

Highlights of the Fund’s major capital assets placed in service during 2025 include the following:

- \$62.6 million for drainage, sewer, and combined pipe rehabilitation and improvements
- \$12.4 million for drainage and wastewater pump station rehabilitation and improvements

Seattle Public Utilities – Drainage and Wastewater Fund (An Enterprise Fund of the City of Seattle) Management’s Discussion and Analysis

- \$7 million for natural drainage systems
- \$4.8 million for heavy equipment
- \$1.2 million for rainwater absorption and runoff reduction system

As of December 31, 2025, the Fund had \$713.5 million in construction in progress. Major projects under construction are the following:

- \$426.2 million for construction of a combined sewer overflow storage facility for the Ballard, Fremont, and Wallingford combined sewer overflow basins (Ship Canal Water Quality Project)
- \$86.6 million for sewer and storm water system rehabilitation and improvements
- \$54.2 million for natural drainage systems
- \$48.3 million for pump station rehabilitation and improvements
- \$35.3 million for combined sewer overflow control
- \$14.7 million for fish habitat restoration on Taylor Creek
- \$13.5 million for the South Park Stormwater Treatment Facility
- \$8.1 million for software

2024 Compared to 2023

The Fund’s capital assets, net of accumulated depreciation and amortization, for the year ended December 31, 2024, was \$1.8 billion. This represented an increase of approximately \$139.9 million (8.3%) compared to 2023.

Highlights of the Fund’s major capital assets placed in service during 2024 include the following:

- \$40.6 million for drainage, sewer, and combined pipe rehabilitation and improvements
- \$7.6 million for drainage and wastewater pump station rehabilitation and improvements
- \$6.8 million for heavy equipment
- \$1.2 million for South Operation Center Security
- \$1.1 million for rainwater absorption and runoff reduction systems
- \$0.9 million for green stormwater infrastructure

As of December 31, 2024, the Fund had \$513.2 million in construction in progress. Major projects under construction are the following:

- \$357.3 million for construction of a combined sewer overflow storage facility for the Ballard, Fremont, and Wallingford combined sewer overflow basins (Ship Canal Water Quality Project)
- \$77.5 million for sewer and stormwater system improvements and rehabilitations
- \$54.6 million for pump station improvements
- \$46 million for natural drainage systems
- \$30.6 million for controlling combined sewer overflow control
- \$14 million for fish habitat restoration on Taylor Creek

Seattle Public Utilities – Drainage and Wastewater Fund (An Enterprise Fund of the City of Seattle) Management’s Discussion and Analysis

- \$10 million for the South Park Stormwater Treatment Facility
- \$9 million for Piper Creek land acquisition

Debt Administration

The Fund’s debt primarily consists of bonded debt and loans. Bonded debt is secured solely by drainage and wastewater revenues and provides financing for capital improvements. Loans issued by Washington State Agencies for certain capital improvements are unsecured. The Fund’s credit ratings on its bonds were Aa1 and AA+ by Moody’s Investors Service Inc. and Standard & Poor’s Rating Services, respectively. Additional details about the Fund’s revenue bonds and loans are in Notes 4 and 10 of this report.

2025 Compared to 2024

At December 31, 2025, the Fund had \$788.7 million in bonded debt, as compared to \$767.3 million at December 31, 2024, all of which was secured solely by drainage and wastewater system revenues. This increase of \$21.3 million is attributed to the issuance of a new revenue and refunding bond (Note 4) and payment of debt principal.

At December 31, 2025, the Fund had an outstanding loan balance of \$391.1 million compared to \$281.3 million at December 31, 2024. This increase is due to a total of \$114.1 million drawdowns from loans with the Washington State Department of Ecology. The increase was offset by a \$4.4 million payment of debt principal.

2024 Compared to 2023

At December 31, 2024, the Fund had \$767.3 million in bonded debt, as compared to \$799.4 million at December 31, 2023, all of which was secured solely by drainage and wastewater system revenues. This decrease of \$32.1 million is attributed to the payment of debt principal (Note 4).

At December 31, 2024, the Fund had an outstanding loan balance of \$281.3 million compared to \$224 million at December 31, 2023. This increase is due to a total of \$61.9 million drawdowns from loans with the Washington State Department of Ecology. The increase was offset by a \$4.5 million payment of debt principal.

Requests for Information

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

Financial Statements

Seattle Public Utilities – Drainage and Wastewater Fund
(An Enterprise Fund of the City of Seattle)
Statements of Net Position
December 31, 2025 and 2024

	2025	2024
ASSETS		
CURRENT ASSETS		
Operating cash and equity in pooled investments	\$ 545,138,155	\$ 429,624,912
Receivables		
Accounts, net of allowance	38,216,783	34,009,370
Interest and dividends	30,043	994,330
Unbilled revenues	28,098,774	34,497,764
Due from other funds	4,740,647	2,006,074
Due from other governments	8,990,671	11,368,988
Materials and supplies inventory	2,595,243	2,642,072
Prepayments and other current assets	34,515	34,515
	<u>627,844,831</u>	<u>515,178,025</u>
NONCURRENT ASSETS		
Restricted cash and equity in pooled investments	218,105,120	192,406,615
Prepayments long-term	311,441	345,956
Environmental costs and recoveries	5,112,629	4,331,154
External infrastructure costs, net	16,106,712	16,399,561
Regulatory assets	5,680,298	5,418,055
Other charges	10,680,723	14,203,374
Capital assets		
Land and land rights	54,458,325	47,433,829
Plant in service, excluding land	1,780,849,260	1,705,528,442
Less accumulated depreciation and amortization	(590,366,987)	(559,562,573)
Construction in progress	713,530,341	631,013,356
Other property, net	6,352,995	5,958,750
	<u>2,220,820,857</u>	<u>2,063,476,519</u>
Total assets	<u>2,848,665,688</u>	<u>2,578,654,544</u>
DEFERRED OUTFLOWS OF RESOURCES		
Unamortized loss on refunded debt	2,972,567	3,388,110
Pension and OPEB contributions and changes in assumptions	<u>30,035,405</u>	<u>27,071,655</u>
Total deferred outflows of resources	<u>33,007,972</u>	<u>30,459,765</u>
Total assets and deferred outflow of resources	<u>\$ 2,881,673,660</u>	<u>\$ 2,609,114,309</u>

See accompanying notes.

Seattle Public Utilities – Drainage and Wastewater Fund
(An Enterprise Fund of the City of Seattle)
Statements of Net Position
December 31, 2025 and 2024

	2025	2024
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	\$ 24,408,920	\$ 15,188,326
Compensated absences payable	1,770,366	377,986
Due to other funds	6,935,448	3,654,584
Due to other governments	17,973,447	16,899,981
Interest payable	12,878,979	15,588,604
Taxes payable	519,419	381,885
Revenue bonds, due within one year	34,255,000	33,680,000
Claims payable	3,944,159	4,548,799
Environmental liabilities	15,988,365	13,683,946
Loans payable, due within one year	16,053,714	4,358,851
Lease and subscription liabilities, due within one year	209,830	182,715
Other	3,518,966	2,853,514
Total current liabilities	138,456,613	111,399,191
NONCURRENT LIABILITIES		
Compensated absences payable	7,641,078	7,181,734
Revenue bonds	788,650,000	767,325,000
Less bonds due within one year	(34,255,000)	(33,680,000)
Bond discount and premium, net	96,179,826	89,090,876
Claims payable	12,045,300	11,042,460
Environmental liabilities	371,013,825	302,672,892
Loans payable, net of current portion	375,031,560	276,968,522
Total OPEB liability	4,315,517	4,262,644
Net pension liability	79,163,734	76,925,098
Lease and subscription liabilities, net of current portion	77,001	242,815
Other noncurrent liabilities	12,732,446	12,860,933
Total noncurrent liabilities	1,712,595,287	1,514,892,974
Total liabilities	1,851,051,900	1,626,292,165
DEFERRED INFLOWS OF RESOURCES		
Unamortized gain on refunded debt	12,633,305	13,438,727
Deferred inflows - pension and OPEB	3,952,733	4,470,932
Total deferred inflows of resources	16,586,038	17,909,659
NET POSITION		
Net investment in capital assets	777,391,216	761,367,794
Restricted for		
External infrastructure costs	7,956,769	8,062,030
Other charges	8,082,397	9,645,900
Unrestricted	220,605,340	185,836,761
Total net position	1,014,035,722	964,912,485
Total liabilities, deferred inflows of resources, and net position	\$ 2,881,673,660	\$ 2,609,114,309

See accompanying notes.

Seattle Public Utilities – Drainage and Wastewater Fund
(An Enterprise Fund of the City of Seattle)
Statements of Revenues, Expenses, and Changes in Net Position
Years Ended December 31, 2025 and 2024

	2025	2024
OPERATING REVENUES		
Charges for services and other revenues	\$ 610,831,312	\$ 576,840,377
OPERATING EXPENSES		
Salaries, wages, and personnel benefits	84,236,184	71,184,602
Supplies	4,826,695	4,520,194
Services	63,732,109	61,033,069
Intergovernmental payments	298,348,167	280,893,226
Depreciation and amortization	46,267,305	46,139,575
Other operating expenses	21,379,223	11,352,649
Total operating expenses	518,789,683	475,123,315
OPERATING INCOME	92,041,629	101,717,062
NONOPERATING REVENUES (EXPENSES)		
Investment income	37,477,536	22,942,747
Interest expense	(13,538,048)	(11,915,839)
Contributions and grants	1,077,159	568,745
Other, net	3,094,233	119,398,620
Total nonoperating revenues	28,110,880	130,994,273
Income before capital contributions and grants, and special items	120,152,509	232,711,335
Capital contributions and grants	7,318,189	6,263,088
Special item - environmental remediation	(78,347,461)	(46,682,778)
CHANGE IN NET POSITION	49,123,237	192,291,645
NET POSITION		
Beginning of year	964,912,485	772,620,840
End of year	\$ 1,014,035,722	\$ 964,912,485

See accompanying notes.

Seattle Public Utilities – Drainage and Wastewater Fund
(An Enterprise Fund of the City of Seattle)
Statements of Cash Flows
Years Ended December 31, 2025 and 2024

	2025	2024
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 617,368,081	\$ 584,750,095
Cash paid to suppliers	(289,214,798)	(284,637,538)
Cash paid to employees	(87,705,958)	(78,642,440)
Cash paid for taxes	(81,151,369)	(75,977,565)
Net cash provided by operating activities	<u>159,295,956</u>	<u>145,492,552</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Proceeds from Settlement	-	115,524,225
Noncapital grants received	3,845,945	4,984,837
Payments for environmental liabilities	(8,483,583)	(3,805,158)
Net cash provided by (used in) noncapital financing activities	<u>(4,637,638)</u>	<u>116,703,904</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from long-term debt	266,991,151	61,858,582
Principal payments on long-term debt	(134,838,851)	(36,582,740)
Capital expenditures and other charges	(163,130,570)	(175,443,335)
Interest paid on long-term debt	(41,409,091)	(37,126,595)
Build America Bonds Federal Interest Subsidy	553,039	1,088,007
Capital fees and grants received	21,077,004	18,374,597
Proceeds from the sale of capital assets	386,251	288,741
Net cash used in capital and related financing activities	<u>(50,371,067)</u>	<u>(167,542,743)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Net gain on investments	26,766,825	20,633,549
Interest received on investment	10,157,672	1,221,191
Net cash provided by investing activities	<u>36,924,497</u>	<u>21,854,740</u>
NET CHANGE IN CASH AND EQUITY IN POOLED INVESTMENTS	141,211,748	116,508,453
CASH AND EQUITY IN POOLED INVESTMENTS		
Beginning of year	<u>622,031,527</u>	<u>505,523,074</u>
End of year	<u>\$ 763,243,275</u>	<u>\$ 622,031,527</u>
CASH AT THE END OF THE YEAR CONSISTS OF		
Operating cash and equity in pooled investments	\$ 545,138,155	\$ 429,624,912
Noncurrent restricted cash and equity in pooled investments	<u>218,105,120</u>	<u>192,406,615</u>
Total cash and equity in pooled investments at the end of the year	<u>\$ 763,243,275</u>	<u>\$ 622,031,527</u>

See accompanying notes.

Seattle Public Utilities – Drainage and Wastewater Fund
(An Enterprise Fund of the City of Seattle)
Statements of Cash Flows
Years Ended December 31, 2025 and 2024

	<u>2025</u>	<u>2024</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES		
Net operating income	\$ 92,041,629	\$ 101,717,062
Adjustments to reconcile operating income to net cash from operating activities		
Adjustment for net pension liability	(1,243,313)	(5,634,287)
Depreciation and amortization	46,267,305	46,139,575
Other cash receipts	3,521,770	2,727,502
Changes in operating assets and liabilities		
Accounts receivable	(3,862,135)	1,603,308
Unbilled revenues	6,398,990	(6,250,770)
Due from other funds	(3,137,947)	(187,899)
Due from other governments	2,320,221	7,933,130
Materials and supplies inventory	46,830	(505,299)
Prepayments and other assets	998,801	388,391
Accounts payable	9,220,595	(8,786,253)
Salaries, benefits, and payroll taxes payable	-	(2,436,395)
Compensated absences payable	1,851,725	545,128
Due to other funds	3,280,864	3,654,584
Due to other governments	1,073,465	932,549
Claims payable	398,200	2,756,646
Taxes payable	137,533	3,487
Other liabilities	(18,577)	892,093
Total adjustments	<u>67,254,327</u>	<u>43,775,490</u>
Net cash from operating activities	<u>\$ 159,295,956</u>	<u>\$ 145,492,552</u>

See accompanying notes.

Seattle Public Utilities – Drainage and Wastewater Fund
(An Enterprise Fund of the City of Seattle)
Notes to Financial Statements

Note 1 – Operations and Summary of Significant Accounting Policies

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

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

SPU receives certain services from other departments and agencies of the City, including information technology and others that are normally considered to be general and administrative. The Fund is charged a share of these costs and during 2025 and 2024, paid \$31,126,355 and \$30,363,234, 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 \$71,677,613 and \$67,227,627 for these taxes in 2025 and 2024, respectively. These amounts are recorded within intergovernmental payments on the accompanying statements of revenues, expenses, and changes in net position.

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 technology 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 \$2,704,241 and \$2,395,644 in 2025 and 2024, respectively.

Wastewater disposal and drainage services provided to other City departments and agencies are billed at rates prescribed by City ordinances. The Fund collected \$4,531,037 and \$4,470,390 in 2025 and 2024, respectively, from the City for wastewater services provided. The Fund also collected \$13,196,796 and \$13,004,447 in 2025 and 2024, respectively, from the City for drainage services.

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

Seattle Public Utilities – Drainage and Wastewater Fund
(An Enterprise Fund of the City of Seattle)
Notes to Financial Statements

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

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

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

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

Allowance for doubtful accounts – A reserve has been established for uncollectible accounts receivable based on actual historical write-off trends and knowledge of specific circumstances that indicate collection of an account may be unlikely. As of December 31, 2025 and 2024, the Fund’s allowance for doubtful accounts was \$4,314,585 and \$3,382,751, 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.

Seattle Public Utilities – Drainage and Wastewater Fund
(An Enterprise Fund of the City of Seattle)
Notes to Financial Statements

Environmental costs and recoveries – The Fund is involved in several remediation efforts around the City (Note 9). When estimated remediation costs are approved to be recovered through rates, the costs, net of recoveries, associated with these efforts are deferred when accrued as a regulatory asset and are amortized over the rate recovery period. Certain environmental remediation costs that are infrequent in occurrence are treated as a special item in the statements of revenues, expenses, and changes in net position.

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

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

Capital assets – Capital assets are stated at cost or, if contributed, at fair value at the date of contribution. Costs include direct material, labor, and indirect costs such as engineering, supervision, payroll taxes, pension benefits, and interest relating to the financing of projects under construction. The cost of current repairs and maintenance is charged to expense, while the cost of additions and improvements are capitalized. SPU's policy is to capitalize assets with a cost of \$10,000 or more. The Fund received donated assets, such as sewer and drainage pipes, from developers and other government agencies. These donated assets are recorded under capital contributions and grants in the statements of revenues, expenses, and changes in net position.

Construction in progress – Capitalizable costs incurred on projects that are not in service or ready for service 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.

Seattle Public Utilities – Drainage and Wastewater Fund
(An Enterprise Fund of the City of Seattle)
Notes to Financial Statements

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

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

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

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

Deferred outflows/inflows of resources – In addition to assets, the statements of net position, when applicable, will report a separate section for deferred outflows of resources. It represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The Fund had a deferred loss on refunding debt, which qualifies for reporting in this category. A deferred loss on refunding debt results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The Fund has also recorded deferred outflows/inflows of resources for certain pension and other post-employment benefit (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 5 and 8).

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 deferred gain/loss on refunding debt, which qualifies for reporting in this category. A deferred gain/loss on refunding debt results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The Fund has also recorded deferred inflows of resources for the changes between projected and actual experience, changes in proportion, and differences between employer contributions and proportionate share of contributions (Notes 5 and 8).

Seattle Public Utilities – Drainage and Wastewater Fund
(An Enterprise Fund of the City of Seattle)
Notes to Financial Statements

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

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

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

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

Compensated absences – Employees earn vacation based upon their date of hire and years of service and may accumulate vested vacation up to a maximum of 480 hours. Unused vacation at retirement or upon leaving city employment, is payable to the employee, in cash or a noncash settlement, such as conversion to defined postemployment benefits. Earned but unused vacation is accrued as a liability of the Fund using the employees' current pay rate. 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 based on an analysis of the amount management deems is more likely than not to be used or settled in cash or noncash means.

Seattle Public Utilities – Drainage and Wastewater Fund
(An Enterprise Fund of the City of Seattle)
Notes to Financial Statements

Postemployment Benefits Other Than Pensions (OPEB) – For purposes of measuring the total 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.

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.

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

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

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

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

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

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

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

Net investment in capital assets consists of capital assets, net of accumulated depreciation and amortization, 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.

Seattle Public Utilities – Drainage and Wastewater Fund
(An Enterprise Fund of the City of Seattle)
Notes to Financial Statements

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 relates to external infrastructure costs, certain other charges, and retainage.

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

Arbitrage rebate requirement – The Fund is subject to the Internal Revenue Code (IRC), Section 148(f), related to its tax-exempt revenue bonds. The IRC requires that earnings on gross proceeds of any revenue bonds that are in excess of the amount prescribed be surrendered to the Internal Revenue Service. As such, the Fund would record such a rebate as a liability. The Fund had a liability of \$606,974 and \$0 for arbitrage as of December 31, 2025 and 2024, respectfully.

Accounting standard changes – In December 2023, GASB issued Statement No. 102 (GASB 102), *Certain Risk Disclosures*, and it was effective for reporting periods beginning after June 15, 2024. This standard prescribes the disclosure of certain concentrations or constraints that may limit our ability to acquire resources or control spending. The adoption of this standard had no impact to the Fund.

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 value of cash and equity in pooled investments, accrued sick leave, capitalized interest, intangible lease and subscription assets and liabilities, depreciation and amortization, environmental liabilities, 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 uncertainty – The Fund is subject to certain business risks that could have a material impact on future operations and financial performance. These risks include, but are not limited to, weather, climate and natural disaster-related disruptions, collective bargaining labor disputes, Environmental Protection Agency regulations, and federal government regulations or orders concerning the operation, maintenance, and licensing of facilities.

Reclassifications – Certain reclassifications have been made to the financial statements and related footnote presentations. These reclassifications had no effect on the operating results or net position of the Fund.

Seattle Public Utilities – Drainage and Wastewater Fund
(An Enterprise Fund of the City of Seattle)
Notes to Financial Statements

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 Office of City Finance (OCF) is authorized to invest all moneys in the City Treasury. Cash resources of the Fund are combined with cash resources of the City to form a pool of cash that is managed by the City's Department of 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 in the statements of net position as cash and equity in pooled investments or as restricted assets. The pool operates like a demand deposit account in that all departments, including the Fund may deposit or withdraw cash at any time, from 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, 2025 and 2024, 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 Public Funds. 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, 2025 and 2024, 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 operating fund (investment pool), and at the close of every business day, any cash remaining in the operating fund is swept into an overnight repurchase agreement that matures the next day.

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, Wells Fargo, rather than the trading counterparty or the trading counterparty's trust department or agent. 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.

Foreign currency risk – the City's pooled investment do not include securities denominated in foreign currencies.

Seattle Public Utilities – Drainage and Wastewater Fund (An Enterprise Fund of the City of Seattle) Notes to Financial Statements

Credit risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The City’s investments must adhere to state statutes. State statute and the City’s Statement of Investment Policy do not stipulate credit quality requirements for U.S. Government or U.S. Government Agency Obligations but provide for minimum credit ratings for investments in municipal bonds, commercial paper, and corporate bonds. State statute limits the maximum maturity and percentage allocation of investments in commercial paper and corporate bonds but not for municipals. The City’s investment policy limits the maximum percentage allocation that can be invested in municipal bonds, commercial paper and corporate bonds. In addition, commercial paper and corporate bond purchases must adhere to the investment policies and procedures adopted by the Washington State Investment Board (Policy No. 2.05.500 adopted March 16, 1995, and revised again September 15, 2016) that includes the following credit and maximum maturity constraints:

- A commercial paper issuer must be rated with the highest short-term credit rating of any two Nationally Recognized Statistical Ratings Organizations (NRSROs), at the time of purchase (P-1, A-1+, A-1, F1+, F1, by Moody’s, S&P, and Fitch, respectively). If the commercial paper is rated by more than two NRSROs, it must have the highest rating from all of the organizations.
- Commercial paper investments may not have maturities exceeding 270 days. Any commercial paper purchased with a maturity longer than 100 days must also have an underlying long-term credit rating at the time of purchase in one of the two highest rating categories of a NRSRO.
- Corporate bonds at the time of purchase must have a credit rating of not less than “A” by any nationally recognized rating agency and must mature within 5.5 years.
- Commercial paper and corporate bonds combined may not exceed 25% of the total portfolio.
- No single issuer of commercial paper may exceed 3% of the total portfolio.
- No single issuer of corporate bonds rated AA or better by all rating agencies may exceed 3% of the total portfolio.
- No single issuer of corporate bonds rated single A by all rating agencies may exceed 2% of the total portfolio.
- Investments in a single credit issuer, consisting of commercial paper and corporate bonds combined, may not exceed 3% of the total portfolio.

The City subscribes to public finance research from Fitch Ratings and all fixed income asset types from Standard & Poor’s Ratings Direct. The City conducts internal due diligence of all investments with credit risk and maintains an “approved list” of issuers. Finally, the City monitors the credit worthiness of its investments over time until they mature or are potentially sold.

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.

Seattle Public Utilities – Drainage and Wastewater Fund **(An Enterprise Fund of the City of Seattle)** **Notes to Financial Statements**

The Operating Portfolio is invested to meet reasonably expected liquidity needs over a period of 12 to 18 months. This portfolio has low duration and high liquidity. Consistent with this profile, and for the purpose of comparing earnings yield, its benchmark is the net earnings rate of the State of Washington's Local Government Investment Pool (LGIP).

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

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

Investments – The Fund's cash resources may be invested by FAS separate from the cash and investments pool. Investments are managed in accordance with the City's Statement of Investment Policy, with limits and restrictions applied at the City-wide level rather than to specific investments of the Fund. As of December 31, 2025 and 2024, 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 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 City Finance Director and Office of City Finance 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 person may engage in an investment transaction except as provided under the terms of the City Statement of Investment Policy and the procedures established therein.

Seattle Public Utilities – Drainage and Wastewater Fund
(An Enterprise Fund of the City of Seattle)
Notes to Financial Statements

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

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.

As of December 31, 2025 and 2024, the City held \$572.8 million and \$468.3 million, respectively, on deposit in the 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's overnight repurchase agreement with Wells Fargo Bank, N.A., is accounted for at cost.

The City is authorized by Seattle Municipal Code Section 5.06.010 and Chapter 43.250 of the Revised Code of Washington to participate in the State of Washington LGIP, which is managed and operated by the Washington State Treasurer. The State Treasurer is responsible for establishing the investment policy for the pool and reviews the policy annually and proposed changes are reviewed by the LGIP advisory Committee. Investments in the LGIP, a qualified external investment pool, are reported at amortized cost which approximates fair value. The LGIP is an unrated external investment pool. The LGIP is invested in a manner that meets the maturity, quality, diversification, and liquidity requirements set forth by GASB 79 for external investment pools that elect to measure, for financial reporting purposes, investments at amortized cost. The LGIP does not have any legally binding guarantees of share values. The LGIP does not impose liquidity fees or redemption gates on participant withdrawals.

The Office of the State Treasurer prepares a stand-alone LGIP financial report. A copy of the report is available from the Office of the State Treasurer, PO Box 40200, Olympia, Washington 98504-0200, or online at <http://www.tre.wa.gov>.

The remainder of City's investments are purchased in the over-the-counter U.S. bond market and accounted for at fair value.

Seattle Public Utilities – Drainage and Wastewater Fund
(An Enterprise Fund of the City of Seattle)
Notes to Financial Statements

The City uses market pricing for its over-the-counter investments as provided by its contractual custodial agent, Principal Financial Services Inc., and the City’s third-party investment accounting vendor Clearwater Analytics LLC. Prices are obtained from the City’s safekeeping bank, Principal. Principal’s primary pricing vendor is Intercontinental Exchange (ICE).

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

Level 1 – Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the 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 assets. The City’s remaining investments are valued as Level 2 assets. The City does not invest in securities that require Level 3 assets.

As of December 31, 2025, the City’s pooled investments were categorized within the fair value hierarchy as follows (in thousands):

Investments	Fair Value as of December 31, 2025	Fair Value Measurements Using			Weighted Average Maturity (Days)
		Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	
U.S. Government Agency Securities	\$ 839,244		\$ 839,244	\$ -	2,000
U.S. Treasury and U.S. Government-Backed Securities	2,674,006	2,674,006		-	811
Local Government Investment Pool	572,847	572,847		-	
Municipal Bonds	45,931		45,931	-	816
Corporate Bonds	34,359		34,359	-	180
International Bank for Reconstruction and Development Repurchase Agreements	107,191 11,323		107,191	\$ -	739 8,766
	<u>\$ 4,284,901</u>	<u>\$ 3,258,176</u>	<u>\$ 1,026,725</u>	<u>\$ -</u>	

Weighted Average Maturity of the City’s Pooled Investments

950

Seattle Public Utilities – Drainage and Wastewater Fund
(An Enterprise Fund of the City of Seattle)
Notes to Financial Statements

As of December 31, 2024, the City's pooled investments were categorized within the fair value hierarchy as follows (in thousands):

Investments	Fair Value as of December 31, 2024	Fair Value Measurements Using			Weighted Average Maturity (Days)
		Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	
U.S. Government Agency Securities	\$ 784,234	\$ -	\$ 784,234	\$ -	599
U.S. Treasury and U.S. Government-Backed Securities	1,924,517	1,924,517	-	-	710
Local Government Investment Pool	468,340	468,340	-	-	-
U.S. Government Agency Mortgage-Backed Securities	290,315	-	290,315	-	1,508
Municipal Bonds	94,385	-	94,385	-	591
Commercial Paper	48,995	-	48,995	-	164
Corporate Bonds	32,863	-	32,863	-	544
International Bank for Reconstruction and Development Repurchase Agreements	130,251 11,256	- 11,256	130,251 -	- -	942 9,131
	<u>\$ 3,785,156</u>	<u>\$ 2,404,113</u>	<u>\$ 1,381,043</u>	<u>\$ -</u>	

Weighted Average Maturity of the City's Pooled Investments 682

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

	2025	2024
Operating cash and equity in pooled investments	\$ 545,138,155	\$ 429,624,912
Restricted cash and equity in pooled investments	218,105,120	192,406,615
Total	<u><u>\$ 763,243,275</u></u>	<u><u>\$ 622,031,527</u></u>
Balance as a percentage of City pool cash and investments	17.8%	16.4%

Concentration of credit risk – Concentration risk is the risk of loss attributed to the magnitude of investments in a single issuer. State statute and the City's Statement of Investment Policy do not stipulate concentration limits for holdings of U.S. Government or U.S. Government Agency Obligations. However, as noted under credit risk, the City's Statement of Investment Policy outlines maximum percentage allocations for municipal securities and commercial paper, as well as corporate bonds.

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

Issuer	2025		2024	
	Fair Value	Percent of Total Investments	Fair Value	Percent of Total Investments
United States Government	\$ 2,674,006	62%	\$ 1,924,517	51%
Federal Home Loan Bank	102,595	2%	193,947	5%
Local Government Investment Pool	572,847	13%	468,340	12%
Federal National Mortgage Association	258,636	6%	280,777	7%
Federal Farm Credit Bank	261,267	6%	219,703	6%
Federal Home Loan Mortgage Corp	94,273	2%	215,628	6%

Seattle Public Utilities – Drainage and Wastewater Fund
(An Enterprise Fund of the City of Seattle)
Notes to Financial Statements

Note 3 – Capital Assets

Capital asset activity for the year ended December 31, 2025, consisted of the following:

	Beginning Balance	Additions and Transfers In	Retirements and Transfers Out	Ending Balance
Buildings	\$ 26,085,130			\$ 26,085,130
Infrastructure	1,475,242,389	83,140,580	(553,790)	1,557,829,179
Machinery and equipment	136,265,461	2,671,254	(4,704,386)	134,232,329
Computer systems	67,110,356	37,351	(5,379,378)	61,768,329
Intangible right-to-use	825,106	109,186	-	934,292
Total capital assets, excluding land	1,705,528,442	85,958,371	(10,637,554)	1,780,849,259
Less accumulated depreciation and amortization	(559,562,573)	(40,712,355)	9,907,941	(590,366,987)
	1,145,965,869	45,246,016	(729,613)	1,190,482,272
Construction in progress	631,013,356	179,356,806	(96,839,820)	713,530,342
Land and land rights	47,433,829	7,024,496	-	54,458,325
Artwork	5,958,750	1,252,124	(857,879)	6,352,995
Capital assets, net	<u>\$ 1,830,371,804</u>	<u>\$ 232,879,442</u>	<u>\$ (98,427,312)</u>	<u>\$ 1,964,823,934</u>

Capital asset activity for the year ended December 31, 2024, consisted of the following:

	Beginning Balance	Additions and Transfers In	Retirements and Transfers Out	Ending Balance
Buildings	\$ 26,372,558	\$ -	\$ (287,428)	\$ 26,085,130
Infrastructure	1,424,282,422	52,409,877	(1,449,910)	1,475,242,389
Machinery and equipment	129,209,707	9,454,951	(2,399,197)	136,265,461
Computer systems	73,895,375	295,292	(7,080,311)	67,110,356
Intangible right-to-use	924,237	304,112	(403,243)	825,106
Total capital assets, excluding land	1,654,684,299	62,464,232	(11,620,089)	1,705,528,442
Less accumulated depreciation and amortization	(530,808,048)	(39,869,466)	11,114,941	(559,562,573)
	1,123,876,251	22,594,766	(505,148)	1,145,965,869
Construction in progress	513,223,964	180,882,962	(63,093,570)	631,013,356
Land and land rights	47,433,829	-	-	47,433,829
Artwork	5,806,464	663,579	(511,293)	5,958,750
Capital assets, net	<u>\$ 1,690,340,508</u>	<u>\$ 204,141,307</u>	<u>\$ (64,110,011)</u>	<u>\$ 1,830,371,804</u>

During 2025 and 2024, the Fund capitalized interest costs as a regulatory asset relating to construction of \$20,537,061 and \$21,967,229, respectively.

Seattle Public Utilities – Drainage and Wastewater Fund
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Notes to Financial Statements

The Fund, as lessee, has entered into various leases for building and equipment with lease terms expiring between 2025 and 2027. Leases that have a maximum possible lease term that are non-cancelable by both lessee and lessor, have a term of more than 12 months, and a present value greater than \$5,000 are considered to be “right-to-use” assets. Unless explicitly stated in the lease agreement, the discount rate used to calculate lease right-of-use assets and liabilities in which the Fund acts as lessee is the City’s incremental borrowing rate based on the expiring date. The rate used for these leases was 0.38%.

The Fund has two subscription-based information technology arrangements (SBITAs) with the terms expiring in 2026. Any software arrangement that is negotiated by Seattle IT that is for the benefit of multiple departments, will be accounted for at the City level by Seattle IT and is excluded by the Fund. The discount rate used for these software arrangements was 2.70%.

Minimum payments under the leases and SBITAs are as follows:

<u>Years Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2026	\$ 209,830	\$ 7,834	\$ 217,664
2027	77,001	2,042	79,043
	<u>\$ 286,831</u>	<u>\$ 9,876</u>	<u>\$ 296,707</u>

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 \$34,226,678 in a debt service reserve fund and has obtained reserve insurance policies to meet the remainder of its reserve requirements. The total bonds outstanding as of December 31, 2025 and 2024, were \$788,650,000 and \$767,325,000, respectively.

Revenue bonds outstanding as of December 31, 2025 and 2024, consisted of the following Municipal Drainage and Wastewater bonds:

<u>Name of Issue</u>	<u>Issuance Date</u>	<u>Maturity Years</u>	<u>Interest Rates</u>	<u>Original Issue Amount</u>	<u>Bonds Outstanding</u>	
					<u>2025</u>	<u>2024</u>
2009 Improvement, Series A (Taxable)	12/17/09	2017-2039	4.2-5.5%	\$ 102,535,000	\$ -	\$ 75,675,000
2014 Improvement and Refunding	7/10/14	2015-2044	3.0-5.0%	133,180,000	48,625,000	79,120,000
2016 Improvement and Refunding	6/22/16	2016-2046	4.0-5.0%	160,910,000	127,060,000	132,085,000
2017 Improvement and Refunding	6/28/17	2018-2047	4.0-5.0%	234,125,000	182,785,000	189,350,000
2021 Improvement and Refunding	6/8/21	2022-2051	4.0-5.0%	111,010,000	102,265,000	104,625,000
2022 Improvement and Refunding	6/22/22	2022-2042	4.0-5.0%	117,165,000	81,125,000	89,970,000
2023 Improvement Revenue	6/8/23	2024-2053	5.0%	97,940,000	94,985,000	96,500,000
2025 Improvement and Refunding	6/9/25	2026-2055	5.0-5.25%	\$ 151,805,000	\$ 151,805,000	\$ -
				<u>\$ 1,108,670,000</u>	<u>\$ 788,650,000</u>	<u>\$ 767,325,000</u>

Seattle Public Utilities – Drainage and Wastewater Fund
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Notes to Financial Statements

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

Years Ending December 31,	Principal	Interest	Total
2026	\$ 34,255,000	\$ 34,850,488	\$ 69,105,488
2027	35,695,000	33,225,238	68,920,238
2028	34,240,000	31,455,263	65,695,263
2029	36,665,000	29,795,763	66,460,763
2030	34,515,000	28,193,363	62,708,363
2031 - 2035	177,240,000	116,688,538	293,928,538
2036 - 2040	174,225,000	77,069,538	251,294,538
2041 - 2045	142,765,000	43,650,763	186,415,763
2046 - 2050	79,670,000	18,254,369	97,924,369
2051 - 2055	39,380,000	3,966,038	43,346,038
	<u>\$ 788,650,000</u>	<u>\$ 417,149,361</u>	<u>\$ 1,205,799,361</u>

The following table shows the revenue bond activity during the year ended December 31, 2025:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable					
Revenue bonds	\$ 767,325,000	\$ 151,805,000	(130,480,000)	\$ 788,650,000	\$ 34,255,000
Add (deduct) deferred amounts					
Issuance premiums	89,423,522	12,626,667	(5,870,360)	96,179,829	-
Issuance discounts	(332,646)	-	332,646	-	-
Total bonds payable	<u>\$ 856,415,876</u>	<u>\$ 164,431,667</u>	<u>\$ (136,017,714)</u>	<u>\$ 884,829,829</u>	<u>\$ 34,255,000</u>

The following table shows the revenue bond activity during the year ended December 31, 2024:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable					
Revenue bonds	\$ 799,425,000	\$ -	(32,100,000)	\$ 767,325,000	\$ 33,680,000
Add (deduct) deferred amounts					
Issuance premiums	93,345,380	-	(3,921,858)	89,423,522	-
Issuance discounts	(356,406)	-	23,760	(332,646)	-
Total bonds payable	<u>\$ 892,413,974</u>	<u>\$ -</u>	<u>\$ (35,998,098)</u>	<u>\$ 856,415,876</u>	<u>\$ 33,680,000</u>

Debt issuance – In June 2025, the Fund issued \$151,805,000 of Drainage and Wastewater Improvement Revenue Bonds with varying annual principal payments due beginning 2026 and ending in 2055, at interest rates ranging from 5.0% and 5.25%. A portion of the proceeds were used to fully refund the remaining 2009 Improvement and Refunding, Series A bonds and partially refund the 2014 Improvement and Refunding revenue bonds. As a result of refunding, the Fund reduced total debt service requirements by \$6.1 million resulting in an economic gain (difference between the present value of the debt service payments on the old and new debts) of \$2.1 million.

Seattle Public Utilities – Drainage and Wastewater Fund
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Financial covenants – The revenue bonds contain certain financial covenants, the most significant of which requires the Fund to maintain Reserve Subaccount at the least of (i) Maximum Annual Debt Service on all parity bonds outstanding at the time of calculation, (ii) 1.25 times adjusted annual debt service on all parity bonds outstanding at the calculation, or (iii) the sum of 10% of the proceeds of each series of parity bonds then outstanding. From and after the Reserve Covenant Date, the Reserve Requirement shall mean the lesser of (a) Maximum Annual Debt Service on all Covered Parity Bonds outstanding at the time of calculation, or (b) 1.25 times Average Annual Debt Service on all Covered Parity Bonds outstanding at the time of calculation. In no event shall the Reserve Requirement exceed the sum of 10% of the proceeds of each series of Covered Parity Bonds then outstanding, determined as of the Issue date of each such series. Management believes the Fund was in compliance with all debt covenants as of December 31, 2025. For more information, see Other Information (page 56).

Note 5 – Postemployment Benefit Plans

Deferred compensation – The City offers all of its employees a deferred compensation plan (the Plan) created in accordance with 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 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 who retire with disability retirement under the City may continue their health coverage through the City with same coverage provisions as other retirees. Eligible retirees self-pay 100 percent of the premium based on blended rates that were established by including the experience of retirees with the experience of active employees for underwriting purposes. The postemployment benefit provisions are established and may be amended by ordinance of the Seattle City Council and as provided in Seattle Municipal Code 4.50.020. The City provides an implicit subsidy of the post-retirement health insurance costs and funds the subsidy on a pay-as-you-go basis.

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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	2025
Valuation date	January 1, 2025
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Discount rate	4.08%
Health care cost trend rates – medical	8.00% and decreasing by varying amounts until 2035 thereafter
Health care cost trend rates – Rx	13.00% and decreasing by varying amounts until 2035 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.

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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’s sponsored postretirement benefits and costs.

Age	Pre-65 Medical, RX, and Admin Combined					
	Aetna Preventive Plan	Aetna Traditional	Aetna Medicare Pre65	Kaiser Standard	Kaiser Deductible	Kaiser MAPD Pre65
50	\$ 18,062	\$ 16,082	\$ 13,016	\$ 10,627	\$ 8,253	\$ 6,857
55	22,293	19,850	16,066	13,117	10,186	8,464
60	27,649	24,619	19,925	16,268	12,633	10,497

The average medical and prescription drug per capita claims costs were developed from 2026 calendar year self-funded premium rates. Premium-equivalent rates were provided by City’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 2026 four-tier rate structure including the add-on cost of dependent children and trended back from 2026 to 2025 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 2026 and future valuations.

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 the same plan and coverage. After retirement, it is assumed that children will have aged off coverage and will have \$0 liability.

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OPEB liability – The Fund reported an OPEB liability of approximately \$4.3 million as of 2025 and 2024. The Fund’s proportionate share of the OPEB liability was 5.37% and 5.12% for the years ended December 31, 2025 and 2024, respectively. Based on the actuarial valuation date of January 1, 2025, details regarding the Fund’s total OPEB liability, plan fiduciary net position, and net OPEB liability as of December 31, are shown below.

	Total OPEB Liability at December 31,	
	2025	2024
Changes recognized for the fiscal year:		
Service cost	\$ 303,420	\$ 132,424
Interest on the total OPEB liability	158,828	97,808
Differences between expected and actual experience	-	(62,417)
Changes of assumptions	(348,454)	1,838,548
Contributions from the employer	(180,669)	(125,611)
Other changes	119,748	(24,758)
Net changes	52,873	1,855,994
Balance recognized at December 31, 2024	4,262,644	2,406,650
Balance recognized at December 31, 2025	\$ 4,315,517	\$ 4,262,644

The Fund recorded an expense for OPEB of \$424,134 in 2025 and \$229,161 in 2024. The Health Care Subfund of the General Fund is reported in The City’s Annual Comprehensive Financial Report.

Discount rate and healthcare cost trend rates – The discount rate used to measure the total OPEB liability is 4.08% for 2025 and 3.26% for 2024. The following tables present the sensitivity of total 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,	
	2025	2024
Discount rate		
1% decrease	\$ 4,758,916	\$ 4,693,752
Current discount rate	4,315,517	4,262,644
1% increase	3,915,044	3,871,141

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

	Healthcare Cost Trend Rate Sensitivity	
	OPEB Liability at December 31,	
	2025	2024
Discount rate		
1% decrease	\$ 3,769,441	\$ 3,754,275
Current trend rate	4,315,517	4,262,644
1% increase	4,966,115	4,867,231

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, 2025:

	Deferred Outflows	Deferred Inflows
Difference between actual and expected experience	\$ 179,016	\$ 549,462
Assumption changes	1,563,750	932,139
Contributions made in 2025 after measurement date	203,488	-
Total	\$ 1,946,254	\$ 1,481,601

The following table presents information about the OPEB-related deferred outflows of resources and deferred inflows of resources for the Fund at December 31, 2024:

	Deferred Outflows	Deferred Inflows
Difference between actual and expected experience	\$ 290,033	\$ 633,460
Assumption changes	1,750,529	851,044
Contributions made in 2024 after measurement date	172,198	-
Total	\$ 2,212,760	\$ 1,484,504

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The Fund's contributions made in 2025 in the amount of \$203,488 are reported as deferred outflows of resources and will be recognized as a reduction of the total OPEB liability in the year ending December 31, 2026. Other deferred inflows and outflows related to OPEB will be recognized in the future as shown in the following table. Note that additional future deferred outflows and inflows of resources may impact these amounts.

Year Ending December 31, <i>(in thousands)</i>	<u>Amortization</u>
2026	\$ (34,261)
2027	7,449
2028	26,563
2029	34,660
2030	23,863
Thereafter	<u>202,891</u>
Total	<u><u>\$ 261,165</u></u>

The Health Care Subfund of the General Fund is reported in the City's Annual Comprehensive 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/investor-relations.

Note 6 – 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 2025 and 2024, 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 3.69% and 3.61%, respectively. Claims expected to be paid within one year are \$3,944,159 and \$4,548,799 as of December 31, 2025 and 2024, respectively.

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

	<u>2025</u>	<u>2024</u>
Beginning liability, discounted	\$ 15,591,259	\$ 12,834,613
Payments	(3,095,029)	(2,907,263)
Incurred claims and change in estimate	<u>3,493,229</u>	<u>5,663,909</u>
Ending liability, discounted	<u><u>\$ 15,989,459</u></u>	<u><u>\$ 15,591,259</u></u>

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

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Note 7 – Compensated Absences

The Fund has recorded a liability for vested but unused compensatory and vacation leave, as well as estimated sick leave payments calculated based on the economic resources measurement focus for leave that is more likely than not to be settled by cash payments or noncash settlement, such as conversion to defined postemployment benefits. The schedules below show the compensated absences activity during the years ended December 31, 2025 and 2024:

	2025	2024
Beginning liability	\$ 7,559,720	\$ 7,014,592
Net additions/reductions	1,851,724	545,128
Ending liability	\$ 9,411,444	\$ 7,559,720

Note 8 – Pension Benefit Plan

Plan description – The Seattle City Employees’ Retirement System (the System) is a cost-sharing multiple employer pension plan covering employees of the City 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 Fund employees are eligible to participate in the system.

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

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

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

Member and employer contributions – member and employer contributions are:

	YEAR	SCERS I	SCERS II
Member Contribution	2025	10.03%	7.00%
	2024	10.03%	7.00%
Employer Contribution	2025	15.33%	14.94%
	2024	15.31%	14.91%

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, 2025 and 2024, were \$11,228,830 and \$11,134,323, 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 email at retirecity@seattle.gov or online at <https://www.seattle.gov/retirement/forms-and-publications/publications>.

Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions – At December 31, 2025 and 2024, the Fund reported a liability of \$79,163,734 and \$76,925,098, respectively, its proportionate share of the System’s net pension liability. The net pension liability was measured as of December 31, 2024 and 2023, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2024 and 2023. 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, 2025 and 2024, the Fund’s proportion was 6.38% and 6.21%, respectively.

For the years ended December 31, 2025 and 2024, the Fund recognized pension expense of approximately \$10,430,000 and \$8,047,000, respectively.

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The Fund's deferred outflows and inflows of resources are as follows at December 31, 2025:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 7,735,757	\$ 258,158
Change of assumptions	1,946,658	-
Difference between projected and actual earnings	6,415,825	-
Contributions made subsequent to measurement date	11,228,830	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	<u>762,082</u>	<u>2,212,973</u>
Total	<u>\$ 28,089,152</u>	<u>\$ 2,471,131</u>

The Fund's deferred outflows and inflows of resources are as follows at December 31, 2024:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 535,141	\$ 591,250
Change of assumptions	3,407,405	-
Difference between projected and actual earnings	9,782,026	-
Contributions made subsequent to measurement date	11,134,323	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	<u>-</u>	<u>2,395,178</u>
Total	<u>\$ 24,858,895</u>	<u>\$ 2,986,428</u>

The Fund's contributions made subsequent to the measurement date are reported as deferred outflows of resources and will be recognized as a reduction of the net pension liability in the year ended December 31, 2026. 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:

Year	Amortization
2026	\$ 5,993,347
2027	8,748,583
2028	(2,265,213)
2029	793,696
2030	<u>1,118,778</u>
Total	<u>\$ 14,389,191</u>

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Actuarial assumptions – The total pension liability as of December 31, 2025, was determined using the following actuarial assumptions:

Valuation date	January 1, 2024
Measurement date	December 31, 2024
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 net pension liability as of the measurement date were based on the results of an actuarial experience study for the period January 1, 2018 through December 31, 2021.

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

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

Seattle Public Utilities – Drainage and Wastewater Fund
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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, 2025, are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return
Equity: Public	4.80%
Equity: Private	7.80%
Fixed Income: Broad	2.60%
Fixed Income: Long-Term	2.60%
Fixed Income: Credit	5.90%
Real Assets: Real Estate	4.50%
Real Assets: Infrastructure	4.10%

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

1% Decrease 5.75%	Current Discount Rate 6.75%	1% Increase 7.75%
\$ 133,506,992	\$ 79,163,734	\$ 48,970,525

Note 9 – Environmental Liabilities

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

Lower Duwamish Waterway (LDW) Superfund site – The U.S. Environmental Protection Agency (EPA) has determined that the Lower Duwamish Waterway (LDW) site will be remediated under its Superfund authority. To manage potential liability, the City has collaborated with the EPA and other potentially responsible parties (PRPs) to complete a Remedial Investigation (RI) and Feasibility Study (FS). The Lower Duwamish Waterway Group’s FS was approved by the EPA and the Washington State Department of Ecology on November 2, 2012, and the EPA issued its final Record of Decision (ROD) in November 2014. The Fund recorded an estimate of its share of the estimated total cost.

Design work for the Upper Reach has been completed, and construction began in 2024. Design efforts for the Middle and Lower Reaches are currently underway in accordance with amendments to the existing EPA order.

Seattle Public Utilities – Drainage and Wastewater Fund **(An Enterprise Fund of the City of Seattle)** **Notes to Financial Statements**

Also in 2024, the EPA issued a Unilateral Administrative Order (UAO) to the City, King County, and Boeing, authorizing in-water construction in the Upper Reach. This UAO is expected to be replaced by a Consent Decree in 2026.

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

East Waterway Site – In 2006 the EPA issued an AOC for a Supplemental RI and FS for the East Waterway, an operable unit of the Harbor Island Superfund Site. The Port of Seattle (the Port) alone signed the AOC. Both the City and King County signed a Memorandum of Agreement with the Port to participate as cost share partners in the RI/FS work required by the EPA. The RI and FS are complete. The FS identifies a range of alternatives for cleanup construction that range in cost from \$256 million to \$411 million (2016 dollars). EPA released their Proposed Plan in 2023. The interim Record of Decision was issued by the EPA in 2024. The EPA estimated the cleanup at \$401 million, in 2023 dollars. The Fund recorded an estimate of its share of the estimated total costs.

In 2025, the Port, City, and King County signed an Administrative Settlement Agreement and Order on Consent (ASAOC) with EPA for Remedial Design of the East Waterway, as well as a new Memorandum of Agreement (MOA) between the Port, City, and King County. The new MOA agrees that the Port, City, and King County will split costs evenly on an interim basis, but that the parties will make a good faith effort to develop a final settlement agreement in 2026. SPU and Seattle City Light are sharing City costs, with SPU paying 55% and Seattle City Light paying 45% of City costs. The City estimates that the remaining costs for full remedy implementation are \$412 million, excluding inflation and legal costs. Remedial design activities are expected to start in 2026.

Gas Works Park Sediment Site – In April 2002, Ecology named the City and another party, Puget Sound Energy (PSE), as Potentially Liable Person (PLPs) for contamination at the Gas Works Sediments Site in North Lake Union. The City and PSE signed an Agreed Order with Ecology in 2005 to initiate two RIs and FSs for the sediment site: one in the western portion of the site led by the City, and another in the eastern portion of the site led by PSE. In fall of 2012, the City and PSE entered into a Settlement, Release, and Cost Allocation Agreement that puts PSE in the lead for all additional cleanup work at the site and eliminated the east-west split. Based on the 2012 Agreement, the City pays for 20% of the shared costs incurred by PSE for the cleanup work. The City costs are split between SPU and Parks, with SPU paying 55% of costs for sediment cleanup and 1% of uplands cleanup work.

Ecology approved the site RI/FS in January 2023. A clean-up action plan under the state’s environmental cleanup law, the Model Toxics Control Act, was developed in 2023, and is an exhibit to Consent Decree. The Consent Decree was filed in January 2024 for design and construction of the sediment cleanup and signed by the City and PSE. Pre-remedial design work commenced in 2025.

North Boeing Field/Georgetown Steam Plant – The City, King County, and Boeing have signed an Administrative Order with the DOE requiring them to investigate and possibly remove contamination in an area that encompasses North Boeing Field, the Georgetown Steam Plant, and the King County Airport. A revised draft RI was submitted to Ecology in 2023. Ecology provide comments on the revised draft RI in 2024. Since then the PLPs have been working with Ecology to address their comments. The next draft RI will be submitted to Ecology in 2026 and is anticipated to be approved by Ecology.

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Terminal 108 – EPA notified the City in 2019 that it is a Potentially Responsible Party for a site adjacent to the Lower Duwamish Waterway that is known as Terminal 108 or T108. The City’s potential liability arises from a former sewage treatment plant that was located there. Other PRPs include the Port of Seattle, which is the current owner of the site, King County, the United States and several private entities. In 2020, the Port, the City, and King County entered into an agreed Administrative Order with EPA and a cost-sharing agreement among themselves to complete an Engineering Evaluation and Cost Analysis (EE/CA). Work has begun on the investigative phase of the EE/CA at the T108 site in accordance with the Administrative Order, which will lead to a recommended removal or cleanup action. Work began on the EE/CA in 2024 and is ongoing, with a Draft EE/CA expected to be submitted to EPA in early 2026. Liabilities are estimated through the EE/CA. The Fund’s ultimate liability is indeterminate.

South Park Marina – The Washington Department of Ecology notified the City in 2016 that it is a Potentially Liable Party for contamination at the South Park Marina, which is adjacent to Terminal 117. Seattle City Light is the lead department for the City at this site. The PLPs, which are the City, the Port, and South Park Marina (SPM), signed a final Agreed Order for a RI in April 2019. A Common Interest and Cost Sharing Agreement among the PLPs was signed in 2019 with an interim cost share of one-third each. In 2019, the City contracted with a consultant to complete the RI Phase 1 field activities and some data analyses were completed in 2021. Phase two field sampling and preparation and submittal of the draft RI report were completed in 2023. The RI is anticipated to be approved in 2026. Ecology is likely to issue an order for the next phase of work in 2026. The City’s share is split between City Light (97.5%) and SPU (2.5%). The Department’s ultimate liability is indeterminate.

The Fund has included in its estimated liability those portions of the environmental remediation work that are currently deemed to be reasonably estimable. Cost estimates were developed using the expected cash flow technique in accordance with GASB 49. For most of the sites, estimated outlays were based on current cost and no adjustments were made for discounting or inflation. The Duwamish site cost estimates were adjusted to remove discounting and to record the costs in 2024 dollars. Cost scenarios were developed for a given site based on data available at the time of estimation and will be adjusted for changes in circumstance. Scenarios consider the relevant potential requirements and are adjusted when benchmarks are met or when new information revises estimated outlays, such as changes in the remediation plan or operating conditions. Costs reflect cost-sharing agreements in effect. In addition, certain estimates were derived from independent engineers and consultants. The estimates were made with the latest information available; however, as new information becomes available, estimates may vary significantly due to scope changes, price fluctuations, technological advances, or applicable laws.

The Fund is aggressively pursuing other third parties that may have contributed to the contamination of the sites noted. The Fund’s estimate for not yet realized recoveries from other parties for their share of remediation work that offset the Fund’s estimated environmental liability was \$5.1 million as of December 31, 2025, and \$4.3 million as of December 31, 2024.

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

	2025	2024
Beginning environmental liability, net of recovery	\$ 316,356,838	\$ 272,729,735
Payments or amortization	(17,581,033)	(8,721,591)
Incurred environmental liability	88,226,385	52,348,694
Ending environmental liability, net of recovery	\$ 387,002,190	\$ 316,356,838

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

	2025	2024
Environmental liability, current	\$ 15,988,365	\$ 13,683,946
Environmental liability, noncurrent	371,013,825	302,672,892
Ending liability	\$ 387,002,190	\$ 316,356,838

Note 10 – Loans

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

In 2017, the Fund entered into a loan agreement with the Washington State Department of Ecology to borrow up to \$39.4 million to support the construction and improvements for the Henderson North Combined Sewer Overflow. Amounts borrowed under this agreement accrue interest at a rate of 2.4% per annum and are to be repaid by August 2037. As of December 31, 2025, the loan had an outstanding balance of \$23.2 million.

In 2019, the Fund entered into a 20-year loan agreement with the Washington State Department of Ecology to borrow up to \$25.0 million to support the Ship Canal Water Quality Project. Amounts borrowed under this agreement accrue interest at the rate of 2.0% per annum and are to be repaid by June 2042. As of December 31, 2025, the loan had an outstanding balance of \$20.5 million.

In 2020, the Fund entered into a 20-year loan agreement with the Washington State Department of Commerce Public Work Board to borrow up to \$10 million for Pearl Street Drainage & Wastewater Improvement. Amounts borrowed under this agreement accrue interest at the rate of 1.58%. As of December 31, 2025, the loan had an outstanding balance of \$7.7 million.

In 2020 the Fund entered into a 30-year loan agreement with the United States Environmental Protection Agency to borrow up to \$192 million (N18106WA) to support the Ship Canal Water Quality Project. Amounts borrowed under this agreement accrue interest at a rate of 1.01% per annum. As of December 31, 2025, the Fund has drawn \$192.2 million on the loan.

Seattle Public Utilities – Drainage and Wastewater Fund
(An Enterprise Fund of the City of Seattle)
Notes to Financial Statements

In 2021, the Fund entered into a 20-year loan agreement with the Washington State Department of Ecology to borrow up to \$66.0 million (EL210276 and EL210311) to support the Ship Canal Water Quality Project. In 2022, this was amended for an additional \$59.0 million (EL220699 and EL220700). Amounts borrowed under this agreement accrue interest at the rate of 1.2% per annum. As of December 31, 2025, the Fund had drawn \$129.8 million on the loan.

In 2024, the Fund entered into 30-year loan agreement with the Washington State Department of Ecology to borrow up to \$11.9 million for the South Thornton Natural Drainage System. Amounts borrowed under this agreement accrue interest at a rate of 1.6%. As of December 31, 2025, the loan had an outstanding balance of \$11.6 million.

In 2025, the Fund entered into 30-year loan agreement with the Washington State Department of Ecology to borrow up to \$4.6 million for the North Thornton Natural Drainage System. Amounts borrowed under this agreement accrue interest at a rate of 1.6%. As of December 31, 2025, the loan had an outstanding balance of \$1.6 million

Loans outstanding as of December 31, 2025 and 2024, are as follows:

Description	Maturity Years	Interest Rate	Amount Borrowed	Loans Outstanding	
				2025	2024
Midvale	2013-2031	0.25%	\$ 4,000,000	\$ 1,270,624	\$ 1,482,395
High Point Natural Drainage Systems	2010-2029	1.50%	2,679,413	536,374	684,525
South Park Flood Control and Local Drainage Program	2007-2025	0.50%	3,400,000	-	197,123
Thornton Creek Water Quality Project	2011-2030	1.50%	6,983,021	1,803,813	2,188,402
Capitol Hill Water Quality Project	2014-2033	2.60%	1,880,598	895,373	994,773
Henderson CSO	2018-2037	2.40%	36,372,252	23,195,521	24,926,384
Pearl Street	2021-2039	1.58%	10,000,000	7,702,628	8,252,816
Ship Canal Water Quality Project					
EL190167 SRF	2022-2024	2.00%	23,967,096	20,467,327	21,504,093
EL210276 SRF	2025-2044	1.20%	38,365,000	40,181,432	38,365,000
EL210311 SRF	2025-2044	1.20%	27,635,000	28,845,813	27,635,000
EL220699 SRF	2025-2044	1.20%	27,631,000	28,571,912	27,631,000
EL220700 SRF	2025-2044	1.20%	31,369,000	32,242,600	31,369,000
N18106WA WIFIA	2023-2055	1.01%	192,181,651	192,181,651	86,791,586
South Thornton Natural Drainage System	2026-2056	1.60%	11,575,775	11,575,775	9,305,276
North Thornton Natural Drainage System	2026-2056	1.60%	1,614,431	1,614,431	-
			<u>\$ 419,654,237</u>	<u>\$ 391,085,274</u>	<u>\$ 281,327,373</u>

Seattle Public Utilities – Drainage and Wastewater Fund
(An Enterprise Fund of the City of Seattle)
Notes to Financial Statements

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

Years Ending December 31,	Principal	Interest	Total
2026	\$ 16,053,714	\$ 4,191,522	\$ 20,245,236
2027	16,052,645	4,596,822	20,649,467
2028	16,261,643	4,379,977	20,641,620
2029	16,394,905	4,159,920	20,554,825
2030	16,321,611	3,938,381	20,259,992
2031 - 2035	82,691,979	16,356,661	99,048,640
2036 - 2040	78,738,970	10,863,941	89,602,911
2041 - 2045	72,394,001	6,330,280	78,724,281
2046 - 2050	36,826,743	3,237,698	40,064,441
2051 - 2055	38,800,329	1,264,111	40,064,440
2056 - 2060	548,734	6,594	555,328
	<u>\$ 391,085,274</u>	<u>\$ 59,325,907</u>	<u>\$ 450,411,181</u>

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

	2025	2024
Net loans, beginning of year	\$ 281,327,373	\$ 223,951,531
Loan proceeds	114,116,753	61,858,582
Principal payments	<u>(4,358,852)</u>	<u>(4,482,740)</u>
Net loans, end of year	<u>\$ 391,085,274</u>	<u>\$ 281,327,373</u>
Loans due within one year	<u>\$ 16,053,714</u>	<u>\$ 4,358,851</u>
Loans, noncurrent	<u>\$ 375,031,560</u>	<u>\$ 276,968,522</u>

Note 11 – Wastewater Disposal Agreement

The Fund has a wastewater disposal agreement with the King County Department of Natural Resources Wastewater Treatment Division (the Division), which expires in 2036. The monthly wastewater disposal charge paid to the Division is based on the Division’s budgeted cost for providing the service. The charges are determined by water consumption and the number of single-family residences as reported by SPU and other component agencies. Payments made by the Fund were \$213,822,600 and \$202,120,643 for fiscal years 2025 and 2024, respectively. These payments are recorded as intergovernmental payments on the Statement of Revenues, Expenses, and Changes in Net Position.

Required Supplementary Information

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

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

	2025	2024	2023	2022	2021	2020	2019	2018	2017	2016
Employer's proportion of the net pension liability	13.89%	13.81%	14.21%	14.76%	14.62%	14.33%	14.55%	14.73%	15.13%	16.37%
Employer's proportionate share of the net pension liability	\$ 190,138,034	\$ 185,271,435	\$ 214,988,644	\$ 122,309,887	\$ 143,163,797	\$ 180,105,232	\$ 221,049,893	\$ 163,086,154	\$ 197,454,529	\$ 212,671,200
Employer's covered payroll	\$ 161,485,225	\$ 129,935,333	\$ 127,869,634	\$ 126,830,347	\$ 127,584,358	\$ 112,528,955	\$ 111,973,027	\$ 107,715,383	\$ 106,696,535	\$ 105,031,141
Employer's proportionate share of the net pension liability as a percentage of its covered payroll	117.74%	142.59%	168.13%	96.44%	112.21%	160.05%	197.41%	151.40%	185.06%	202.48%
Plan fiduciary net position as a percentage of the total pension liability	75.99%	74.93%	70.63%	83.31%	78.81%	71.48%	64.14%	72.04%	65.60%	64.03%

Schedule of Seattle Public Utilities' Contributions

	2025	2024	2023	2022	2021	2020	2019	2018	2017	2016
Contractually required employer contribution	\$ 24,575,902	\$ 20,748,200	\$ 20,632,427	\$ 20,589,068	\$ 20,654,175	\$ 17,041,133	\$ 17,103,559	\$ 16,466,270	\$ 16,354,089	\$ 16,487,154
Contributions in relation to the contractually required employer contribution	(24,575,902)	(20,748,200)	(20,632,427)	(20,589,068)	(20,654,175)	(17,041,133)	(17,103,559)	(16,466,270)	(16,354,089)	(16,487,154)
Employer contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Employer's covered payroll	\$ 161,485,225	\$ 129,935,333	\$ 127,869,634	\$ 126,830,347	\$ 127,584,358	\$ 112,528,955	\$ 111,973,027	\$ 107,715,383	\$ 106,696,535	\$ 105,031,141
Employer contributions as a percentile of covered payroll	15.22%	15.97%	16.14%	16.23%	16.19%	15.14%	15.27%	15.29%	15.33%	15.70%

See report of independent auditors.

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

Schedule of the City’s Total OPEB Liability and Related Ratios

	December 31, 2025	December 31, 2024	December 31, 2023	December 31, 2022	December 31, 2021	December 31, 2020	December 31, 2019	December 31, 2018
Total OPEB Liability								
Normal cost	\$ 5,652,179	\$ 2,588,171	\$ 3,563,210	\$ 4,514,549	\$ 4,015,249	\$ 3,378,925	\$ 3,842,152	\$ 3,821,876
Interest	2,958,677	1,911,611	1,195,910	1,553,119	1,813,401	2,586,942	2,195,238	2,583,105
Differences between expected and actual experience	-	(1,219,914)	-	(16,026,625)	-	6,956,579	-	13,491,865
Changes in assumptions	(6,491,070)	35,933,709	(8,009,946)	(1,556,412)	3,738,597	(7,760,776)	(3,886,702)	(22,126,128)
Benefit payment	(3,365,542)	(2,455,021)	(2,436,239)	(3,039,800)	(2,933,774)	(2,484,320)	(2,333,610)	(2,289,000)
Total OPEB liability – beginning of year	<u>86,774,056</u>	<u>50,015,500</u>	<u>55,702,565</u>	<u>70,257,734</u>	<u>63,624,261</u>	<u>60,946,911</u>	<u>61,129,833</u>	<u>65,648,115</u>
Total OPEB liability – end of year	<u>\$ 85,528,300</u>	<u>\$ 86,774,056</u>	<u>\$ 50,015,500</u>	<u>\$ 55,702,565</u>	<u>\$ 70,257,734</u>	<u>\$ 63,624,261</u>	<u>\$ 60,946,911</u>	<u>\$ 61,129,833</u>
Covered-employee payroll	\$ 1,335,594,652	\$ 1,335,721,665	\$ 1,145,862,502	\$ 1,145,862,502	\$ 1,124,692,046	\$ 1,124,692,046	\$ 1,015,097,334	\$ 1,015,097,334
Total OPEB liability as percentage of covered-employee payroll	6.40%	6.50%	4.36%	4.86%	6.25%	5.66%	6.00%	6.02%

Other Information (Unaudited)

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

Drainage Wastewater Debt Service Coverage Calculation 2025

Operating Revenues	
Wastewater	\$ 392,232,556
Drainage	210,569,303
Other	8,029,453
	<hr/>
Total Operating Revenue	610,831,312
	<hr/>
Operating Expense	
Wastewater Treatment Contract	215,975,613
Other Operations and Maintenance	175,258,225
City Taxes	71,677,613
Other Taxes	9,610,926
	<hr/>
Total Operating Expenses Before Debt Service	472,522,377
	<hr/>
Net Operating Income	138,308,935
	<hr/>
Adjustments	
Add: Claim Expense	3,493,229
Add: City Taxes	71,677,613
Add: Investment Interest	26,766,825
Less: DSRF Earnings	(1,157,582)
Add: BAB's Subsidy	553,039
Add (Less): Net Other Nonoperating Revenues/(Expenses)	3,139,992
Add: Proceeds from Sale of Assets	30,201
	<hr/>
Total Adjustments	104,503,317
	<hr/>
Net Revenue Available for Debt Service	\$ 242,812,252
	<hr/>
Net Revenue Available for Debt Service (w/o City Taxes)	\$ 171,134,639
	<hr/>
	<hr/>
Annual Debt Service	\$ 69,006,097
Less: DSRF Earnings	(1,157,582)
	<hr/>
Adjusted Annual Debt Service	\$ 67,848,515
	<hr/>
Coverage	3.58
Coverage without taxes	2.52

See report of independent auditors.

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

Statistics Required for Revenue Bond Continuing Disclosure

Wastewater System Operating Statistics

	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>
Population Served	742,400	762,500	779,200	795,000	816,600
Billed Wastewater Revenues (\$1,000's)	\$ 324,630	\$ 337,634	\$ 350,340	\$ 370,013	393,468
Billed Wastewater Volume (Thousand CCF)					
Residential	7,867	7,429	7,332	7,400	7,373
Commercial	<u>12,127</u>	<u>12,818</u>	<u>13,262</u>	<u>13,365</u>	<u>13,685</u>
Total	19,994	20,247	20,594	20,765	21,058
Gallons Used Per Day Per Capita	55.16	54.38	54.13	53.49	52.81

Drainage and Wastewater – 2025 Accounts and Billed Revenues

	<u>Drainage</u>	<u>Wastewater</u>
Customer Accounts		
Residential	159,130	158,723
Commercial	<u>71,862</u>	<u>20,189</u>
Total	<u><u>230,992</u></u>	<u><u>178,912</u></u>
	<u>Drainage</u>	<u>Wastewater</u>
Billed Revenue		
Residential	\$ 107,428,257	\$ 138,890,536
Commercial	<u>103,141,046</u>	<u>253,342,020</u>
Total	<u><u>\$ 210,569,303</u></u>	<u><u>\$ 392,232,556</u></u>

See report of independent auditors.

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

Major Wastewater Customers – 2025 Annual Billed Revenues and Percentage of Revenue

Name	Revenue	% of Total Revenue
University of Washington	\$ 12,767,163	3.3%
Seattle Housing Authority	7,633,806	1.9%
City of Seattle	4,531,037	1.2%
Equity Residential	3,469,495	0.9%
Marriott	3,094,421	0.8%
Darigold	2,091,721	0.5%
Bellwether Housing	2,044,593	0.5%
King County	1,988,731	0.5%
Harborview Medical Center	1,986,116	0.5%
Hyatt	1,981,146	0.5%

Major Drainage Customers – 2025 Annual Billed Revenues and Percentage of Revenue

Name	Revenue	% of Total Revenue
City of Seattle	\$ 13,196,796	6.3%
King County	4,802,530	2.3%
Seattle Public Schools	4,631,287	2.2%
University of Washington	4,052,073	1.9%
BNSF	3,468,501	1.6%
Seattle Housing Authority	1,574,437	0.7%
Federal Government	1,484,818	0.7%
Union Pacific	1,402,620	0.7%
Prologis Inc	1,073,594	0.5%
Archdiocese Of Seattle	878,881	0.4%

See report of independent auditors.

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

Wastewater Rates

	2019	2020	2021	2022	2023	2024	2025	2026
Volume rate per ccf	\$ 14.48	\$ 15.55	\$ 16.67	\$ 17.01	\$ 17.63	\$ 18.30	\$ 19.21	20.18

Note: 1 CCF equals 748 gallons. Wastewater rates increased 5% and 5% in 2025 and 2024, respectively.

Drainage Rates

Small Residential

Pre-2005 Rate Structure

	2019	2020	2021	2022	2023	2024
0-1,999 sq. ft.	\$ 169.81	\$ 183.47	\$ 195.57	\$ 204.21	\$ 216.23	\$ 229.93
2,000 - 2,999 sq. ft.	276.51	298.75	320.58	337.13	356.90	379.58
3,000 - 4,999 sq. ft.	383.43	414.26	445.25	465.91	493.22	524.59
5,000 - 6,999 sq. ft.	516.72	558.27	599.94	632.67	669.75	712.36
7,000 - 9,999 sq. ft.	652.61	705.09	757.69	797.99	844.75	898.51

2025+ Rate Structure

	2025	2026
0-1,999 sq. ft.	\$ 235.28	\$ 247.09
2,000 - 3,499 sq. ft.	447.08	469.52
3,500 - 4,499 sq. ft.	572.64	601.39
4,500 - 5,499 sq. ft.	672.93	706.71
5,500 - 6,499 sq. ft.	764.98	803.38
6,500 - 9,999 sq. ft.	929.48	976.13

Gen Service (per ksqft)

Pre-2005 Rate Structure	% Range Impervious	2019	2020	2021	2022	2023	2024
Undeveloped	0 - 15%	\$ 42.62	\$ 46.05	\$ 49.49	\$ 53.68	\$ 56.83	\$ 60.44
Undeveloped LI	0 - 15%	25.36	27.40	29.45	31.11	32.93	35.02
Light	16 - 35%	63.64	68.75	73.92	79.66	84.33	89.69
Light LI	16 - 35%	49.85	53.85	57.87	61.92	65.55	69.72
Medium	36 - 65%	90.58	97.86	105.15	112.87	119.48	127.08
Medium LI	36 - 65%	73.31	79.21	85.00	91.20	96.54	106.28
High	66 - 85%	119.86	129.50	139.17	149.12	157.85	167.91
Very High	86 - 100%	143.10	154.60	165.81	177.83	188.24	200.23

2025+ Rate Structure

	Max % Impervious	2025	2026
T1	10%	\$ 59.82	\$ 54.23
T2	20%	65.11	70.91
T3	35%	94.46	97.01
T4	50%	123.19	129.37
T5	65%	138.77	152.60
T6	85%	183.25	192.45
T7	100%	216.17	232.15

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

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

The Director of Seattle Public Utilities
Drainage and Wastewater Fund
Seattle, Washington

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*), the financial statements of Seattle Public Utilities – Drainage and Wastewater Fund (the Fund) as of and for the year ended December 31, 2025, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements, and have issued our report thereon dated April 30, 2026.

Report on Internal Control Over Financial Reporting

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

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

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

Report on Compliance and Other Matters

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

Purpose of This Report

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

Baker Tilly US, LLP

Seattle, Washington
April 30, 2026

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