OFFICIAL STATEMENT

New Issue | **Moody's Rating: Aa1**
Book-Entry Only | **S&P Rating: AA+**
(See "Other Bond Information—Ratings on the Bonds.")

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Seattle, Washington ("Bond Counsel"), under existing statutes, regulations, rulings, and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements described herein, interest (and original issue discount, if any) on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. See "Legal and Tax Information—Tax Matters."

$117,165,000
THE CITY OF SEATTLE, WASHINGTON
DRAINAGE AND WASTEWATER SYSTEM IMPROVEMENT AND REFUNDING REVENUE BONDS, 2022

DATED: DATE OF INITIAL DELIVERY | **DUE: SEPTEMBER 1, AS SHOWN ON PAGE i**

The City of Seattle, Washington (the "City"), will issue its Drainage and Wastewater System Improvement and Refunding Revenue Bonds, 2022 (the "Bonds"), as fully registered bonds under a book-entry only system, registered in the name of the Securities Depository.

The Depository Trust Company, New York, New York ("DTC") will act as initial Securities Depository for the Bonds. Individual purchases of the Bonds will be made in Book-Entry Form, in the denomination of $5,000 or any integral multiple thereof within a single maturity. Purchasers will not receive certificates representing their interest in the Bonds. Interest on the Bonds is payable semiannually on each March 1 and September 1, beginning September 1, 2022. The principal of and interest on the Bonds are payable by the fiscal agent of the State of Washington (the "Bond Registrar") (currently U.S. Bank Trust Company, National Association) to DTC, which is obligated in turn to remit such payments to its participants for subsequent disbursement to Beneficial Owners of the Bonds, as described in "Description of the Bonds—Registration and Book-Entry Form" and in Appendix E.

The Bonds are being issued to pay for part of the costs of various projects of the City's Drainage and Wastewater System, to refund certain outstanding obligations of the Drainage and Wastewater System, and to pay the costs of issuing the Bonds and the costs of administering the Refunding Plan. See "Use of Proceeds."

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

The Bonds are special limited obligations of the City payable from and secured solely by the Net Revenue of the Drainage and Wastewater System (including all utility local improvement district assessments pledged to Parity Bonds) and by money in the Parity Bond Account and the subaccounts therein (including the Reserve Subaccount). Net Revenue is pledged to make the payments into the Parity Bond Account and the Reserve Subaccount required by the Bond Documents, which pledge constitutes a charge and lien upon such Net Revenue prior and superior to all other liens and charges whatsoever. The Bonds are on a parity with the Outstanding Parity Bonds and all Future Parity Bonds, without preference or priority of right or lien. Upon the redemption or defeasance of certain of the Outstanding Parity Bonds, the Bond Documents provide that the Bonds will cease to be secured by the Reserve Subaccount. See "Security for the Bonds."

The Bonds do not constitute general obligations of the City, the State of Washington (the "State"), or any political subdivision of the State, or a lien or charge upon any general fund or upon any money or other property of the City, the State, or any political subdivision of the State not specifically pledged thereto by the legislation authorizing the issuance of the Bonds. Neither the full faith and credit nor the taxing power of the City, nor any revenues of the City derived from sources other than the Drainage and Wastewater System, are pledged to the payment of the Bonds.

The Bonds are offered for delivery by the Purchaser, when, as, and if issued, subject to the approving legal opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Seattle, Washington, Bond Counsel. The form of Bond Counsel's opinion is attached hereto as Appendix B. Bond Counsel will also act as Disclosure Counsel to the City. It is expected that the Bonds will be ready for delivery at DTC's facilities in New York, New York, or to the Bond Registrar on behalf of DTC for closing by Fast Automated Securities Transfer, on or about June 22, 2022.

This cover page contains certain information for quick reference only. It is not a summary of this issue. Investors must read the entire official statement to obtain information essential to the making of an informed investment decision.

Dated: June 7, 2022

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

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

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

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

The information set forth in the Drainage and Wastewater System's *2021 Audited Financial Statements, which are included as Appendix C, speaks only as of the date of those statements and is subject to revision or restatement in accordance with applicable accounting principles and procedures. The City specifically disclaims any obligation to update this information except to the extent described under "Continuing Disclosure Agreement."*

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

CUSIP® is a registered trademark of the American Bankers Association. CUSIP Global Services ("CGS") is managed on behalf of the American Bankers Association by FactSet Research Systems Inc. Copyright(c) 2022 CUSIP Global Services. All rights reserved. CUSIP numbers have been assigned by an independent company not affiliated with the City and are provided solely for convenience and reference. The CUSIP number for a specific maturity is subject to change after the issuance of the Bonds. The City takes no responsibility for the accuracy of the CUSIP numbers.

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

The website of the City or any City department or agency is not part of this Official Statement, and investors should not rely on information presented on the City's website, or any other website referenced herein, in determining whether to purchase the Bonds. Information appearing on any such website is not incorporated by reference in this Official Statement.

MATURITY SCHEDULE

THE CITY OF SEATTLE, WASHINGTON

$117,165,000

DRAINAGE AND WASTEWATER SYSTEM IMPROVEMENT AND REFUNDING REVENUE BONDS, 2022

Due September 1	Amounts	Interest Rates	Yields	Prices	CUSIP Numbers
2022	$ 10,745,000	5.00%	1.28%	100.707	812631 QR3
2023	8,025,000	5.00%	1.50%	104.116	812631 QS1
2024	8,425,000	5.00%	1.75%	106.955	812631 QT9
2025	8,845,000	5.00%	1.87%	109.651	812631 QU6
2026	9,295,000	5.00%	1.94%	112.258	812631 QV4
2027	12,615,000	5.00%	2.02%	114.614	812631 QW2
2028	10,205,000	5.00%	2.15%	116.436	812631 QX0
2029	-				
2030	3,275,000	4.00%	2.45%	111.438	812631 QY8
2031	3,405,000	4.00%	2.55%	111.811	812631 QZ5
2032	3,545,000	4.00%	2.63%	112.175	812631 RA9
2033	4,415,000	5.00%	2.62% (1)	121.163	812631 RB7
2034	3,190,000	5.00%	2.65% (1)	120.864	812631 RC5
2035	3,355,000	5.00%	2.70% (1)	120.369	812631 RD3
2036	3,525,000	4.00%	3.15% (1)	107.357	812631 RE1
2037	3,665,000	4.00%	3.25% (1)	106.458	812631 RF8
2038	3,810,000	4.00%	3.35% (1)	105.569	812631 RG6
2039	3,965,000	4.00%	3.40% (1)	105.127	812631 RH4
2040	4,120,000	4.00%	3.45% (1)	104.688	812631 RJ0
2041	4,285,000	4.00%	3.50% (1)	104.251	812631 RK7
2042	4,455,000	4.00%	3.60% (1)	103.383	812631 RL5

(1) Calculated to the September 1, 2032, par call date.

THE CITY OF SEATTLE

MAYOR AND CITY COUNCIL

Bruce A. Harrell	Mayor

Council Member	**Term Expiration**
Lisa Herbold	2023
Debora Juarez	2023
Andrew Lewis	2023
Tammy Morales	2023
Teresa Mosqueda	2025
Sara Nelson	2025
Alex Pedersen	2023
Kshama Sawant	2023
Dan Strauss	2023

CITY ADMINISTRATION

Glen M. Lee(1)	Director of Finance
Ann Davison	City Attorney

SEATTLE PUBLIC UTILITIES

Andrew Lee	Interim General Manager/Chief Executive Officer
Paula Laschober	Chief Financial Officer/Deputy Director of Financial and Risk Services
Idris Beauregard	Deputy Director of People, Culture, and Community
Keri Burchard-Juarez	Deputy Director for Project Delivery and Engineering
Ellen Stewart	Interim Deputy Director for Drainage and Wastewater Line of Business
Jeff Fowler	Deputy Director for Solid Waste Line of Business
Alex Chen	Deputy Director for Water Line of Business and Shared Services

BOND COUNSEL

Stradling Yocca Carlson & Rauth, a Professional Corporation
Seattle, Washington

MUNICIPAL ADVISOR

Piper Sandler & Co.
Seattle, Washington

BOND REGISTRAR

Washington State Fiscal Agent
(currently U.S. Bank Trust Company, National Association)

---

(1) On May 18, 2022, it was announced that Mr. Lee will be leaving the City in mid-2022 to an appointment as the new Chief Financial Officer for the District of Columbia. Plans for his replacement are being developed as of the date of this Official Statement.

TABLE OF CONTENTS

TABLE OF CONTENTS (CONTINUED)

OFFICIAL STATEMENT

$117,165,000
THE CITY OF SEATTLE, WASHINGTON
DRAINAGE AND WASTEWATER SYSTEM IMPROVEMENT AND REFUNDING REVENUE BONDS, 2022

INTRODUCTION

The purpose of this Official Statement, which includes the cover, inside cover, and appendices, is to set forth certain information concerning The City of Seattle, Washington (the "City"), a municipal corporation duly organized and existing under and by virtue of the laws of the State of Washington (the "State"), in connection with the offering of $117,165,000 aggregate principal amount of its Drainage and Wastewater System Improvement and Refunding Revenue Bonds, 2022 (the "Bonds"). This Official Statement contains certain information related to such offering and sale concerning the City, the Bonds, Seattle Public Utilities ("SPU"), and the City's drainage and wastewater system (the "Drainage and Wastewater System").

Appendix A to this Official Statement is a copy of the ordinance authorizing the new money portion of the Bonds (see "Description of the Bonds—Authorization for the Bonds"). Appendix B is the form of legal opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Seattle, Washington ("Bond Counsel"). Appendix C is the audited financial statements of the Drainage and Wastewater Fund as of and for the fiscal year ended December 31, 2021 (the "2021 Financial Statements"). Appendix D provides demographic and economic information for the City. Appendix E is a description provided on its website by The Depository Trust Company, New York, New York ("DTC"), of DTC procedures with respect to book-entry bonds. Capitalized terms that are not defined herein have the meanings set forth in Section 1 of the ordinance attached as Appendix A and in the Bond Resolution (as defined below).

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

Some of the information presented reflects time periods affected by the COVID-19 pandemic, which began in early 2020 and is ongoing. Historical data may not necessarily predict near-term trends accurately. See more specific information set forth throughout this Official Statement and particularly under "Seattle Public Utilities—Operating and Fiscal Impacts of COVID-19" and "Other Considerations—Global Health Emergency Risk and COVID-19 Pandemic."

Certain forecast information provided in this Official Statement was prepared by Seattle Public Utilities. Any forecast information speaks only as of the date it was prepared and the reader should exercise caution in relying on such information. Actual results could differ materially.

DESCRIPTION OF THE BONDS

Authorization for the Bonds

The Bonds are to be issued by the City pursuant to the State Constitution, chapters 35.92 and 39.53 of the Revised Code of Washington ("RCW"), the Seattle City Charter, Ordinance 126482, passed by the City Council on November 22, 2021 (the "New Money Ordinance"), and Ordinance 125455, passed by the City Council on November 20, 2017, as amended by Ordinance 126482 (as amended, the "Refunding Bond Ordinance" and, together with the New Money Ordinance, the "Bond Ordinance"), delegating to the Director of the Finance Division of the City's Department of Finance and Administrative Services (the "Director of Finance") the authority to execute, on behalf of the City, a certificate of bid award, a pricing certificate ("Pricing Certificate"), and other documents (collectively, the "Bond Documents") in accordance with the parameters set forth in the Bond Ordinance.

The New Money Ordinance authorized the issuance of drainage and wastewater system bonds in a maximum aggregate principal amount not to exceed $88,000,000. The authorization expires on December 31, 2024. The new-money portion of the Bonds comprises approximately $17,685,000 of this authorization, leaving approximately $70,315,000 available under the authorization. In addition, the City has available $203,203,249 remaining under a total authorization of not to exceed $500,000,000 established under Ordinance 125454, passed by the City Council on November 20, 2017 (as amended by Ordinances 125712 and 126222). This is the amount remaining after the WIFIA Loan is fully drawn. See "Security for the Bonds—Outstanding Parity Bonds—Water Infrastructure Finance and Innovation Act ("WIFIA")". The City currently has no plans to issue additional bonds under this authorization prior to its expiration on December 31, 2023.

Principal Amounts, Dates, Interest Rates, and Maturities

The Bonds will be dated the date of their initial issuance and delivery. The Bonds will mature on September 1 in the years and amounts set forth on page i of this Official Statement.

Interest on the Bonds is payable semiannually on each March 1 and September 1, beginning September 1, 2022, at the rates set forth on page i of this Official Statement. Interest on the Bonds will be computed on the basis of a 360-day year consisting of twelve 30-day months.

Registration and Book-Entry Form

Registrar and Paying Agent. The Bonds will be issued only in registered form as to both principal and interest. The fiscal agent for the State, currently U.S. Bank Trust Company, National Association, in Seattle, Washington (or such other fiscal agent or agents as the State may from time to time designate) will act as registrar and paying agent for the Bonds (the "Bond Registrar").

Book-Entry Form. The Bonds will be held fully immobilized in Book-Entry Form, registered in the name of the Securities Depository (defined in the Bond Documents as the Depository Trust Company, New York, New York ("DTC"), or any successor thereto) in accordance with the provisions of the Letter of Representations. Neither the City nor the Bond Registrar will have any responsibility or obligation to participants of the Securities Depository or the persons for whom they act as nominees with respect to the Bonds regarding the accuracy of any records maintained by the Securities Depository or its participants of any amount in respect of principal of or interest on the Bonds, or any notice which is permitted or required to be given to Registered Owners under the Bond Ordinance (except such notice as is required to be given by the Bond Registrar to the Securities Depository). Registered ownership of a Bond initially held in Book-Entry Form, or any portion thereof, may not be transferred except (i) to any successor Securities Depository, (ii) to any substitute Securities Depository appointed by the City or such substitute Securities Depository's successor, or (iii) to any person if the Bond is no longer held in Book-Entry Form. For information about DTC and its book-entry system, see Appendix E—Book-Entry Transfer System. The City makes no representation as to the accuracy or completeness of the information in Appendix E obtained from DTC. Purchasers of the Bonds should confirm this information with DTC or its participants.

Termination of Book-Entry System. Upon the resignation of the Securities Depository from its functions as depository, or upon a determination by the Director of Finance to discontinue services of the Securities Depository, the Director of Finance may appoint a substitute Securities Depository. If the Securities Depository resigns from its functions as depository and no substitute Securities Depository can be obtained, or if the Director of Finance determines not to utilize a Securities Depository, then the Bonds no longer will be held in Book-Entry Form and ownership may be transferred only as provided in the Bond Ordinance.

Lost or Stolen Bonds. In case any Bond is lost, stolen, or destroyed, the Bond Registrar may authenticate and deliver a new bond or bonds of like amount, date, tenor, and effect to the Registered Owner(s) thereof upon the Registered Owner(s)' paying the expenses and charges of the City in connection therewith and upon filing with the Bond Registrar evidence satisfactory to the Bond Registrar that such bond or bonds were actually lost, stolen, or destroyed and of Registered Ownership thereof, and upon furnishing the City with indemnity satisfactory to both.

Payment of Bonds

Principal of and interest on each Bond is payable in the manner set forth in the Letter of Representations. No Bonds will be subject to acceleration under any circumstances.

Interest on each Bond not held in Book-Entry Form is payable by electronic transfer on the interest payment date, or by check or draft of the Bond Registrar mailed on the interest payment date to the Registered Owner at the address appearing on the Bond Register on the Record Date. The City, however, is not required to make electronic transfers except pursuant to a request by a Registered Owner in writing received at least ten days prior to the Record Date and at the sole expense of the Registered Owner. Principal of each Bond not held in Book-Entry Form is payable upon presentation and surrender of the Bond by the Registered Owner to the Bond Registrar.

The Bond Ordinance defines "Record Date" as, in the case of each interest or principal payment date, the Bond Registrar's close of business on the 15th day of the month preceding the interest or principal payment date. With regard to redemption of a Bond prior to its maturity, the Record Date means the Bond Registrar's close of business on the day prior to the date on which the Bond Registrar sends the notice of redemption to the Registered Owner(s) of the affected Bonds.

Redemption of Bonds

Optional Redemption. The Bonds maturing on and before September 1, 2032, are not subject to redemption prior to maturity. The City reserves the right and option to redeem Bonds maturing on and after September 1, 2033, prior to their stated maturity dates at any time on and after September 1, 2032, as a whole or in part, at a price equal to 100% of the stated principal amount to be redeemed plus accrued interest to the date fixed for redemption.

Selection of Bonds for Redemption. If fewer than all of the outstanding Bonds are to be redeemed at the option of the City, the Director of Finance will select the maturity or maturities to be redeemed. If less than all of the principal amount of a maturity of the Bonds is to be redeemed and such maturity is held in Book-Entry Form, the portion of such maturity to be redeemed will be selected for redemption by the Securities Depository in accordance with the Letter of Representations, and if such maturity is not then held in Book-Entry Form, the portion of such maturity to be redeemed will be selected by the Bond Registrar at random in such manner as the Bond Registrar determines.

All or a portion of the principal amount of any Bond that is to be redeemed may be redeemed in denominations of $5,000 or integral multiples thereof within a maturity of the Bonds ("Authorized Denominations"). If less than all of the outstanding principal amount of any Bond is redeemed, upon surrender of that Bond to the Bond Registrar, there will be issued to the Registered Owner, without charge, a new Bond (or Bonds, at the option of the Registered Owner) of the same maturity and interest rate in any Authorized Denomination in the aggregate principal amount to remain outstanding.

Notice of Redemption. The City must cause notice of any intended redemption of Bonds to be given not less than 20 nor more than 60 days prior to the date fixed for redemption by first-class mail, postage prepaid, to the Registered Owner of any Bond to be redeemed at the address appearing on the Bond Register on the Record Date, and that notice requirement will be deemed to have been fulfilled when notice has been mailed as so provided, whether or not it is actually received by the Owner of any Bond. Interest on Bonds called for redemption will cease to accrue on the date fixed for redemption unless the Bond or Bonds called are not redeemed when presented pursuant to the call. See "—Registration and Book-Entry Form" and Appendix E.

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

Purchase

The City reserves the right and option to purchase any or all of the Bonds offered to the City at any time at any price acceptable to the City plus accrued interest to the date of purchase.

Failure to Pay Bonds

If any Bond is not paid when properly presented at its maturity or redemption date, the City will be obligated to pay interest on that Bond at the same rate provided on that Bond from and after its maturity or redemption date until that Bond, principal, premium, if any, and interest, is paid in full or until sufficient money for its payment in full is on deposit in the Drainage and Wastewater System Parity Bond Account (the "Parity Bond Account"), and that Bond has been called for payment by giving notice of that call to the Registered Owner of that Bond.

Refunding or Defeasance of Bonds

The City may issue refunding bonds pursuant to the laws of the State or use money available from any other lawful source (i) to pay when due the principal of (including premium, if any) and interest on any Bond, or portion thereof, included in a refunding or defeasance plan (the "Defeased Bonds"), (ii) to redeem and retire, release, refund, or defease the Defeased Bonds, and (iii) to pay the costs of such refunding or defeasance. If money and/or Government Obligations (defined below) maturing at a time or times and in an amount sufficient, together with known earned income from the investment thereof, to redeem and retire, release, refund, or defease the defeased Bonds in accordance with their terms are set aside in a special trust fund or escrow account irrevocably pledged to such redemption, retirement, or defeasance (the "Trust Account"), then all right and interest of the Owners of the Defeased Bonds in the covenants of the Bond Ordinance and in the Net Revenue (defined under "Security for the Bonds—Pledge of Net Revenue") and the funds and accounts pledged to the payment of such Defeased Bonds, other than the right to receive the funds so set aside and pledged, thereafter will cease and become void. Such Owners thereafter have the right to receive payment of the principal of and interest or redemption price on the Defeased Bonds from the Trust Account. After the Trust Account is established and fully funded, the Defeased Bonds will be deemed no longer outstanding and the Director of Finance may then apply any money in any other fund or account established for the payment or redemption of the Defeased Bonds to any lawful purposes. Notice of refunding or defeasance will be given, and selection of Bonds for any partial refunding or defeasance will be conducted, in the manner set forth in the Bond Ordinance for the redemption of Bonds.

The term "Government Obligations" is defined in the Bond Ordinance to include any securities that are then permissible investments under the State law definition of "government obligations" under RCW 39.53.010. In the Pricing Certificate, the City has limited eligibility to the following types of securities (provided that such securities are then permissible under the applicable statute): (i) direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, the United States of America, and bank certificates of deposit secured by such obligations; (ii) bonds, debentures, notes, participation certificates, or other obligations issued by the Banks for Cooperatives, the Federal Intermediate Credit Bank, the Federal Home Loan Bank system, the Export-Import Bank of the United States, Federal Land Banks, or the Federal National Mortgage Association; (iii) public housing bonds and project notes fully secured by contracts with the United States; and (iv) obligations of financial institutions insured by the Federal Deposit Insurance Corporation or the Federal Savings and Loan Insurance Corporation, to the extent insured or to the extent guaranteed as permitted under any other provision of State law.

Defaults and Remedies; No Acceleration of the Bonds

The Bond Ordinance does not enumerate events of default or remedies upon an event of default. In the event of a default, Bond owners would be permitted to pursue remedies permitted by State law. See "—Failure to Pay Bonds" above and "Security for the Bonds" below.

The Bonds are not subject to acceleration upon the occurrence of a default. The City, therefore, would be liable only for principal and interest payments as they become due. In the event of multiple defaults in payment of principal of or interest on the Bonds, the Registered Owners would be required to bring a separate action for each such payment not made. This could give rise to a difference in interests between Registered Owners of earlier and later maturing Bonds.

USE OF PROCEEDS

Purpose

The Bonds are being issued (i) to pay for part of the costs of various projects of the City's Drainage and Wastewater System, (ii) to refund certain of the City's outstanding obligations (described below under "—Refunding Plan"), and (iii) to pay the costs of issuing the Bonds and the costs of administering the Refunding Plan.

Sources and Uses of Funds

The proceeds of the Bonds will be applied as follows:

TABLE 1
SOURCES AND USES OF FUNDS

SOURCES OF FUNDS	
Stated Principal Amount of Bonds	$ 117,165,000.00
Original Issue Premium	11,435,245.65
Total Sources of Funds	$ 128,600,245.65
USES OF FUNDS	
Project Funds Deposit	$ 20,000,000.00
Escrow Deposit	107,969,976.67
Costs of Issuance(1)	630,268.98
Total Uses of Funds	$ 128,600,245.65

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

Refunding Plan

A portion of the proceeds of the Bonds will be used to carry out a current refunding of the City's Drainage and Wastewater Improvement and Refunding Revenue Bonds, 2012 (the "Refunded Bonds"), as shown below, to achieve debt service savings. The Refunded Bonds will be called on the date and at the redemption price shown in the table below.

TABLE 2
REFUNDED BONDS

Drainage and Wastewater Improvement and Refunding Revenue Bonds, 2012, Dated 6/27/2012

	Maturity	Interest Rate	Par Amount	Call Date	Call Price	CUSIP
Serial	9/1/2022	5.00%	$ 9,295,000	7/22/2022	100	812631 JX8
	9/1/2023	5.00%	8,405,000	7/22/2022	100	812631 JY6
	9/1/2024	5.00%	8,825,000	7/22/2022	100	812631 JZ3
	9/1/2025	5.00%	9,265,000	7/22/2022	100	812631 KA6
	9/1/2026	5.00%	9,735,000	7/22/2022	100	812631 KB4
	9/1/2027	5.00%	10,225,000	7/22/2022	100	812631 KC2
	9/1/2028	5.00%	7,700,000	7/22/2022	100	812631 QQ5
	9/1/2033	4.00%	3,555,000	7/22/2022	100	812631 KJ7
	9/1/2034	4.00%	3,695,000	7/22/2022	100	812631 KK4
Term	9/1/2037	4.00%	12,005,000	7/22/2022	100	812631 KL2
Term	9/1/2042	4.00%	23,430,000	7/22/2022	100	812631 KM0
	Total		$ 106,135,000			

The City will enter into a Refunding Trust Agreement with U.S. Bank Trust Company, National Association, as Refunding Trustee, upon the delivery of the Bonds, to provide for the refunding of the Refunded Bonds. The Refunding Trust Agreement creates an irrevocable trust fund to be held by the Refunding Trustee and to be applied solely to the payment of the Refunded Bonds. A portion of the proceeds of the Bonds will be deposited with the Refunding Trustee as money or invested in direct obligations of the United States of America (the "Escrow Securities") that will mature and bear interest at rates sufficient to pay the principal of and accrued interest coming due on the redemption date of the Refunded Bonds.

The money, Escrow Securities (if any), and earnings thereon will be held solely for the benefit of the registered owners of the Refunded Bonds.

The mathematical accuracy of the computations of the adequacy of the money and maturing principal amounts of and interest on the Escrow Securities, if any, to be held by the Refunding Trustee to pay principal of and interest on the Refunded Bonds as described above will be verified by Causey Demgen & Moore P.C., independent certified public accountants.

SECURITY FOR THE BONDS

Pledge of Net Revenue

The Bonds are special limited obligations of the City payable from and secured solely by the Net Revenue of the Drainage and Wastewater System (including all utility local improvement district assessments pledged to Parity Bonds ("ULID Assessments"), if any) and by money in the Parity Bond Account and the subaccounts therein. Net Revenue (including ULID Assessments, if any) is pledged to make the payments in respect of the Parity Bonds into the Parity Bond Account and the Reserve Subaccount required by the Bond Documents, which pledge constitutes a charge and lien upon such Net Revenue prior and superior to all other liens and charges whatsoever. The Bonds are on a parity with the Outstanding Parity Bonds and all Future Parity Bonds, without preference or priority of right or lien. Upon the redemption or defeasance of certain of the Outstanding Parity Bonds, the Bond Documents provide that the Bonds will cease to be secured by the Reserve Subaccount. The City has covenanted that for as long as any Bond is outstanding, it will not issue any other revenue obligations (or create any special fund or account therefor) which will have a priority over or which will rank on a parity with the payments required in respect of the Parity Bonds and that it will issue Future Parity Bonds only in accordance with the Bond Documents. See "—Additional Obligations" and Appendix A—New Money Bond Ordinance—Section 13 and Section 17.

The City has reserved the right to combine the Drainage and Wastewater System, including its funds and accounts, with other City utility systems, funds, and accounts. See "—Combined Utility Systems."

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

The Parity Bond Account has been created in the Drainage and Wastewater Fund for the sole purpose of paying the principal of and interest on all Parity Bonds, including the Bonds. So long as any Parity Bonds are outstanding, the City has agreed to set aside and pay into the Parity Bond Account all ULID Assessments on their collection and certain amounts from the Net Revenue of the Drainage and Wastewater System sufficient to pay interest, or principal and interest and sinking fund requirements, due and payable on the Parity Bonds on the payment date and to fund the Reserve Subaccount (see "Reserve Subaccount" below). See Appendix A—New Money Bond Ordinance—Section 15.

Reserve Subaccount

The Reserve Subaccount has been created and maintained as a subaccount within the Parity Bond Account for the purpose of securing the payment of the principal of and interest on all Parity Bonds outstanding. The City covenants that it will at all times, so long as any Parity Bonds are outstanding, maintain the 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 time of calculation, or (iii) the sum of 10% of the proceeds of each series of Parity Bonds then outstanding, as of the delivery of each such series (the "Reserve Requirement"), as it is adjusted from time to time, except for withdrawals authorized by the Bond Documents. Under the Bond Documents, the City must fund any increase in the Reserve Requirement due to the issuance of the Bonds by a deposit of Parity Bond proceeds, Net Revenue in no more than five annual installments, or a Reserve Security.

From and after the Reserve Covenant Date (as defined below), the Reserve Subaccount will secure only such Parity Bonds as are designated as "Covered Parity Bonds" and the Reserve Requirement will be calculated based on debt service relating to Covered Parity Bonds only. ***The Bond Documents provide that the Bonds will not be designated as Covered Parity Bonds and, consequently, from and after the Reserve Covenant Date, the Bonds will no longer be secured by the amounts on deposit in the Reserve Subaccount.*** *See Appendix A—New Money Bond Ordinance—Sections 1, 13 and 15.*

The Reserve Covenant Date is the earlier to occur of (i) the date on which all of the currently outstanding Drainage and Wastewater Revenue Bonds, 2009A (Taxable Build America Bonds-Direct Payment) (the "2009A Bonds"); Drainage and Wastewater Improvement and Refunding Revenue Bonds, 2012 (the "2012 Bonds," which are designated as the Refunded Bonds); Drainage and Wastewater Improvement and Refunding Revenue Bonds, 2014 (the "2014 Bonds"); and Drainage and Wastewater System Improvement and Refunding Revenue Bonds, 2016 (the "2016 Bonds"), are defeased or redeemed in full; or (ii) the date on which the City has obtained consents of the requisite percentage of Registered Owners of Parity Bonds then-outstanding. ***As of the date hereof, the City has not obtained consents from any Registered Owners of currently outstanding Parity Bonds. However, purchasers of the Bonds are deemed to have given their consent as of the issue date for the Bonds and will be added to any other consents obtained in the future.***

Upon the issuance of the Bonds, the Reserve Subaccount is expected to be funded as shown in the following table. Under the Bond Documents, each of the surety policies shown in the following table qualifies as a Reserve Security in order to satisfy the Reserve Requirement, as each issuer was assigned a credit rating in the two highest rating categories at the time of issuance. See Appendix A—New Money Bond Ordinance—Section 1 for definitions of Reserve Security and Qualified Insurance. The existing Reserve Securities and cash on deposit securing the Reserve Subaccount are shown in the following table.

TABLE 3
CASH AND SURETY BONDS

Provider	Surety Amount	Expiration	Ratings as of 12/31/2021 Moody's	S&P
AMBAC	$1,577,250 (1)	11/01/2027	withdrawn	
NPFG(2)	3,572,313 (1)	11/01/2029	Baa2	NR
NPFG(3)	3,756,104	11/01/2031	Baa2	NR
NPFG(3)	3,866,550	07/01/2032	Baa2	NR
NPFG(2)	3,538,992	09/01/2034	Baa2	NR
NPFG(2)	2,188,810	02/01/2037	Baa2	NR
NPFG(2)	5,053,914	02/01/2037	Baa2	NR
Total Surety Bonds	$23,553,933			
Cash Deposits				
Existing Cash Deposit	$30,872,471			
Total Cash and Surety Bonds	$54,426,404			
Reserve Fund Requirement	$48,561,952			

(1) Bond issue no longer outstanding. Nevertheless, in each case, the policy language provides that the Surety instrument originally purchased in connection with issuance of each of these prior Parity Bonds will remain in effect until the earlier of the termination date or the day on which no Parity Bonds secured by the Reserve Subaccount remain outstanding.

(2) Reinsured by National Public Finance Guarantee Corp. (a wholly-owned subsidiary of MBIA, Inc.) ("NPFG").

(3) Purchased in 2007 independent of a bond issue as a substitution of Reserve Security for cash held in the Reserve Subaccount. Surety originally provided by Financial Guaranty Insurance Company.

Note: Totals may not add due to rounding.

Outstanding Parity Bonds

The outstanding 2009A Bonds, 2012 Bonds (which are designated as the Refunded Bonds), 2014 Bonds, 2016 Bonds, the Drainage and Wastewater System Improvement and Refunding Revenue Bonds, 2017 (the "2017 Bonds"), the WIFIA Bond described below under "—Water Infrastructure Finance and Innovation Act ("WIFIA")" (which was issued in 2020 but has not yet been drawn upon) and the Drainage and Wastewater System Improvement and Refunding Revenue Bonds, 2021 (the "2021 Bonds"), issued by the City and secured by Net Revenue on a parity with the Bonds collectively are referred to as the "Outstanding Parity Bonds." The Outstanding Parity Bonds, the Bonds, and any Future Parity Bonds are collectively referred to as the "Parity Bonds." The following table provides a summary of the Outstanding Parity Bonds.

TABLE 4
OUTSTANDING PARITY BONDS

Bond Description	Original Par Amount	Outstanding Principal on 5/27/2022
2009A Bonds	$ 102,535,000	$ 86,530,000
2012 Bonds(1)	222,090,000	106,135,000
2014 Bonds	133,180,000	108,550,000
2016 Bonds	160,910,000	141,405,000
2017 Bonds	234,125,000	207,220,000
WIFIA Bond(2)	-	-
2021 Bonds	111,010,000	111,010,000
Total	$ 963,850,000	$ 760,850,000

(1) The 2012 Bonds are designated as the Refunded Bonds and will be refunded with a portion of the proceeds of the Bonds. See "Use of Proceeds—Refunding Plan."

(2) Issued through WIFIA in the amount of $192,181,651. Not drawn upon yet.

Water Infrastructure Finance and Innovation Act ("WIFIA"). On April 24, 2020, the City entered into a WIFIA Loan Agreement for up to $192,181,651 (the "WIFIA Bond") with the U.S. Environmental Protection Agency (the "WIFIA Lender"). The WIFIA Bond is available to be drawn from time to time in an aggregate principal amount not to exceed $192,181,651 solely to pay project costs for a large combined sewage storage facility (the "Ship Canal Water Quality Project"). See "Drainage and Wastewater System—Regulations— Combined Sewer Overflow NPDES Permit, Reduction Plan, and Amendments." The City expects to begin drawing on the WIFIA Bond in 2022. No draws are permitted after the date that is one year after substantial completion of the project, which is estimated to occur by March 5, 2025. The WIFIA Bond has a final maturity date of July 1, 2055, unless earlier paid, with principal payment dates beginning on July 1, 2026. Amounts drawn bear interest at a fixed rate of 1.01%. The WIFIA Bond is subject to prepayment at the option of the City at any time at par plus accrued interest to the date of prepayment.

State Loan Program Obligations

The City has eight currently outstanding agreements with State agencies for very low interest rate loans from various State- and federally-funded revolving fund programs, including the State's Public Works Assistance Account and several programs funded with a combination of State and federal Clean Water Act dollars through the Washington State Department of Ecology ("Ecology"). The loans are used by the City to pay for the construction of capital improvements.

The City's currently outstanding loans are identified in the table below. All outstanding loans are secured by a lien on Net Revenue of the Drainage and Wastewater System that is junior to the lien of the Parity Bonds. The documents for each loan program differ slightly from one another in various respects. While some of the programmatic documents contain language purporting to permit acceleration, the State Attorney General's Office has provided guidance that none of these provisions would be enforced in the event of a default. Certain of the loan documents and a State statute relating to the revolving fund loans funded by federal grants purport to permit the State to recapture loan debt service payments from other funds payable to the borrower by the State to make the revolving fund whole in the event of a payment default. It is not clear whether such a provision would be enforceable or, if such recapture were to occur, what funds would be charged or how it would be treated from an accounting standpoint.

TABLE 5
STATE LOAN PROGRAM OBLIGATIONS
(AS OF DECEMBER 31, 2021)

Entity	Year of Agreement	Maturity	Amount Outstanding	Interest Rate
High Point	2004	2029	$ 1,115,884	1.50%
Thornton Creek	2004	2024	587,647	0.50%
South Park	2005	2025	788,491	0.50%
Thornton Creek	2006	2030	3,308,175	1.50%
Midvale	2011	2031	2,117,707	0.25%
Capitol Hill Water Quality	2014	2033	1,277,944	2.60%
Henderson	2015	2037	29,876,802	2.40%
Ship Canal Water Quality Project(1)	2019	2042	17,603,061	2.00%
Pearl Street(1)	2020	2039	8,654,975	1.58%
Ship Canal Water Quality Project(1)	2021	2044	36,013,810	1.20%

(1) Loans are still in the drawdown period.

Including the Ship Canal Water Quality Project loans shown in the table above, SPU has entered into two federally funded Clean Water State Revolving Fund ("CWSRF") loans and as of December 31, 2021, is in final negotiations for a State-funded CWSRF loan amendment to provide additional financing of the Ship Canal Water Quality Project. The WIFIA Bond and the federally funded CWSRF loans bring the Federal sources share of total project funding to 80%, the maximum share allowable under WIFIA rules. An additional 18% of the project will be funded through non-federal CWSRF money. The remainder of the project will be funded through operating cash. The CWSRF loans are expected to be drawn in the amounts of $22 million, $66 million, and $59 million. Finally, the Public Works Assistance Account loan for Pearl Street will be fully drawn at $10 million in 2022. Repayments on this loan began in 2021.

All loans are secured by a pledge of Net Revenues that is subordinate to the pledge of the Parity Bonds.

Additional Obligations

Future Parity Bonds. The City reserves the right to issue Future Parity Bonds and to enter into Parity Payment Agreements for any lawful purpose of the Drainage and Wastewater System or to refund a portion of the Parity Bonds upon satisfaction of certain conditions set forth in the Bond Documents. Among other conditions, the City must have on file at the time of the issuance of the Future Parity Bonds,

(i) a certificate of the Director of Finance demonstrating that, during any 12 consecutive calendar months out of the immediately preceding 24 calendar months, Adjusted Net Revenue (as defined in Appendix A—New Money Bond Ordinance) was at least equal to 1.25 times Adjusted Annual Debt Service (the "Coverage Requirement") for all Parity Bonds plus the Future Parity Bonds to be issued (using Average Annual Debt Service on such proposed Future Parity Bonds as the assumed debt service for those proposed bonds during such 12-month period); or

(ii) a certificate of the Director of Finance and the Director of SPU demonstrating that, in their opinion, Adjusted Net Revenue for the five fiscal years next following the earlier of (a) the end of the period during which interest on those Future Parity Bonds is to be capitalized or, if no interest is capitalized, the fiscal year in which the Future Parity Bonds are issued, or (b) the date on which substantially all new facilities financed with those Future Parity Bonds are expected to commence operations, such Adjusted Net Revenue (further adjusted as described in the Bond Documents) will be at least equal to the Coverage Requirement.

If the Future Parity Bonds are for the sole purpose of refunding Parity Bonds, no such coverage certification is required if the Adjusted Annual Debt Service on the Parity Bonds after the issuance of the Future Parity Bonds is not, for any year in which the Parity Bonds being refunded were outstanding, more than $5,000 over the Adjusted Annual Debt

Service on the Parity Bonds prior to the issuance of those Future Parity Bonds. See Appendix A—New Money Bond Ordinance—Section 17.

Future Subordinate Lien Bonds. In the Bond Documents, the City has reserved the right to issue revenue bonds or other obligations having a lien on Gross Revenue subordinate to the lien thereon of the Parity Bonds. The City has never issued subordinate lien obligations other than the State loans described under "State Loan Program Obligations." The City may enter into additional such loans from State agencies, but currently has no intention of issuing bonds or other types of obligations on a subordinate lien basis.

Parity Payment Agreements. The City may enter into Parity Payment Agreements (such as interest rate swaps) secured by a pledge of and lien on Net Revenue on a parity with the Parity Bonds, subject to the satisfaction of the requirements for the issuance of Future Parity Bonds. See Appendix A—New Money Bond Ordinance—Section 17. The City has never entered into a Parity Payment Agreement with respect to the Drainage and Wastewater System and currently has no intention of doing so.

Contract Resource Obligations. The City may at any time enter into one or more Contract Resource Obligations for the acquisition, from facilities to be constructed, of drainage and wastewater services or other commodity or service relating to the Drainage and Wastewater System. The City may determine that, and may agree under a Contract Resource Obligation to provide that, all payments under that Contract Resource Obligation (including payments prior to the time that drainage or wastewater services or other commodity or service is being provided, or during a suspension or after termination of supply or service) will be an Operating and Maintenance Expense, upon compliance with certain requirements of the Bond Documents. See Appendix A—New Money Bond Ordinance—Section 20. The City has never entered into a Contract Resource Obligation with respect to the Drainage and Wastewater System.

Rate Covenant

The City has covenanted to establish, maintain, revise as necessary, and collect rates and charges for services and facilities provided by the Drainage and Wastewater System so that Adjusted Net Revenue in each fiscal year will be sufficient to meet or exceed the Coverage Requirement. Calculations of historical coverage ratios for the Drainage and Wastewater Fund are provided below in Table 17—Drainage and Wastewater System Operating Results under "Drainage and Wastewater System—Financial Performance."

See Appendix A—New Money Bond Ordinance—Section 1 and Section 16(b).

Rate Stabilization Account

The Rate Stabilization Account has been created as a separate account in the Drainage and Wastewater Fund. The City may at any time, as determined by the Director of Finance, deposit in the Rate Stabilization Account Gross Revenue and any other money received by the Drainage and Wastewater System and available therefor and may withdraw any or all of the money from that account for inclusion in Adjusted Gross Revenue for any fiscal year of the City. Such deposits or withdrawals may be made up to and including the date 90 days after the end of the fiscal year for which the deposit or withdrawal will be included as Adjusted Gross Revenue. No deposit of Gross Revenue may be made into the Rate Stabilization Account to the extent that such deposit would prevent the City from meeting the Coverage Requirement. The City has never funded a Rate Stabilization Account in the Drainage and Wastewater Fund and currently has no plans to fund it. See Appendix A—New Money Bond Ordinance—Section 18.

Other Covenants

In the Bond Documents, the City has entered into other covenants, including those with respect to maintenance of the Drainage and Wastewater System, sale of the Drainage and Wastewater System, and preservation of tax exemption for interest on the Bonds. See Appendix A—New Money Bond Ordinance—Section 16.

Separate Utility Systems

The City has reserved the right to create, acquire, construct, finance, own, and operate one or more additional systems for drainage and wastewater service or other commodity or service relating to the Drainage and Wastewater System. The revenue of that separate utility system will not be included in Gross Revenue and may be pledged to the payment of revenue obligations issued to purchase, construct, condemn, or otherwise acquire or expand the separate utility system. Neither Gross Revenue nor Net Revenue will be pledged by the City to the payment of any obligations of the separate utility system, except as a Contract Resource Obligation in compliance with the Bond Documents or, with respect to Net Revenue, on a basis subordinate to the lien of the Parity Bonds on that Net Revenue. See Appendix A—New Money Bond Ordinance—Section 19. The City has never created any such separate utility system relating to drainage and wastewater service and currently has no intention of doing so.

Combined Utility Systems

The City has reserved the right to combine the Drainage and Wastewater System with other City utility systems, including their funds and accounts. See the definition of "Drainage and Wastewater System" in Appendix A—New Money Bond Ordinance—Section 1. Also see "Seattle Public Utilities—Administrative Structure" for a description of existing City utilities that have reserved the right to combine with other City utilities.

Debt Service Requirements

The following table shows the debt service scheduled to be paid from the Net Revenue of the Drainage and Wastewater System.

TABLE 6
DEBT SERVICE REQUIREMENTS[1]

	Outstanding Parity Bonds[2]			The Bonds			Total	State Loan Program	Total
Year	Principal	Interest	Total	Principal	Interest	Total	Parity Bonds	Obligations[3]	Debt Service
2022	$ 20,230,000	$ 31,437,903	$ 51,667,903	$ 10,745,000	$ 1,049,902	$ 11,794,902	$ 63,462,805	$ 4,987,383	$ 68,450,187
2023	21,200,000	27,983,453	49,183,453	8,025,000	4,940,500	12,965,500	62,148,953	5,753,729	67,902,682
2024	22,235,000	26,915,596	49,150,596	8,425,000	4,539,250	12,964,250	62,114,846	5,743,638	67,858,484
2025	23,320,000	25,790,846	49,110,846	8,845,000	4,118,000	12,963,000	62,073,846	6,024,448	68,098,294
2026	23,310,000	24,708,096	48,018,096	9,295,000	3,675,750	12,970,750	60,988,846	5,818,213	66,807,059
2027	24,435,000	23,543,684	47,978,684	12,615,000	3,211,000	15,826,000	63,804,684	5,810,086	69,614,770
2028	25,395,000	22,324,734	47,719,734	10,205,000	2,580,250	12,785,250	60,504,984	5,801,960	66,306,944
2029	34,530,000	21,199,871	55,729,871	-	2,070,000	2,070,000	57,799,871	5,714,885	63,514,756
2030	32,510,000	19,641,778	52,151,778	3,275,000	2,070,000	5,345,000	57,496,778	5,419,772	62,916,550
2031	33,925,000	18,156,415	52,081,415	3,405,000	1,939,000	5,344,000	57,425,415	5,203,607	62,629,022
2032	32,065,000	16,597,765	48,662,765	3,545,000	1,802,800	5,347,800	54,010,565	4,983,710	58,994,275
2033	29,290,000	15,157,075	44,447,075	4,415,000	1,661,000	6,076,000	50,523,075	4,976,113	55,499,188
2034	30,455,000	13,893,418	44,348,418	3,190,000	1,440,250	4,630,250	48,978,668	4,843,756	53,822,424
2035	27,755,000	12,657,838	40,412,838	3,355,000	1,280,750	4,635,750	45,048,588	4,836,159	49,884,747
2036	28,865,000	11,451,735	40,316,735	3,525,000	1,113,000	4,638,000	44,954,735	4,828,562	49,783,297
2037	30,010,000	10,197,578	40,207,578	3,665,000	972,000	4,637,000	44,844,578	3,660,104	48,504,682
2038	28,990,000	8,894,065	37,884,065	3,810,000	825,400	4,635,400	42,519,465	2,491,647	45,011,112
2039	25,375,000	7,722,565	33,097,565	3,965,000	673,000	4,638,000	37,735,565	2,484,050	40,219,615
2040	19,715,000	6,600,300	26,315,300	4,120,000	514,400	4,634,400	30,949,700	1,995,620	32,945,320
2041	20,510,000	5,803,800	26,313,800	4,285,000	349,600	4,634,600	30,948,400	1,995,620	32,944,020
2042	21,335,000	4,975,200	26,310,200	4,455,000	178,200	4,633,200	30,943,400	1,241,203	32,184,603
2043	22,195,000	4,113,200	26,308,200	-	-	-	26,308,200	486,784	26,794,984
2044	23,095,000	3,216,500	26,311,500	-	-	-	26,311,500	486,784	26,798,284
2045	17,460,000	2,414,700	19,874,700	-	-	-	19,874,700	-	19,874,700
2046	18,165,000	1,712,000	19,877,000	-	-	-	19,877,000	-	19,877,000
2047	13,170,000	1,095,400	14,265,400	-	-	-	14,265,400	-	14,265,400
2048	3,350,000	568,600	3,918,600	-	-	-	3,918,600	-	3,918,600
2049	3,480,000	434,600	3,914,600	-	-	-	3,914,600	-	3,914,600
2050	3,620,000	295,400	3,915,400	-	-	-	3,915,400	-	3,915,400
2051	3,765,000	150,600	3,915,600	-	-	-	3,915,600	-	3,915,600
Total	$ 663,755,000	$ 369,654,713	$1,033,409,713	$ 117,165,000	$ 41,004,052	$ 158,169,052	$ 1,191,578,765	$95,587,834	$1,287,166,599

(1) Totals may not add due to rounding.

(2) Excludes the Refunded Bonds. Does not reflect the Tax Credit Subsidy Payments associated with the 2009A Bonds. See "Treatment of Tax Credit Subsidy Payments Under the Bond Documents and Consent to Future Amendments."

(3) These loans are secured by a lien on Net Revenue of the Drainage and Wastewater System that is junior to the lien of the Parity Bonds. Does not include amortization of loans in the process of being drawn down. See "—State Loan Program Obligations."

Treatment of Tax Credit Subsidy Payments Under the Bond Documents and Consent to Future Amendments

Tax Credit Subsidy Bond Payments and Future Amendments to Bond Documents. The 2009A Bonds were issued as Build America Bonds. The Bond Documents authorizing the Outstanding Parity Bonds and the Bonds do not currently permit the City to net the Tax Credit Subsidy Payments received out of its calculation of Annual Debt Service for purposes of calculating whether the Coverage Requirement has been met, or to include the payments expected to be received as Gross Revenue for purposes of meeting the test for issuing Future Parity Bonds. The City includes the amounts actually received in respect of Tax Credit Subsidy Payments as "Other Income" in calculating current compliance with the Coverage Requirement.

Section 24(g) of the Bond Ordinance provides that purchasers of the Bonds have consented to the adoption by the City of future supplemental or amendatory ordinances or resolutions that would permit the tax credit subsidy payments to be netted against debt service to be paid in the future. See Appendix A—New Money Bond Ordinance—Section 24(g).

Effect of Federal Sequestration. With respect to the City's outstanding 2009A Bonds, the City is eligible for a tax credit subsidy payment of 35% of each interest payment due. As a result of federal sequestration, the interest subsidy payments from the federal government that came due in federal fiscal year 2021 were reduced by 5.7% ($96,319), and payments in federal fiscal year 2022 will also be reduced by 5.7% ($93,175). The City has sufficient cash available in the Drainage and Wastewater Fund to make timely debt service payments through its 2022 budget cycle. The City cannot predict how future legislative or budgetary measures could adversely affect the amount of the subsidy payment to the City.

SEATTLE PUBLIC UTILITIES

Administrative Structure

The City's water, drainage, wastewater, and solid waste utility services are consolidated administratively into a single entity known as Seattle Public Utilities. Within SPU, there are three separate funds: the Water Fund, the Drainage and Wastewater Fund, and the Solid Waste Fund. The City has reserved the right to combine the Drainage and Wastewater System, including the Drainage and Wastewater Fund, with other City utility systems, funds, and accounts in the future. The City also has reserved the right to combine the Water System (including the Water Fund) and the Solid Waste System (including the Solid Waste Fund) with other City utility systems, funds, and accounts.

Management

SPU consists of the General Manager's Office, which includes groups dedicated to corporate policy and planning, corporate performance, and intergovernmental relations, and six Executive Branches. Of these Executive Branches, one group, People, Culture, and Community, provides City-wide services; two groups, Financial and Risk Services and Project Delivery and Engineering, provide utility-wide services; and three groups, Drainage and Wastewater, Solid Waste, and Water, are lines of business. SPU's organizational structure has been created by strategic business planning activities and priorities across multiple years. See "Drainage and Wastewater System—Strategic Business Plan." The General Manager administers SPU in accordance with policies established by the Mayor of the City (the "Mayor") and the City Council. Brief biographies of the members of SPU's executive management team follow.

Andrew Lee, PE, PMP, Interim General Manager/Chief Executive Officer. Mr. Lee joined SPU in 2019 and currently is responsible for SPU's annual budget and oversight of its rates and utility funds, as well as conservation of the City's watersheds and compliance with federal and State water quality and environmental laws. He has more than 20 years of experience in utilities, having worked for SPU, the San Francisco Public Utilities Commission, Bellevue Utilities, Brown and Caldwell, and Olivia Chen Consultants (now AECOM). He has extensive experience in capital planning and program management, regulatory compliance and negotiations, asset management, and drainage, wastewater, and drinking water engineering, and is a member of the Project Management Institute.

Mr. Lee has a BS degree in Civil and Environmental Engineering and an MS degree in Environmental Engineering and Sciences, both from Stanford University. He is a licensed Professional Engineer in Washington and California and a certified Project and Program Management Professional.

Paula Laschober, Chief Financial Officer/Deputy Director of Financial and Risk Services. Ms. Laschober was appointed as CFO in 2019 and oversees the functions of finance, accounting, internal control, real property, contracts and procurement, and risk and quality assurance. Prior to joining SPU, she served for 30 years at Seattle City Light in financial services. Most recently, she was City Light's CFO, responsible for leadership and strategic direction of financial planning, rate setting, budgeting, accounting, internal audit, corporate performance and risk mitigation. She also managed City Light's information technology planning and strategy, via liaison with Seattle Information Technology ("Seattle IT"), a City department. Prior to joining City Light, she was a senior analyst with the utility consulting firm R.W. Beck and Associates in its Seattle headquarters office.

Ms. Laschober has an MBA in Finance and a Ph.D. in Latin American Literature from the University of Washington.

Idris Beauregard. Deputy Director, People, Culture, and Community. Mr. Beauregard oversees the Community Affairs, Human Resources, Customer Response, Utility Accounts, and Clean Cities divisions. He has been with the City for more than 20 years. He began his City career at Seattle Parks and Recreation and joined SPU in 2013. Prior to taking on the deputy director role, he was the Clean City Division Director, overseeing illegal dumping and graffiti response, as well as encampment trash, sharps, RV remediation, homelessness, and anti- litter abatement programs.

Mr. Beauregard earned his bachelor's degree from the University of Washington and his Executive Master of Public Administration degree from the University of Washington's Evans School of Public Policy and Governance.

Keri Burchard-Juarez, PE, PMP, Deputy Director for Project Delivery and Engineering. Ms. Burchard-Juarez joined SPU in 2018 as the Deputy Director for Project Delivery and Engineering, overseeing the design and construction of drinking water, wastewater, drainage, and solid waste projects. In this role, she oversees Project Management and Controls, Engineering and Technical Services, Project Services, Construction Management, Development Services, and delivery of the Ship Canal Water Quality Project. Previously, she served as the Assistant Director for Engineering and Capital Project Delivery at the City of Austin, Texas, where she worked for 11 years. She started in Austin as a Project Manager, managing drainage and water treatment plant rehabilitation projects, then served as Manager of the Project Management Division. She played a significant role in delivering major infrastructure projects to Austin residents, including a new water treatment plant and a mile-long drainage tunnel through downtown. She also spent time in the private sector, designing public infrastructure and land development projects.

Ms. Burchard-Juarez earned a Bachelor of Science in Civil Engineering from the University of Texas at Austin. She is a licensed Professional Engineer in Texas and Washington and a certified Project Management Professional.

Ellen Stewart, Interim Deputy Director for Drainage and Wastewater Line of Business. Ms. Stewart oversees planning, program management, regulatory compliance, operations and maintenance, source control, and pollution prevention for the Drainage and Wastewater line of business. She started with SPU in 2001 as a Source Control Inspector and most recently served as the Division Director for the Source Control and Pollution Prevention Division, which includes regulatory compliance functions such as stormwater and wastewater source control, as well as outreach and engagement programs. Her expertise includes ensuring systems and processes are designed for efficiency and innovation.

Ms. Stewart has a Bachelor of Science degree in Aquatic Resources from the University of Vermont.

Jeff Fowler, PE, Deputy Director for Solid Waste Line of Business. Mr. Fowler is the Deputy Director of the Solid Waste line of business and Program and Planning Division. He oversees the management of two transfer stations, two household hazardous waste facilities, and multiple closed landfills, administration and compliance of SPU's solid waste collection contracts, and solid waste-related outreach and education. He has been with SPU for 23 years. Most recently, he was the Director of SPU Construction Management, responsible for contract administration and quality assurance on capital improvements.

Mr. Fowler has a Bachelor of Civil Engineering degree from Washington State University and a Master of Civil Engineering degree from the University of Washington. He is a licensed Professional Engineer in Washington.

Alex Chen, PE, Deputy Director for Water Line of Business and Shared Services. As the Deputy Director for the Water Line of Business and Shared Services since early 2020, Mr. Chen oversees SPU's drinking water system. He supervises SPU's Watershed Management Division, Water Quality Division, Water Planning and Program Management Division, Water Operations and System Maintenance Division, and Shared Services Maintenance Division. He has been at SPU since 2005, serving nine years as the drinking water treatment plants contract manager and five years as the Division Director for long-term asset management of the drinking water system as well as water supply operations. Prior to joining SPU, he spent seven years as a private design consultant, managing the design and construction of wastewater and drinking water reservoirs, pump stations, and treatment plants for a variety of utility clients, and four years as a treatment plant engineer for the East Bay Municipal Utility District.

Mr. Chen holds Bachelor of Science and Master of Science degrees in Civil/Environmental Engineering from Stanford University. He is a licensed Professional Engineer, a Water Treatment Plant Operator IV, and a Water Distribution Manager IV in Washington.

Employment Retirement System and Employee Relations

As of December 31, 2021, SPU has approximately 1,391 regular employees, approximately 80% of whom are represented under one of 14 labor agreements with the Coalition of City Unions. In 2021, the Civil Service Commission certified the Washington State Council of County & City Employees (WSCCE) as the exclusive bargaining unit for Seattle Public Utilities' Strategic Advisors and Managers to be effective on January 1, 2022. WSCCE and the City of Seattle are currently negotiating the collective bargaining agreement. See "The City of Seattle—Labor Relations."

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

Operating and Fiscal Impacts of COVID-19 Pandemic

The City's financial performance has been and continues to be affected by the ongoing COVID-19 pandemic. COVID-19 remains a dominant influence on the local economy.

The COVID-19 pandemic is ongoing, and the duration and severity of each outbreak and economic and other actions that may be taken by governmental authorities to contain or treat its impact remain uncertain. Reopening efforts implemented at any time may be reversed whenever conditions warrant.

The spread of COVID-19 continues to affect local, State, national, and global economic activity. In the City, the COVID-19 pandemic is ongoing and has resulted in significant public health emergency response costs and significant revenue reductions from previously budgeted and forecast levels. However, SPU was able to meet or exceed all financial policy targets in 2020 and 2021 and expects to meet or exceed all financial policy targets for 2022 and 2023. See "Drainage and Wastewater System—Management Discussion and Analysis of Operating Results" for additional detail.

See "Other Considerations—Global Health Emergency Risk and COVID-19 Pandemic" for a discussion of the Mayor's Proclamation of Civil Emergency, the Governor's State-wide "Stay Home-Stay Healthy" proclamation, and the State's move to Phase 3.

Operations. The COVID-19 pandemic and Mayor's Proclamation of Civil Emergency have significantly impacted each of SPU's enterprises. SPU's enterprise fund operations constitute "essential infrastructure" exempt from State and City Proclamations, as needed to maintain continuity of operations.

Prior to March 2022, much of SPU's workforce worked remotely to some extent; however, more than 60% of SPU's workforce reported to an SPU facility every day to ensure continuity of services. Beginning in March 2022, employees have begun transitioning to hybrid schedules, with specified days in the office. At the beginning of the pandemic, SPU established an Incident Command Team to standardize its programs, policies, and protocols to ensure the health and safety of its employees and to maintain operations. For on-site staff, SPU established enhanced cleaning and disinfecting procedures and social distancing for all facilities and vehicles, and mandatory health screening protocols for anyone reporting to sites or facilities and field work assignments. SPU continues to provide staff with updates and support intended to ensure compliance with City and State guidelines on office workspaces, including effective use of face coverings, access to personal protective equipment. and the programs mentioned above. For telecommuting staff, SPU updated its Telecommuting and Teleworking Policies, which include training for remote work technologies and other support to enable staff to work effectively and comfortably from home. This includes providing ergonomic workspace support, such as chairs, laptops, monitors, and other technology, to staff for their home-office setup.

SPU's ability to deliver water, sewer, stormwater, and solid waste services to its customers during the Proclamation period has not been impaired. Furthermore, SPU continues to monitor the pandemic's impacts on its operations and financial performance.

Utility Response and Impacts on Utility Services. SPU has experienced an increase in public health emergency response and other costs associated with mitigating the impacts of the COVID-19 pandemic on the residents of the City, including emergency response and utility discount program expansions.

Wastewater Demand. Wastewater demand in 2020 and 2021 was 7% and 6% below 2019, respectively. Demand reductions were concentrated within a few sectors: office buildings, hotels, education, and retail and restaurants. As pandemic restrictions are lifted, the education, retail, and restaurant sectors are expected to return to pre-pandemic levels. There is more uncertainty about office buildings and hotels; however, these two sectors made up less than 10% of total 2019 (pre-pandemic) commercial wastewater demand, limiting the financial risk to the Drainage and Wastewater Fund of long-term structural changes to these sectors.

Drainage Revenue. Drainage revenues are based on land area and surface permeability, neither of which are subject to economic fluctuations. The largest share of drainage revenue is from government landowners and institutionally stable corporate and nonprofit landowners. Government entities include the City, King County, the Federal Government, Seattle Public Schools, State of Washington, and State education institutions including the University of Washington and the community college system. Non-government entities include large railroad and multi-family residential firms on the private side and publicly funded housing systems on the public side. There has been no measured impact on drainage revenues or collections from the pandemic.

Operations and Maintenance. As SPU continues to respond to employee health and safety needs, operations and maintenance costs have included additional cleaning and janitorial services, personal protective equipment, and work crews that were not able to be deployed to capital projects and were assigned to operations and maintenance work instead; these additional expenses were offset in the Drainage and Wastewater Fund by reductions in other operations and maintenance expenses. In addition to its enterprise fund obligations, SPU provided emergency response, such as public hygiene, that was paid for by the General Fund. SPU has concurrently been able to recognize cost savings related to employee telecommuting. Future budget years have been updated to ensure continued responsiveness to health and safety concerns as well as required modifications to the workplace.

Accounts receivable balances for past-due wastewater bills increased significantly at the onset of COVID-19. As the pandemic ends, shorter-term (one to three months past due) balances have leveled off, but longer-term (over 90 days) balances have continued to climb, as shown in the table below. While the City has waived late fees and interest on outstanding bills through 2023, customer payment plans are being arranged for all customers through intensive outreach, and disconnections will begin again in August 2022.

TABLE 7
QUARTER ON QUARTER CHANGES TO PAST-DUE WASTEWATER BALANCES

	30-90 Days Past Due	Over 90 Days Past Due
2020 Q1	25%	1%
2020 Q2	120%	130%
2020 Q3	-27%	27%
2020 Q4	19%	20%
2021 Q1	19%	15%
2021 Q2	2%	46%
2021 Q3	-2%	11%
2021 Q4	11%	7%

Capital Improvement Program. The impact of COVID-19 and the Proclamations resulted in limited cost reductions in the Drainage and Wastewater Fund's six-year Capital Plan for 2020-2026, due primarily to schedule delays. The largest project in this portfolio, the Ship Canal Water Quality Project, is on budget and on schedule as of April 2022.

DRAINAGE AND WASTEWATER SYSTEM

General

The City began building public sewers in 1882 in order to protect public health and quality of life. Over half of the current system was built in the first three decades of the 20th century, long before sewage treatment was contemplated. Consistent with the then current practice, combined sewers were built to carry both stormwater and wastewater. This practice not only saved the expense of building a second pipe, it also provided dilution to flush the sewers and the discharge sites. Wastewater was discharged untreated at nearby sites along Puget Sound, the Duwamish Waterway, Lake Washington, Lake Union, and the Ship Canal. As the community realized that untreated sewage discharges caused water quality problems, the City began to separate the combined stormwater and wastewater systems and to build sewage treatment plants. By the 1950s, the City had more than 1,000 miles of combined sewers and 379 miles of separate sanitary sewer lines, and was operating three primary sewage treatment plants and numerous rudimentary treatment devices at discharge sites. The City formed the Sewer Utility within the Engineering Department in 1955, and began charging City residents and businesses for wastewater service the following year.

Wastewater Services

The wastewater system currently serves a population of more than 760,000, substantially all of whom are within City limits. Table 8 presents an overview of key wastewater operating statistics for the past six years. Wastewater demand during this period (and going back to the Great Recession) has remained largely unchanged, fluctuating around 21 million CCF per year despite rapid population growth over the same period. Population growth was accommodated through infill development—the replacement of older, less efficient buildings and single-family homes with large lots with newer, higher efficiency apartments and townhomes with small lots and low irrigation needs. This general trend is expected to continue into the foreseeable future, with wastewater demand experiencing no to low growth, independent of whether population growth continues.

Uncertainty about post-pandemic patterns of economic activity raises some doubts about wastewater demand recovery for some sectors, particularly office buildings and hotels. However, these two sectors combined made up less than 10% of 2019 (pre-pandemic) commercial wastewater demand and 7% of total wastewater demand, limiting uncertainty to a small portion of total demand. The remaining major commercial sectors—multi-family, industrial, retail, restaurants, education, and medical—are all currently assumed to return to pre-pandemic levels over a multi-year recovery.

TABLE 8
WASTEWATER SYSTEM OPERATING STATISTICS

	2017	2018	2019	2020	2021
Population Served	694,513	707,555	724,144	737,015	742,400
Wastewater Revenues (000)	$272,085	$280,554	$303,935	$302,829	$324,630
Billed Wastewater Volume (thousand ccf)					
Residential	$ 7,699	$ 7,613	$ 7,723	$ 7,851	$ 7,867
Commercial	13,584	13,504	13,554	11,995	12,127
Total Billed Wastewater Volume	$ 21,283	$ 21,117	$ 21,277	$ 19,846	$ 19,994
Gallons Used Per Day Per Capita	63	61	60	55	55

Source: Drainage and Wastewater Fund Audited Annual Financial Statements

Regional Treatment and Disposal. In 1958, a regional sewage treatment agency, the Municipality of Metropolitan Seattle ("Metro"), was formed to provide a regional solution to water quality problems. The City, rather than expanding its own treatment facilities, entered into a contract with Metro for sewage treatment. Metro operates three major regional wastewater treatment plants, two smaller local treatment plants, and four combined sewer overflow ("CSO") treatment facilities, along with an extensive regional interceptor system to route sewage to the plants and stop untreated discharges into Lake Washington and other bodies of water.

Metro and King County (the "County") were merged in 1994. Since then, the County has been responsible for sewage treatment and disposal and has entered into long-term contracts with local sewage agencies, including the City, which remain responsible for their own local collection and transmission lines. The County currently provides services to 37 entities, including cities (including the City), sewer districts, and others. The City's current agreement with the County expires on July 1, 2036. Negotiations for a renewal or extension are currently underway. The County has passed an ordinance purporting to assert its authority under State statute to require that local sewage agencies in the County, including the City, continue to deliver wastewater to the County following expiration of their treatment contracts on terms substantially similar to those under the current agreement.

The County's Regional Wastewater Services Plan ("RWSP") outlines important projects, programs, and policies for the County to implement through 2030 to continue to protect public health and water quality and ensure sufficient wastewater capacity to meet future growth. The current RWSP was first adopted in 1999 and last updated in 2013. The County is currently working on a successor to the RWSP known as the Clean Water Plan, which is intended to direct investments for regional water quality over the near-term and long-term. Between 1999 and 2020, the County completed $5.0 billion in projects, including Brightwater, a 36-million-gallon-per-day ("mgd") treatment and reclaimed water plant and associated conveyance system, at a cost of $1.86 billion. Between 2022 and 2031, approximately $4.1 billion of additional investment in the sewer system is planned.

In addition to the planned investments, in December 2021 Ecology issued the Puget Sound Nutrient General Permit in December 2021 to area wastewater treatment plants regarding nutrient removal during the sewage treatment process. The permit is on appeal and is the subject of litigation. Dependent on final permit requirements, it is expected that nutrient removal will add substantial costs to the County's future capital plan. The City does not own or operate any of the regulated sewage treatment facilities, so this would not be a direct requirement of the City; 99% of the City's sewage is treated by the County, with the remaining 1% treated by Southwest Suburban Sewer District. Eventual costs regarding implementation of the permit would be paid by the agencies that send sewage flows to the County for treatment, including the City.

The County finances the capital and operating costs of its sewage treatment and disposal system, including projects from the RWSP, with capacity charges to new customers and wholesale charges to the City and other component agencies, all of which are established by the County Council pursuant to the current agreement. Currently, the City's share of the County's wholesale charge revenue is approximately 40%, and SPU passes this wholesale charge on to the City's Drainage and Wastewater System ratepayers. The County has approximately $3.7 billion of junior and senior lien sewer system debt outstanding (as of December 31, 2021) with a final maturity of 2054. The wholesale charge paid by the City to the County is used by the County to pay a portion of the debt service on these bonds and is included as an Operating and Maintenance Expense of the Drainage and Wastewater Fund under the Bond Ordinance. See Appendix A—New Money Bond Ordinance.

Wastewater Rates. Residential customers are charged based on actual water consumption from November through April and the lesser of actual consumption or average winter water consumption from May through October. Commercial customers are charged based on actual water consumption throughout the year unless they install submeters to measure actual use of the wastewater system. Wastewater rates are inclusive of County treatment charges and all taxes.

City ordinance allows SPU to pass through increases in the County's wastewater treatment charges based on adopted wholesale rates and projected billed consumption. The County, which treats virtually all of the City's wastewater, typically increases its wholesale treatment rate every two years. The following table provides a summary of adopted treatment rates for the last six years, expressed as dollars per residential equivalent unit ("REU").

TABLE 9
ADOPTED COUNTY WASTEWATER TREATMENT RATES

Effective Date	Monthly Rate ($/REU)	Percentage Change
January 2022	$ 49.27	4.0%
January 2021	47.37	4.5
January 2020	45.33	0.0
January 2019	45.33	2.5
January 2018	44.22	0.0
January 2017	44.22	5.2

The City Council has adopted wastewater system rates through 2024 and treatment rates, which act solely to pass through treatment expenses paid to the County, through 2022. Treatment rates through 2024 will be proposed in late 2022 based on rates the County Council will adopt in June 2022. Adopted retail wastewater rates are shown in Table 10. The single volume rate applies universally to all commercial and residential customers.

TABLE 10
ADOPTED WASTEWATER RATES[(1)]

Effective Date	Volume Rate ($/ccf)	Percentage Change
January 2024	$ 18.19	2.9%
January 2023	17.68	3.9
January 2022	17.01	2.0
January 2021	16.68	7.2
January 2020	15.55	7.4
January 2019	14.48	7.6
January 2018	13.46	4.1
January 2017	12.93	5.4

(1) Wastewater rates are inclusive of County treatment charges and all State and local taxes. Typical consumption per single-family residence is 4.3 ccf/month.

The following table shows typical 2022 residential bills for wastewater services in the City and other cities in the region.

TABLE 11
2022 RESIDENTIAL WASTEWATER CHARGES

City	Monthly Bill(1)
Bellevue WA(2)	$ 92.54
Kirkland WA(2)	87.09
Seattle WA(2)	**73.14**
Issaquah WA(2)	72.44
Redmond WA(2)	63.42
Tacoma WA	59.11
Everett WA	54.61
Portland OR	51.27

(1) Bills include taxes except Issaquah, which only taxes water consumption.

(2) County wastewater treatment customers.

Source: Survey by SPU of 2022 rates in effect in each respective city.

SPU accounts are typically billed bimonthly for residential and small commercial customers and monthly for larger accounts. Residential customers currently receive a combined utility bill that itemizes amounts due for water, wastewater and solid waste services. For a more complete explanation of billing, delinquencies, and application of partial payments, see "—Billing."

The City's wastewater system serves approximately 176,000 accounts in a developed urban area. Commercial accounts have, on average, comprised approximately 10% of the total. Growth in the number of accounts has been 0.5% to 1.0% per year since 2016.

The wastewater system's ten largest customers in 2021 are listed in the table below. The share of total wastewater utility revenue provided by the top ten customers in any given year has held constant at 10.4% (2015 and 2019) but dropped to 8.7% in 2020 before partially recovering to 9.7% in 2021. This dip was a result of the impacts of Covid-19 on the University of Washington, the County, and Marriott International.

TABLE 12
TEN LARGEST WASTEWATER CUSTOMERS IN 2021

Name	Revenue ($000)	% of Total Revenue
University of Washington	$ 9,182	2.8%
Seattle Housing Authority	6,965	2.1%
City of Seattle	3,205	1.0%
Equity Residential	3,042	0.9%
Marriott Internation Inc.	1,894	0.6%
King County	1,849	0.6%
Port of Seattle	1,525	0.5%
Harborview Medical Center	1,308	0.4%
Seattle Children's Hospital	1,246	0.4%
Essex Property Trust	1,231	0.4%
Total-Ten Largest Customers	$ 31,448	9.7%
Other Wastewater Customers	293,182	90.3%
Total Billed Revenue	$ 324,630	100.0%

Note: Totals may not add due to rounding.

Source: SPU Wastewater Billing System

Drainage Services

Stormwater run-off in the City is conveyed through one of three modes: storm drains, a combined stormwater and wastewater system, and a ditch, culvert, and creek system. Beginning in the late 1960s, the City converted some of the existing combined stormwater and drainage system to a two-pipe system, one for stormwater run-off and the other for sanitary sewage. A ditch, culvert, and creek system exists in areas of the City that originally were part of unincorporated King County and later were annexed by the City. Each of the three conveyance modes now represents about one-third of the system.

To address flooding of private property adjacent to major creeks carrying City stormwater, new trunk lines and detention ponds have been built and regulatory controls have been added for new residential and commercial developments. Also, several efforts are underway to reduce pollutants in stormwater that can contribute to water quality problems in receiving waters. SPU is responsible for coordinating the City's stormwater management programs. See "Regulations—NPDES Municipal Stormwater Permit."

Drainage Rates. The City charges drainage fees based on a property's estimated impact on the drainage system. In 2008, SPU implemented a new drainage rate design to increase equity among drainage customers and between wastewater and drainage customers. Previously, all residential customers paid the same annual flat fee, regardless of parcel size. Under the updated structure, owners of single-family and duplex properties of less than 10,000 square feet pay an annual flat fee based on the size of their property. Owners of all other properties, including single-family and duplex properties on parcels of 10,000 square feet or greater, are charged based on the percent of impervious surface and buildable lot size. In addition, drainage rates fund a portion of the City's combined drainage and storm sewer system infrastructure and wastewater treatment costs. SPU began offering rate credits in 2009 to property owners installing water quality and flow control facilities that mitigate the impact of their runoff on the City's drainage system. To date, these credits have not had a material impact on net system revenues.

Drainage rates for 2020 through 2022 are shown in the table below, and the annual rates of increase in drainage rates for the period 2017 through 2022 are shown in Table 14.

TABLE 13
DRAINAGE RATE CATEGORIES

Rate Category	Percent Impervious[(1)]	2020 Annual Charge	2021 Annual Charge	2022 Annual Charge
Small Residential		per parcel	per parcel	per parcel
(less than 10,000 square feet)				
0-1,999 sq. ft.		$170.59	$195.57	$204.21
2,000-2,999 sq.ft.		298.75	320.58	337.13
3,000-4,999 sq. ft.		414.26	445.25	465.91
5,000-6,999 sq. ft.		558.27	599.94	632.67
7,000-9,999 sq. ft.		705.09	757.69	797.99
General Service/Large Residential[(2)]		per 1,000 sq.ft.	per 1,000 sq.ft.	per 1,000 sq.ft.
Undeveloped	0-15%			
Regular		$46.05	$49.49	$53.68
Low Impact[(3)]		27.40	29.45	31.11
Light	16-35%			
Regular		$68.75	$73.92	$79.66
Low Impact[(3)]		53.85	57.87	61.92
Medium	36-65%			
Regular		$97.86	$105.15	$112.87
Low Impact[(3)]		79.21	85.00	91.20
High	66-85%	129.50	139.17	149.12
Very High	86-100%	154.60	165.81	177.83

(1) Impervious surface is any hard or impermeable surface such as blacktop, rooftops, parking lots, patios, hardpan, and hard-packed athletic fields, which absorb much less rainwater than pervious surfaces covered with grass, trees, or other vegetation.

(2) Includes single-family and duplex properties of 10,000 square feet or more.

(3) A parcel may qualify for a low impact rate if it has a significant amount of highly pervious surface, *e.g.*, forested land, other unmanaged vegetated areas such as pasturelands and meadows, or certain athletic fields that have been designed to substantially meet the same SPU-defined performance characteristics for infiltrating stormwater.

TABLE 14
ANNUAL DRAINAGE FEE PERCENTAGE INCREASE (%)

	2017	2018	2019	2020	2021	2022
Residential[(1)]	10.9	11.2	7.5	8.0	7.6	5.0
Commercial	11.6	9.4	9.7	6.0	8.0	7.2

(1) Residential parcels of 10,000 square feet or more are billed under the same rate structure as commercial parcels, based on percent impervious and actual parcel size.

The table below compares the typical residential charge for drainage services of comparable cities in the Northwest.

TABLE 15
2022 RESIDENTIAL DRAINAGE CHARGES

City	Monthly Bill
Seattle WA	**$ 52.72**
Portland OR	30.90
Bellevue WA	29.65
Everett WA	28.61
Tacoma WA	27.40
Kirkland WA	19.82
Issaquah WA	18.43
Redmond WA	16.56

Source: Survey by SPU of 2022 rates in effect in each respective city

The City's drainage system serves approximately 221,000 accounts in a developed urban area; the system has experienced a slow, steady increase in the number of customers as in-fill development results in the subdivision of lots. Residential customers make up approximately 70% of the total customers. The ten largest customers of the drainage system in 2021 are listed in the table below. In 2021, revenue billed to these ten customers totaled approximately 16.5% of drainage service revenues.

TABLE 16
TEN LARGEST DRAINAGE CUSTOMERS IN 2021

Name	Revenue ($000)	% of Total Revenue
City of Seattle	$ 10,808	6.5%
King County	3,458	2.1%
Seattle Public Schools	3,385	2.0%
University of Washington	2,812	1.7%
BNSF Railway Company	2,520	1.5%
U.S. Government	1,189	0.7%
Seattle Housing Authority	1,119	0.7%
Union Pacific Railroad Company	950	0.6%
Archdiocese of Seattle	652	0.4%
Prologis Inc.	646	0.4%
Total-Ten Largest Customers	$ 27,540	16.5%
Other Drainage Customers	139,158	83.5%
Total Billed Revenue	$ 166,698	100.0%

Note: Totals may not add due to rounding.

Source: SPU Drainage Billing System

Billing

The City's utility billing function is co-managed by both SPU and the City's electric utility enterprise ("Seattle City Light"). SPU provides customer service through a call center and walk-in center, although access to the walk-in center has been restricted due to the COVID-19 pandemic. Seattle City Light operates and manages the billing system. SPU and Seattle City Light bill and reimburse each other for these services.

SPU accounts are billed bimonthly for residential and small commercial customers and monthly for larger accounts. Residential customers receive a combined utility bill that itemizes amounts due for water, wastewater, and solid waste services. Payments received from the combined utility bills are allocated to the appropriate funds. If a payment received from a residential customer is insufficient to cover the total amount due and payable under the combined utility bill, that payment is credited first to the Solid Waste Fund. The balance of the payment is then credited to the Drainage and Wastewater Fund and then, if funds are available, to the Water Fund. If an account is 20 days past due, customers receive a water shut-off notice. Under State law, SPU has the authority to shut off water when an account is 30 days past due. Delinquent charges bear interest at the rate of 12% per annum. Due to the COVID-19 pandemic, SPU temporarily stopped charging the delinquency fee and stopped shutting off service. The State moratorium on utility shut-offs ended July 31, 2021, although the City's moratorium on utility shut-offs extended past that date and ended on April 15, 2022. SPU expects to resume delinquency charges by the end of 2023, and will remain in compliance with applicable Governor Proclamations. Total 90-day-plus outstanding balances for SPU billed water, wastewater, and solid waste services, including inactive accounts, were $17.2 million (approximately 2% of annual direct service revenue billed by SPU) as of March 31, 2022, compared to $3.3 million as of March 31, 2020. These figures include all outstanding amounts going back to 2009.

Drainage fees are billed to all property owners in Seattle, except for certain exempt properties (submerged lands, houseboats, piers, City streets, State highways, and other streets that provide the same drainage service as City streets), and are billed on the County property tax statement. In accordance with RCW 35.67.200, City ordinances provide that the City has a lien for all delinquent and unpaid drainage service charges, and that delinquent drainage service charges bear interest at the rate of 8% per year.

Regulations

Clean Water Act. The Federal Water Pollution Control Act (the "Clean Water Act"), as amended, establishes a broad goal of restoring and maintaining the chemical, physical, and biological integrity of the nation's waters. Among other directives, the Clean Water Act:

(i) requires permitting of point source discharges of pollutants into waters of the United States under the National Pollutant Discharge Elimination System ("NPDES") permitting system;

(ii) mandates that states set water quality standards, and requires periodic listing of impaired waters (section 303(d) list);

(iii) mandates "total maximum daily load" analyses for impaired waters; and

(iv) requires programs to encourage control of nonpoint source pollution.

The Clean Water Act creates some state responsibilities directly and allows the U.S. Environmental Protection Agency ("EPA") to delegate other responsibilities state-by-state.

NPDES Municipal Stormwater Permit. Section 402 of the Clean Water Act requires certain municipalities to obtain an NPDES permit for municipal stormwater discharges to receiving waters. In the State, Ecology is responsible for issuing and renewing these permits. Ecology issues a combined NPDES Municipal Stormwater Permit and State Waste Discharge Permit, which covers discharges to ground waters, in a single General Permit. Municipal stormwater discharges are regulated as point sources that should be controlled to reduce discharge of pollutants to the "maximum extent practicable," through a primarily programmatic permit. Under Phase I of the program, large and medium municipal separate storm sewer systems ("MS4s") such as the City's must obtain NPDES permits for the discharges of stormwater to surface waters and ground waters of the State (not including CSOs or discharges from public treatment facilities). As a condition of MS4 permit coverage, permittees are required to develop a stormwater management program, components of which include legal authority, MS4 mapping and documentation, public involvement and participation, controlling runoff from new development, redevelopment and construction sites, stormwater planning, structural stormwater controls, source control for existing development, illicit connections and illicit discharge detection and elimination, operations and maintenance, and education and outreach.

Ecology issued the current Phase I municipal stormwater permit to the City in 2019. The 2019 permit includes requirements that were intended to improve the quality of the receiving waters in the City and includes prescriptive programmatic requirements, measurement guidelines for specific programs, and best management practices based on

Ecology's 2019 Stormwater Management Manual for Western Washington. This permit is in effect from 2019 to 2024 and continues many of the previous prescriptive programmatic permit requirements while slightly changing others. The largest change is the addition of a new stormwater management program requirement for stormwater planning.

Combined Sewer Overflow NPDES Permit, Reduction Plan, and Amendments. The City's wastewater collection system is regulated by Ecology through an NPDES Permit. Ecology first issued the City an NPDES Permit for CSO discharges in 1975. The permit has been reissued periodically (generally every five years), most recently as NPDES Permit WA0031682 issued on March 30, 2016, with an effective date of May 1, 2016. The permit was modified on September 28, 2017, with an expiration date of April 30, 2021. SPU applied for permit renewal on August 31, 2020. Ecology reviewed the application and accepted it as complete on December 29, 2020. The permit will remain in effect and enforceable until Ecology issues a new permit, in accordance with State statute (RCW 34.05.422(3)) and regulations.

Combined Sewer Overflow Agreed Order. In 2008, the EPA Region 10 Office of Compliance and Enforcement audited both the County's and the City's CSO programs to ensure consistency with federal laws and requirements. EPA has audited numerous other combined sewer agencies in the United States. Based on the results of the audit, EPA and the City signed a compliance order in 2009 requiring the City to take specific operations and maintenance actions and complete minor retrofits to reduce dry weather overflows and maximize system capacity, all of which were completed in 2014. In 2010, the City also entered into an agreed order with Ecology, requiring that CSOs from all remaining uncontrolled CSO basins be reduced to an average of one overflow per site per year by December 31, 2025. This agreed order was rescinded by Ecology on February 1, 2016, to avoid having inconsistencies between the agreed order and the Consent Decree (described below).

Sewer Overflow Consent Decree. In 2011, EPA, Ecology, and the U.S. Department of Justice entered into Consent Decree negotiations with the City and the County related to completion of the agencies' CSO reduction programs and management of each agency's wastewater system. The negotiated consent decrees were entered in U.S. District Court in 2013. The City's Consent Decree requires the City to develop and implement plans and projects including a Capacity, Management, Operations, and Maintenance Performance Program Plan, Long-Term Control Plan ("LTCP"), Fats, Oils, and Grease Control Program Plan, revised Floatables Observation Program Plan, Final Post-Construction Monitoring Plan, and the Henderson CSO reduction project, and requires the City and the County to develop and implement a joint operations and systems optimization plan. The final Plan to Protect Seattle's Waterways (including the LTCP) was submitted to EPA and Ecology for approval on May 29, 2015, in accordance with the City's Consent Decree requirements. The Plan was approved by EPA and Ecology on August 26, 2015, and commits SPU to constructing the Ship Canal Water Quality Project, several smaller storage projects and sewer system improvement projects to control all remaining uncontrolled CSO outfalls, and three projects to remove pollutants from stormwater: Natural Drainage Systems ("NDS") Partnering, South Park Water Quality Facility, and Arterial Street Sweeping Expansion. The largest of the CSO storage projects, the sewer system improvement projects, and the stormwater projects were expected to be completed by the end of 2025, and the remaining CSO storage projects were expected to be completed by the end of 2030. The Ship Canal Water Quality Project benefits both the City and the County. The City and the County have signed an agreement to guide construction, operation and maintenance, and cost-sharing of the Ship Canal Project. The City is the lead agency for construction, and will own, operate, and maintain a tunnel and its related structures. SPU and the County's Department of Natural Resources and Parks ("DNRP") have also chartered oversight, project review, and change management committees to provide policy guidance and management oversight, support, and direction to the project.

The Final Post Construction Monitoring Plan ("PCMP") was also submitted to EPA/Ecology on May 29, 2015, for approval in accordance with the City's Consent Decree. The Final PCMP included updates to the City's approved PCMP from 2010. The Final PCMP provided an updated analysis of surrogate CSO outfall sampling locations using 2010-2014 outfall monitoring data. The Final PCMP also included an implementation schedule based on the City's Consent Decree requirements and proposed milestone compliance dates presented in the final Plan to Protect Seattle's Waterways. The Final PCMP was approved by EPA and Ecology in 2015.

On August 6, 2019, SPU submitted a letter to EPA, Ecology and the U.S. Department of Justice ("DOJ") describing its interest in renegotiating the terms of the Consent Decree. The County submitted a similar letter to EPA and Ecology on October 28, 2019. Confidential negotiations involving DOJ, EPA, Ecology, SPU and DNRP were initiated in January 2020 and are ongoing.

Over the last four decades, the City has invested more than $700 million in CSO controls. From 2022 through 2027, the City expects to spend an additional $409 million (in 2022 dollars) in CSO improvements, including large CSO storage facilities, sewer system improvement projects, and green stormwater infrastructure projects. See "—Capital Improvement Program."

Financial Policies

Drainage and wastewater rates are set in accordance with financial policies adopted by the City Council, including the Debt Service Coverage Requirement. Revenues to cover depreciation and City taxes are considered available for debt service. Under the City Charter, City taxes on the Drainage and Wastewater System may be paid only after provision has been made for debt service payable from Net Revenues and for necessary betterments and replacements for the current year. The City Council has adopted a coverage target of Adjusted Net Revenue available for debt service in each calendar year at least equal to 1.80 times Adjusted Annual Debt Service. Other adopted internal policy targets in effect since 2004 include generally positive net income, a minimum year-end cash balance equal to the average monthly wastewater treatment cost, and a minimum of 25% cash funding of the CIP based on a four-year rolling average. Between 2017 and 2021, the Drainage and Wastewater System met or exceeded all targets.

Financial Performance

Table 17 shows actual revenues and expenses of the Drainage and Wastewater System for the years 2017 through 2021 and projected results for 2022 through 2024. Footnotes for the table are on the following page.

SPU does not as a matter of course make public projections as to future sales, earnings or other results. However, the management of SPU has prepared the prospective financial information as set forth below in Table 17—Drainage and Wastewater System Operating Results and under "Capital Improvement Program" to provide readers of this Official Statement information related to projected revenues and expenses of the Drainage and Wastewater System. The accompanying prospective financial information was not prepared with a view toward public disclosure or with a view toward complying with the guidelines established by the American Institute of Certified Public Accountants with respect to prospective financial information, but, in the view of SPU's management, was prepared on a reasonable basis, reflects the best currently available estimates and judgments, and presents, to the best of management's knowledge and belief, the expected course of action and the expected future financial performance of the Drainage and Wastewater System. However, this information is not fact and should not be relied upon as being necessarily indicative of future results, and potential purchasers of the Bonds and the readers of this Official Statement are cautioned not to place undue reliance on the prospective financial information.

Neither SPU's independent auditors, Moss Adams LLP, nor the State Auditor nor any other independent accountants have compiled, examined, or performed any procedures with respect to this Official Statement or any financial information contained herein, nor have they expressed any opinion or any other form of assurance on such information, and they assume no responsibility for, and disclaim any association with, this Official Statement and such information.

The financial statements of the Drainage and Wastewater Fund as of and for the year ended December 31, 2021, included herein as Appendix C, have been audited by Moss Adams LLP, independent auditors, as stated in its report appearing herein. SPU has not requested that Moss Adams LLP provide permission for inclusion of its report on the audited financial statements in this official statement, and Moss Adams LLP has not performed, since the date of its report included herein, any procedures on the financial statements addressed in that report. Further, Moss Adams LLP has not participated in any way in the preparation or review of this Official Statement.

The debt service coverage ratios provided below have been calculated in accordance with the Bond Documents. Such calculations are derived from definitions of Gross Revenue, Operating and Maintenance Expense, Adjusted Net Revenue, and certain other terms which are defined in Appendix A—New Money Bond Ordinance—Section 1. Such calculations also reflect the application of generally accepted accounting principles as applied to financial results.

The debt service coverage calculations set forth below are intended to reflect compliance with the rate covenant and additional debt covenants contained in the Bond Documents and described under "Security for the Bonds" and for no other purpose. Such calculations may reflect non-recurring or extraordinary accounting transactions permitted under the Bond Documents and generally accepted accounting principles.

In providing a rating on the Bonds, certain rating agencies may have performed independent calculations of coverage ratios using their own internal formulas and methodology which may not reflect the provisions of the Bond Documents. See "Other Bond Information—Ratings on the Bonds." The City makes no representation as to any such calculations, and such calculations should not be construed as a representation by the City as to past or future compliance with any bond covenants or the availability of particular revenues for the payment of debt service, or for any other purpose.

TABLE 17
DRAINAGE AND WASTEWATER SYSTEM OPERATING RESULTS
($000)

	2017	2018	2019	2020	2021	Projected 2022	Projected 2023	Projected 2024
Operating Revenues								
Wastewater [1]	$273,892	$279,496	$304,832	$299,098	$330,238	$337,673	$358,012	$373,567
Drainage [1]	119,615	133,837	143,323	155,021	164,767	175,244	184,383	195,646
Other	6,778	6,542	6,227	6,176	7,512	7,700	7,893	8,090
Total Operating Revenue	$400,284	$419,876	$454,382	$460,295	$502,517	$520,617	$550,288	$577,304
Operating Expense								
Wastewater Treatment Contract	$162,758	$163,784	$166,786	$168,150	$165,085	$174,381	$188,867	$202,477
Other Operations and Maintenance	103,506	104,025	112,696	123,813	122,606	142,081	173,929	182,792
City Taxes [2]	46,724	49,612	53,151	54,336	58,248	65,901	66,453	69,678
Total Operating Expenses Before Debt Service	$312,989	$317,420	$332,634	$346,298	$345,939	$382,363	$429,249	$454,947
Net Operating Income	$ 87,296	$102,456	$121,748	$113,997	$156,579	$138,255	$121,039	$122,356
Adjustments								
City Taxes [2]	$ 46,724	$ 49,612	$ 53,151	$ 54,336	$ 58,248	$ 65,901	$ 66,453	$ 69,678
DSRF Earnings	(436)	(734)	(761)	(628)	(434)	(108)	(54)	(27)
Net Other Non-Operating Revenues/(Expenses)	7,528	9,691	11,594	12,227	15,919	5,745	5,640	5,657
Total Adjustments	$ 53,816	$ 58,568	$ 63,984	$ 65,936	$ 73,733	$ 71,537	$ 72,039	$ 75,308
Adjusted Net Revenue Available for Debt Service	$141,111	$161,024	$185,732	$179,933	$230,312	$209,792	$193,077	$197,664
Annual Debt Service								
Annual Debt Service [3]	$ 52,504	$ 65,973	$ 62,006	$ 61,849	$ 60,901	$ 64,807	$ 66,306	$ 70,849
Less: DSRF Earnings	(436)	(734)	(761)	(628)	(434)	(108)	(54)	(27)
Adjusted Annual Debt Service	$ 52,068	$ 65,239	$ 61,244	$ 61,221	$ 60,467	$ 64,698	$ 66,252	$ 70,822
Coverage	2.71	2.47	3.03	2.94	3.81	3.24	2.91	2.79

Notes to table on the following page.

NOTES TO TABLE 17:

(1) Projected revenue for 2023 and 2024 includes projected treatment rates based on assumptions for King County Wastewater Treatment Division rate increases. SPU system rates have been adopted by City Council through 2024.

(2) The City currently levies a tax on total gross income from drainage and wastewater charges of 11.5% and 12%, respectively. Under the City Charter, City taxes on the Drainage and Wastewater System may be paid only after provision has been made for debt service payable from Net Revenues and for necessary betterments and replacements for the current year.

(3) Reflects only debt service on Parity Bonds and does not include the Ecology and Public Works Assistance Account loans, which are secured by a lien on Net Revenue of the Drainage and Wastewater System that is junior to the lien of the Parity Bonds. The WIFIA Bond does not incur any debt service obligation until 2026. See "Security for the Bonds—State Loan Program Obligations" and "—Debt Service Requirements."

Note: Totals may not add due to rounding.

Source: Drainage and Wastewater System

Management Discussion and Analysis of Operating Results

This section provides a brief discussion of operating results for the period 2017 through 2021 based on information in Table 17, and the Management's Discussion and Analysis included in Appendix C—2021 Audited Financial Statements of the Drainage and Wastewater Fund.

The Drainage and Wastewater System has maintained high levels of debt service coverage (well above policy targets), with strong cash performance equal to or above the policy target. Operating cash balances have grown from $121 million to $213 million over the past five years.

Revenue performance was strong going into the pandemic due to a strong local economy and steady rate increases. SPU wastewater demand forecasting assumes two counteracting forces: infill development and increased overall efficiency placing downward pressure on demand while a roughly counterbalancing upward pressure is exerted by population growth. This relationship has held true since 2005. Since the 2008 Financial Crisis, wastewater demand has remained at 21 million CCF per year, even as the service area population increased by 22% from 2008 to 2019.

Due to COVID-19, wastewater demand in 2020 and 2021 was 7% and 6% below 2019, respectively. Demand reductions were concentrated within a few sectors: office buildings, hotels, education, and retail and restaurants. In the current demand forecast, education, retail, and restaurants are assumed to return to pre-pandemic levels over a multi-year recovery. Future patterns of activity at office buildings and hotels are less certain. However, these two sectors combined are under 10% of commercial demand and under 7% of total 2019 (pre-pandemic) wastewater demand, placing a limit on risk.

Current wastewater rates were adopted by the City Council in late 2021 with effective dates through 2024. These rate changes were calculated to meet or exceed all financial policies based on an assumption of a multi-year recovery lasting beyond 2026.

Payments to the County for wastewater treatment constitute an Operating and Maintenance Expense that must be paid prior to payment of the principal of or interest on any bonds secured by the revenues of the Drainage and Wastewater System, including the Parity Bonds. Approximately 40% of the Drainage and Wastewater System's total operating revenue is spent on wastewater treatment. City ordinance allows SPU an expedited process to pass through increases in the County's wastewater treatment expense, bypassing the formal rate-setting process.

Strategic Business Plan

In 2020 and the first part of 2021, SPU worked with customers and employees to update the Strategic Business Plan to guide its work from 2021 through 2026. The Strategic Business Plan is a six-year plan updated triennially. The Strategic Business Plan Update outlines new investments, cost savings, and a retail rate path for the six-year period, and is an update of the 2018-2023 Plan. The plan grew out of SPU's efforts to provide greater rate predictability to its customers, while still making important investments for the future. The Strategic Business Plan Update was adopted by the City Council in May 2021. Through that adoption, the City Council endorsed an average annual rate increase of 4.2% for all funds taken together.

Capital Improvement Program

Each year, SPU prepares a six-year Drainage and Wastewater Capital Improvement Program ("CIP"). The CIP identifies rehabilitation and upgrades that are needed for existing facilities, as well as any new facilities that are required, and includes a financial plan for funding the planned improvements. SPU expects to finance the CIP with a combination of bond proceeds, grants and reimbursements, and current revenues.

The City is currently engaged in planning that will identify capital and operating and maintenance needs for the Drainage and Wastewater System. The City's Plan to Protect Seattle's Waterways (LTCP to reduce CSO and Integrated Plan that addresses both sewage overflows and polluted stormwater runoff), which was approved by the EPA, Department of Justice, and Ecology, requires CIP investments in wastewater and stormwater projects through 2030. Supplementing in the near-term and looking beyond 2030, SPU is in the process of developing a community-centered plan to guide investments in integrated utility infrastructure for the next 50 years (Shape Our Waters Plan).

The table below shows the adopted CIP for 2022 through 2027 along with planned funding sources.

TABLE 18
DRAINAGE AND WASTEWATER SYSTEM
ADOPTED CAPITAL IMPROVEMENT PROGRAM
(Amounts in Thousands)

	2022	2023	2024	2025	2026	2027	Total
Program Area							
Ship Canal Water Quality Project	$ 62,870	$ 57,217	$ 39,436	$ 14,092	$ 3,636	$ 1,973	$ 179,224
Protection of Beneficial Uses	22,428	24,531	30,405	71,713	52,679	35,927	237,683
Sediments	4,608	5,222	11,115	16,130	10,979	12,896	60,950
CSO	33,770	63,826	55,152	23,112	16,615	37,649	230,123
Rehabilitation	40,326	52,270	50,338	51,294	49,191	43,808	287,227
Flooding/Sewer Backup and Landslides	27,140	16,681	12,657	36,340	27,568	36,732	157,117
Shared Cost Projects	11,458	15,531	21,797	30,013	15,411	16,133	110,343
Technology	5,051	6,117	4,299	4,299	4,299	4,299	28,364
Subotal Uses	$ 207,650	$ 241,393	$225,199	$ 246,994	$ 180,377	$ 189,417	$1,291,031
Less Reimbursements from King County	(31,556)	(34,425)	(19,431)	(7,959)	(706)	(690)	(94,767)
Net Total Uses	$176,094	$206,969	$205,768	$239,035	$ 179,671	$ 188,726	$1,196,265

Funding Source	2022	2023	2024	2025	2026	2027	Total
Debt Financing							
Outstanding Bonds	$ 20,681	$ -	$ -	$ -	$ -	$ -	$ 20,681
Future New Money Bonds	22,374	53,445	123,361	121,762	121,201	140,090	582,234
WIFIA	41,983	49,908	30,833	12,674	3,636	1,282	140,316
SRF	20,618	131	132	862	-	-	21,743
Public Works Assistance Account	-	-	-	-	-	-	-
Total Debt Financing	$105,656	$103,484	$154,326	$135,297	$ 124,837	$ 141,372	$764,973
Internally Generated Funds	70,438	103,484	51,442	103,737	54,835	47,354	431,290
Total Sources	$176,094	$206,969	$205,768	$239,035	$ 179,671	$ 188,726	$1,196,264

Note: Totals may not add due to rounding.

The CIP plan addresses seven program areas:

Combined Sewer Overflows. This program area consists of projects that are mandated by State and federal regulations to control CSOs into the City's receiving waters. Projects include large infrastructure projects (*e.g.*, storage structures, pipes, tunnels, stormwater separation, and pump stations), smaller retrofits, construction of green infrastructure for CSO control, and development of regulatory-required plans, such as the LTCP. The largest project in this category is the Ship Canal Water Quality Project, a $570 million joint project with the County to control CSOs into the Lake Washington Ship Canal and Salmon Bay. The Ship Canal Water Quality project is funded through a combination of loans from the EPA under the WIFIA program and Ecology under the Clean Water State Revolving Fund program, contributions from the King County Department of Natural Resources, as the project will control CSO overflows from several basins, some of which are the responsibility of the County, and the Drainage and Wastewater Fund operating cash reserves. SPU does not intend to use any specific revenue bond funds for this project.

Protection of Beneficial Uses. This program area consists of improvements to the City's drainage system to reduce the harmful effects of stormwater runoff on creeks and receiving waters by improving water quality and protecting or enhancing habitat. The program area includes projects to improve water quality, protect creeks, meet regulatory requirements, and use best available science to meet community expectations for habitat.

Sediments. This program area provides funding for studies and analysis of cleanup of contaminated sediment sites in which the City is a participant, for engineering, design, and construction of actual cleanup of contaminated sites and for liability allocation negotiations. Funding is used to develop studies and analyses required by regulatory agencies for determining the boundaries and cleanup requirements for specific action sites. The study phase of sediment remediation projects often requires multiple years before specific cleanup actions are defined. As regulatory agency cleanup requirements become clear, additional individual cleanup projects are included in subsequent CIP proposals.

In 1991, the State adopted marine water sediment management standards under which Ecology may act to require the City to clean up sediments contaminated by CSOs and/or discharges from separate storm sewers. The full extent of sediment contamination related to City discharges, if any, and the nature and cost of compliance with Ecology standards are not known at the present time. See "Environmental Liabilities."

Rehabilitation. This program area consists of projects to rehabilitate or replace existing drainage and wastewater assets in-kind to maintain the current functional level of the system. Projects include rehabilitation and/or replacement of drainage and wastewater control structures and appurtenances, pipes, culverts, pump station structures, major mechanical and electrical components, and force mains.

Flooding/Sewer Backup and Landslides. This program area consists of projects for preventing and alleviating flooding and sewer backups in the City, with a primary focus on the protection of public health, safety, and property. The program area is focused on planning, design, and construction of channels, pipes, roadside ditches, culverts, detention ponds, and green infrastructure that control and/or convey storm runoff to receiving waters. The program area also involves protecting SPU drainage and wastewater infrastructure from landslides and providing drainage improvements where surface water generated from the City right-of-way is contributing to landslides.

Shared Cost Projects. This program area includes projects involving more than a wastewater or drainage purpose and which are typically funded from multiple sources. Current projects include numerous transportation agency-led projects where utility infrastructure upgrades are being installed in coordination with the pavement replacement opportunity to reduce long-term cost for ratepayers. Some of these projects are managed by other agencies outside of the City; as a result, the staging and timeline for completion of these projects are not under the City's control.

Technology. This program area includes administrative information technology such as workstations, cloud computing, telecommunications, and billing. Upgrades to existing geographic information systems infrastructure and updated aerial orthophotography are also included. These will provide more robust and granular surface permeability data to increase the efficiency and accuracy of drainage billing.

Risk Management and Quality Assurance

The Risk and Quality Assurance Program ("RQA") was first established in 2004 and became a separate division in 2011. While housed in the Financial and Risk Services branch, the program reports to a Policy and Risk and Quality Assurance Board, which consists of the SPU General Manager, the Executive Team, program staff, and a representative from the City Attorney's Office. In 2016, the Safety, Security, Emergency Management, Privacy/PCI, and Customer Appeals programs were brought into the RQA division to enable better alignment and synergy of the overall mission of reducing risk to the organization. The program's goals are to:

(i) provide strategic advice to SPU's Executive Team and guide the development of policies that enable SPU to be more efficient and effective in meeting customer expectations;

(ii) assess planned and ongoing business practices and procedures to recognize threats and opportunities;

(iii) recommend measures to ensure sufficient internal controls are in place to reduce risks to SPU's employees, customers, and assets;

(iv) investigate, advise, and respond to legal requests and filings on behalf of SPU;

(v) conduct internal investigations, assessments, and audits to ensure that SPU is complying with regulations, policies, and procedures; and

(vi) develop, implement, and review plans that ensure that SPU is protected in the event of harmful incidents or emergencies.

See "The City of Seattle—Risk Management" for a discussion of the City's risk management practices.

Endangered Species Act and Regional Needs Assessment

National Oceanic and Atmospheric Administration ("NOAA") Fisheries has listed as "threatened with extinction" the Puget Sound Chinook salmon, and U.S. Fish and Wildlife Service ("USFWS") has determined bull trout, Steller sea lion, marbled murrelet, and Puget Sound steelhead to be similarly threatened. The USFWS has also listed the killer whale and humpback whale as endangered. These agencies have designated critical habitat for these species that includes parts of the City's drainage service area: Lake Washington and its tributaries, the Duwamish River, Elliott Bay, and parts of Puget Sound.

Given the many legal, scientific, and public review uncertainties currently associated with these listings and their application specifically to the Drainage and Wastewater System, it is difficult to predict their full implications for utility services.

However, the addition of review requirements to certain of SPU's capital projects under the Endangered Species Act (the "ESA"), specifically Section 7 consultations between the federal services that are required under ESA, has added additional time to the permit review process, sometimes as much as a year or longer, which may result in construction delay of two to three years, depending on fish-friendly work window restrictions. The extent to which additional costs will be incurred for mitigation specifically related to the ESA is unknown. The City has entered into memoranda of understanding with the U.S. Army Corps of Engineers, USFWS, and NOAA Fisheries for assistance in expediting the permit review process.

The City and SPU anticipate that additional funding will be needed to support habitat restoration programs that address threatened and endangered species-related policy objectives. Funding for these programs is expected to come from a variety of sources, including City water and drainage and wastewater rates and general fund money, federal and state grants, and taxes or fees imposed by other local jurisdictions.

Environmental Liabilities

The Comprehensive Environmental Response, Compensation, and Liability Act of 1980 ("CERCLA") created the federal Superfund, the EPA's program that addresses contaminated sites. The two basic kinds of liability described under the Superfund law are liability related to historic contamination and liability related to damages to natural resource values.

In 2000, the City, the County, the Port of Seattle and The Boeing Company voluntarily began working together to investigate contamination in the Lower Duwamish Waterway. Their group is the Lower Duwamish Waterway Group ("LDWG"). In 2001, EPA listed the Lower Duwamish Waterway as a Superfund site under CERCLA to address contamination in waterway sediments. EPA and Ecology followed the listing with a joint federal and State administrative order on consent ("AOC"), which named certain potentially responsible parties ("PRPs"), including the City (through SPU and Seattle City Light), the County, the Port of Seattle, and The Boeing Company as Potentially Responsible Parties ("PRPs"). The AOC required a Remedial Investigation to determine the nature and extent of contamination in the waterway, studies of risk to people and wildlife, and formulation of cleanup alternatives in a Feasibility Study. The LDWG members conducted and paid for the Remedial Investigation and Feasibility Study. LDWG members also conducted "Early Actions" to address contamination in specific parts of the Site

EPA issued its Record of Decision in 2014 identifying EPA's choice of remedial actions and estimating total cleanup costs of $342 million (2014 present value). SPU's share of liability for this cleanup is uncertain. It depends in part on the extent to which SPU's drainage and wastewater operations are deemed to have contributed to the contamination and in part on the identity of other PRPs who will share the costs. A voluntary, confidential allocation process is expected to be completed in 2022 and is intended to be the basis for a negotiated settlement of costs among about 44 PRPs. The original AOC has been amended five times to include additional pre-design studies and to design the remedy for the Upper Reach and Middle Reach of the waterway.

In 2020, the City (SPU), the County, and the Port of Seattle signed an EPA Settlement Agreement and Administrative Order on Consent to investigate contamination at a site adjacent to the Lower Duwamish, known as Terminal 108. The investigation is called an Engineering Evaluation and Cost Analysis ("EE/CA"). The Port, the City, and the County have an MOA related to the order and are sharing costs on an interim basis. SPU's ultimate share of liability for this site is uncertain, and depends upon the results of the investigation, the remedial actions selected by EPA, and the extent to which SPU's drainage and wastewater operations are deemed to have contributed to the contamination. Other PRPs are expected to share in the total cleanup costs as well as study costs. Planning and investigative work on the site will begin soon and a plan for the cleanup, including an estimate of its cost, is expected by 2024.

Immediately downstream of the Lower Duwamish Waterway is the East Waterway. Contaminated sediments within the East Waterway are an operable unit of the Harbor Island Superfund site, and the Port of Seattle entered into an administrative settlement agreement and order on consent ("ASAOC") with EPA in 2006. The ASAOC covers an East Waterway sediment Remedial Investigation/Feasibility Study ("RI/FS"), which was completed in 2019. A Proposed Plan is expected in 2022 and a Record of Decision is expected in 2023. The East Waterway is a Superfund cleanup project with many similar issues to the Lower Duwamish Waterway cleanup. The City (SPU and Seattle City Light), the Port of Seattle, and the County have been sharing the costs to implement the ASAOC on an interim basis. The City's ultimate share of costs for investigation and remediation of the East Waterway is unknown. Although EPA has not selected a cleanup action for the East Waterway, the total cost of cleanup can be estimated to be at least $256 million. Other PRPs are expected to share in any costs.

In 2002, Ecology named the City and Puget Sound Energy as PRPs for the contamination of sediments adjacent to Gas Works Park and the Harbor Patrol areas in the North Lake Union area of the City. The City and Puget Sound Energy signed an Agreed Order with Ecology in 2005 to initiate two RI/FS investigations for the sediment site: one in the western portion of the site led by the City and another in the eastern portion of the site led by Puget Sound Energy. Subsequently, in 2012, the City and Puget Sound Energy entered into a Settlement, Release, and Cost Allocation Agreement that put Puget Sound Energy in the lead of all additional cleanup work at the site; the east-west split is no longer in place. Based on the 2012 agreement, the City pays for 20% of the shared costs incurred by Puget Sound Energy for the cleanup work. The RI/FS includes an evaluation of the nature and extent of the contamination on the site, an evaluation of multiple alternatives for remediating the sediments, and a recommended preferred alternative. The RI/FS is expected to be completed in 2022 or 2023. A Clean-up Action Plan is expected from Ecology in 2024.

In addition, the Drainage and Wastewater System could be liable for a portion of the costs of investigation and cleanup at other sediment sites, including some not yet identified. The magnitude of any such potential liability cannot be determined at this time. See Appendix C—2021 Audited Financial Statements of the Drainage and Wastewater Fund-Note 10.

Climate Change

Climate change is projected to have wide-ranging impacts in the Central Puget Sound, including, but not limited to, shifts to the region's water and hydrologic cycle, increases in air temperature, and rising water levels along the marine shoreline. SPU's climate policy work draws on the planning and analysis expertise in each of SPU's lines of business to assess the implications of a changing climate on SPU's assets, services, and business functions and develop adaptation options that can be integrated into SPU's operations, capital planning, and overall decision-making processes. SPU's enterprise-wide climate work focuses on building collaborative partnerships to share and enhance knowledge, engaging in applied research to advance SPU's understanding of the implications of climate change, and fostering an enabling environment to support implementation. In addition, SPU's climate policy team is responsible for managing SPU's carbon neutrality initiative, focused on reducing greenhouse gas emissions associated with SPU's operations.

The Drainage and Wastewater System is actively incorporating climate impacts into its capital planning process. In 2017, SPU conducted an analysis of historical rainfall in the City to update its intensity, duration, and frequency ("IDF") curves. In 2018, SPU developed "climate-perturbed" rainfall timeseries files, providing probabilistic projections of future precipitation, to incorporate into capital investment decisions. In 2019, in partnership with SPU's climate policy team, the Drainage and Wastewater Planning and Program Management Division evaluated the exposure of SPU assets to sea level rise along the marine shoreline of the City, and modeled the effects of sea level rise and extreme precipitation events on system capacity. These are critical drivers for SPU's integrated Drainage and Wastewater System plan, Shape Our Water.

SPU is a founding member of the Water Utility Climate Alliance ("WUCA"), a group of 12 large urban water utilities that collaborates on climate science, applied research, and adaptation. The utility is also active in regional and national climate policy development and leadership focused on urban water resilience via the Puget Sound Climate Preparedness Collaborative, King County-Cities Climate Collaboration, the Association of Metropolitan Water Agencies, and the U.S. Water Alliance. These partnerships inform and advance SPU's climate resilience planning.

Emergency Operations Plan

The City maintains an integrated emergency management system in which all hazards are considered in a central planning structure. See "The City of Seattle—Emergency Management and Preparedness." In addition, SPU has both a Continuity of Operations Plan and an Urban Flood Response Plan.

THE CITY OF SEATTLE

The following provides general information about the City.

Municipal Government

Incorporated in 1869, the City is the largest city in the Pacific Northwest and is the County seat.

The City is a general purpose government that provides a broad range of services typical of local municipalities, such as streets, parks, libraries, human services, law enforcement, firefighting and emergency medical services, planning, zoning, animal control, municipal court, and utilities. The City owns and operates water, electric, solid waste, and drainage and wastewater utilities, although the County provides wastewater treatment service. The County also provides certain services throughout the County and within the City, including courts of general jurisdiction, felony prosecution and defense, jail, public health, and transit services.

The City is organized under the mayor-council form of government and operates under its City Charter. The Mayor, the city attorney, and the Municipal Court judges are all elected to four-year terms. The nine City Council members are elected to staggered four-year terms.

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

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

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

Budgeting and Forecasting

The City Budget Office. The CBO is within the executive branch and the Budget Director is appointed by the Mayor. The CBO is responsible for developing and monitoring the City's annual budget, carrying out budget-related functions, and overseeing fiscal policy and financial planning activities. The CBO provides strategic analysis in relation to the use of revenues, debt, and long-term issues. The department also provides technical assistance, training, and support to City departments in performing financial functions.

City operations are guided by a budget prepared under the direction of the Mayor by the CBO pursuant to State statute (chapter 35.32A RCW). (See "—Municipal Budget.") In prior years, the City's annual budget has been based in part on General Fund revenue forecasts prepared by the CBO; in 2022 much of the forecasting function transitions to the Office of Economic and Revenue Forecasts. See "—The Office of Economic and Revenue Forecasts." The CBO will continue to be responsible for coordinating with departments to forecast and project all other General Fund revenues, including a variety of excise taxes and public utility taxes, license and service fees, fines, inter- and intra-governmental charges, transfers and shared revenues, grants, interest earnings, and other lesser revenue items.

The Office of Economic and Revenue Forecasts. The Forecast Office was created in July 2021, pursuant to Ordinance 126395. The Forecast Office provides an independent source for the economic and revenue forecasts that underlie the City's annual budget process. The Forecast Office reports to the Economic and Revenue Forecast Council (the "Forecast Council"), which includes equal representation from the Legislative and Executive branches of City government. The following elected and appointed officials (or their designees) comprise the Forecast Council: the Mayor, the Director of Finance, the Council President, and the Chair of the City Council Finance Committee. The Forecast Council selects one member to serve as Chair of the Forecast Council annually.

The Forecast Office is tasked with preparing three revenue forecasts each year, to be delivered in April, August, and November. The forecasts that are developed by the Director of the Forecast Office and approved by the Forecast Council serve as the official City economic and revenue forecasts and as the basis for the estimates of revenues described in State statutes governing budgeting. The Mayor or City Council has the authority to deviate from the official forecasts.

Forecasts informing the City's annual budget proposals through the 2022 budget cycle were performed by the CBO. Beginning with the April 2022 Revenue and Budget Update and the 2023 budget cycle, the forecasting function is now performed by the Forecast Office, including forecasting the largest and most economically-dependent general government revenue sources, including sales tax, B&O tax, property tax, private utility taxes, and the new Payroll Expense Tax. The CBO will continue to be responsible for coordinating with departments to forecast and project all other General Fund revenues, including a variety of excise taxes and public utility taxes, license and service fees, fines, inter- and intra-governmental charges, transfers and shared revenues, grants, interest earnings, and other lesser revenue items.

In addition, the Forecast Office's responsibilities are to staff the Forecast Council, develop economic and revenue forecasts, conduct special studies at the request of the Forecast Council, and provide *ad hoc* analytical support on economic and revenue estimation for legislative and executive staff consistent with the work program.

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

The 2022 budget was adopted by Ordinance 126490, passed by the City Council on November 22, 2021. The City's adopted General Fund budget was approximately $1.607 billion in 2021 and is approximately $1.585 billion in 2022.

Fiscal Reserves

Emergency Fund. Under the authority of RCW 35.32A.060, the City maintains the EMF of the General Fund. The EMF is the principal reserve for the City to draw upon when certain unanticipated expenses occur during the fiscal year. Eligible expenses include costs related to storms or other natural disasters. State law limits the amount of money the City can set aside in this reserve to $0.375 per $1,000 of assessed value of property within the City. Prior to 2017, the City's practice had been to fully fund the emergency reserve to this maximum limit. In 2017, the City modified the existing financial policies for the EMF to establish a minimum balance of $60 million and to adjust that minimum each year with the rate of inflation. This policy struck a balance between ensuring that resources will be available to address unanticipated expenditures and making resources available to address current needs.

Due to the COVID-19 pandemic and related economic downturn, the City's revenue forecasts were significantly reduced from prior expectations. Additionally, the City will continue to realize significant expenses to address response and recovery through 2022. City policy was amended in 2021 to require that the City return to making contributions to satisfy the target balance within a period of five years, or sooner if practically possible after a severe event requiring deep or multi-year spending from the reserve.

In response to the ongoing COVID-19 pandemic, the City withdrew a net $12.8 million from the EMF in 2020 and an additional net $18.5 million in 2021. These uses reduced the reserve balance to $33.7 million at the end of 2021. Improving economic conditions are expected to allow for the replenishment of reserves to begin in 2022 with the intent to replenish the Emergency Fund to its minimum required balance within five years, and sooner if practically possible.

Revenue Stabilization Fund. The City maintains the RSF in the General Fund to be used for revenue stabilization for future City operations and to fund activities that would otherwise be reduced in scope, suspended, or eliminated due to unanticipated shortfalls in General Fund revenues.

Certain required transfers into and restrictions on expenditures from the RSF are set forth in the Seattle Municipal Code ("SMC"). All expenditures from the RSF require an ordinance, adopted following consideration of projections and recommendations for at least partial replenishment within four years. The RSF is funded by (i) one-time transfers authorized by ordinance, (ii) automatic annual transfers of 0.50% of forecast General Fund tax revenues, and (iii) upon completion of fiscal year accounting, automatic transfer of 50% of the ending balance in the General Fund, less encumbrances, carryforwards as authorized by ordinance or State law, and planned reserve amounts reflected in the adopted budget, that is in excess of the latest revised estimate of the unreserved ending fund balance for that closed fiscal year (as published in the adopted budget). The phrase "tax revenues" means all tax revenues deposited into the General Fund, including but not limited to tax revenue from the regular property tax levy, business and occupation tax, utility business taxes, the portion of admissions tax not dedicated to the Arts and Culture Fund, leasehold excise tax, gambling taxes, and sales and use taxes.

The SMC also provides that automatic transfers will be suspended to the extent that the balance in the RSF exceeds 5% of the forecast General Fund tax revenues for the year, and when forecasts underlying the adopted budget anticipate a nominal decline in General Fund revenues, as compared to the revenue forecasts underlying the adopted budget for the fiscal year immediately prior. Automatic transfers remain suspended until positive revenue growth is reflected in the revenue forecasts underlying the adopted budget and are reinstated at a level of 0.25% of General Fund tax revenues in the first year showing such recovery, followed by 0.50% thereafter.

In response to the ongoing COVID-19 pandemic, the City withdrew a net $26.0 million from the RSF in 2020 and an additional net $25.7 million in 2021. These uses reduced the reserve balance to $6.0 million at the end of 2021. Based on the automatic transfer mechanism described above, the City will make a deposit of $56 million to the RSF in 2022.

The City does not plan to draw on either of the reserves in 2022. The City plans to fund the combined RSF and Emergency Fund to $130 million by year-end 2024.

Financial Management

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

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

Auditing. The State Auditor is required to examine the affairs of all local governments at least once every three years; the City is audited annually. The examination must include, among other things, the financial condition and resources of the City, compliance with the State Constitution and laws of the State, and the methods and accuracy of the accounts and reports of the City. Reports of the State Auditor's examinations are required to be filed in the office of the State Auditor and in the Department of Finance and Administrative Services.

The State Auditor's Office has authority to conduct independent performance audits of State and local government entities. The Office of the City Auditor also reviews the performance of a wide variety of City activities such as span of control, City-wide collections, special events permitting, and specific departmental activities.

Investments

Authorized Investments. Chapter 35.39 RCW permits the investment by cities and towns of their inactive funds or other funds in excess of current needs in the following: United States bonds, United States certificates of indebtedness, State bonds or warrants, general obligation or utility revenue bonds of their own or of any other city or town in the State, their own bonds or warrants of a local improvement district that are within the protection of the local improvement guaranty fund law, and any other investment authorized by law for any other taxing district. Under chapter 39.59 RCW, a city or town also may invest in the following: bonds of the State or any local government in the State; general obligation bonds of any other state or local government of any other state that have at the time of the investment one of the three highest credit ratings of a nationally recognized rating agency; registered warrants of a local government in the same county as the government making the investment; certificates, notes, or bonds of the United States, or other obligations of the United States or its agencies, or of any corporation wholly owned by the government of the United States; or United States dollar-denominated bonds, notes, or other obligations that are issued or guaranteed by supranational institutions, provided that, at the time of investment, the institution has the United States government as its largest shareholder; Federal Home Loan bank notes and bonds, Federal Land Bank bonds and Federal National Mortgage Association notes, debentures, and guaranteed certificates of participation, or the obligations of any other government-sponsored corporation whose obligations are or may become eligible as collateral for advances to member banks as determined by the Board of Governors of the Federal Reserve system; bankers' acceptances purchased on the secondary market; commercial paper purchased in the secondary market, provided that any local government of the State that invests in such commercial paper must adhere to the investment policies and procedures adopted by the Washington State Investment Board; and corporate notes purchased on the secondary market, provided that any local government of the State that invests in such notes must adhere to the investment policies and procedures adopted by the Washington State Investment Board.

Money available for investment may be invested on an individual fund basis or may, unless otherwise restricted by law, be commingled within one common investment portfolio. All income derived from such investment may be either apportioned to and used by the various participating funds or used for the benefit of the general government in accordance with City ordinances or resolutions.

Authorized Investments for Bond Proceeds. Funds derived from the sale of bonds or other instruments of indebtedness will be invested or used in such manner as the initiating ordinances, resolutions, or bond covenants may lawfully prescribe.

City Investments. The information in this section does not pertain to pension funds that are administered by the City (see "Pension Plans") and certain refunding bond proceeds that are administered by trustee service providers.

All cash-related transactions for the City, including its utilities, are administered by the Department of Finance and Administrative Services. Investments of temporarily idle cash may be made, according to existing City Council-approved policies, by the Treasury Services Division of the Department of Finance and Administrative Services in securities described above under "Authorized Investments."

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

As of December 31, 2021, the City Treasury's pooled investment portfolio, which excludes pensions, totaled $2,821 million market value. The City's investment portfolio consists solely of City funds. As of December 31, 2021, the annualized earnings yield of the City's investment portfolio was 1.20% for the month and 1.36% for the year. As of December 31, 2021, the weighted average maturity of the City's investments was 786 days. Approximately 27%, or $759 million, was invested in securities with maturities of three months or less.

Investments were allocated as follows, by market value:

U.S. Government Agencies	26%
U.S. Government[(1)]	26%
State and Local Government Investment Pool	20%
U.S. Government Agency Mortgage-Backed	13%
Municipal Bonds	7%
Repurchase Agreements	4%
Corporate Bonds	3%
Supranational	1%
Commercial Paper	0%

(1) Includes FDIC-backed and U.S. Department of Housing and Urban Development securities.

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

Interfund Loans. The City is authorized to make interfund loans from the City's common investment portfolio to individual funds, bearing interest payable by the borrowing fund. The Director of Finance may approve interfund loans for a duration of up to 90 days. Loans of a longer duration require City Council approval.

As of December 31, 2021, the City had outstanding three interfund loans totaling approximately $199.8 million, in amounts ranging from $15.7 million to $160.0 million. In accordance with its plan, the largest of these is in the process of full repayment with only accrued interest still outstanding. As of March 18, 2022, the City had outstanding four interfund loans totaling approximately $54.7 million, in amounts ranging from $345,000 to $24.2 million.

Risk Management

The City purchases excess liability insurance to address general, automobile, professional, public official, and other exposures. Currently the City's excess liability policy provides $20 million limits above a $10 million self-insured retention per occurrence, but coverage excludes partial or complete failure of any of the City's hydroelectric dams. The City also purchases all risk property insurance, including earthquake and flood perils, that provides up to $500 million in limits subject to a schedule of deductibles and sublimits. Earthquakes and floods are subject to annual aggregate limits of $100 million. City hydroelectric generation and transmission equipment and certain other utility systems and equipment are not covered by the property insurance policy. In 2019, the City began purchasing cyber insurance to cover business interruption, system failure, data asset protection, event management, and privacy and network security liability.

The City insures a primary level of fiduciary, crime liability, inland marine, and various commercial general liability, medical, accidental death and dismemberment, and miscellaneous exposures. Surety bonds are purchased for certain public officials and notaries.

Pension Plans

The information below describes pension plans available to City employees generally. City employees are eligible for coverage by one of the following defined benefit pension plans: Seattle City Employees' Retirement System ("SCERS"), Firefighters' Pension Fund, Police Relief and Pension Fund, and the Law Enforcement Officers' and Fire Fighters' Retirement System ("LEOFF"). The first three are administered by the City and are reported as pension trust funds as part of the City's reporting entity. The State administers LEOFF through the State Department of Retirement Systems ("DRS").

Pursuant to an agreement with various City labor unions, the City Council passed legislation in August 2016 that created a new defined benefit retirement plan, SCERS Plan 2 ("SCERS 2"), covering non-uniformed employees. The new plan is open to employees first hired on or after January 1, 2017. SCERS 2 includes, among other adjustments to SCERS Plan 1 ("SCERS 1"), a slight decrease in benefit levels, raising the minimum retirement age, and deferring retirement eligibility by increasing the age-plus-years-of-service required for retirement with full benefits. The City expects SCERS 2 to provide a more cost-effective method for the City to provide retirement benefits to its employees. It does not affect uniformed employees. The historical information provided in this section relates only to SCERS 1.

Additional detail on the existing plans is available from SCERS and DRS on their respective websites (SCERS: *http://www.seattle.gov/retirement/*; DRS: *http://www.drs.wa.gov/*).

Permanent non-uniformed City employees and certain grandfathered employees of the County (and a predecessor agency of the County) are eligible for membership in SCERS. Newly-hired uniformed police and fire personnel are generally eligible for membership in LEOFF. The Seattle Firefighters' Pension Fund and Police Relief and Pension Fund have been closed to new members since 1977.

GASB 67/68 Reporting. Governmental Accounting Standards Board ("GASB") Statements No. 67 ("GASB 67") and 68 ("GASB 68") modified the accounting and financial reporting of pensions by pension plans (GASB 67) and by state and local government employers (GASB 68), but did not alter the funding requirements under State law and City ordinance for members, employers, or the State. The SCERS annual financial statements for the fiscal year ended December 31, 2019, and DRS's Annual Financial Report for LEOFF for the fiscal year ended June 30, 2020, were prepared in accordance with GASB 67. The City's financial statements beginning with the fiscal year ended December 31, 2017, were prepared in accordance with GASB 68.

The 2021 Audited Financial Statements of the Drainage and Wastewater Fund, attached as Appendix C, were prepared in accordance with GASB 68. As of December 31, 2021, the Drainage and Wastewater Fund reported a liability of $54.7 million, representing its proportionate share of NPL for SCERS. The NPL was measured as of December 31, 2021, and the TPL used to calculate the NPL was determined by the actuarial valuation as of December 31, 2020. The Drainage and Wastewater Fund's proportion of the NPL was based on contributions to SCERS during the fiscal year ended December 31, 2020. As of December 31, 2021, the Drainage and Wastewater Fund's proportion was 6.87%. Schedules of the Drainage and Wastewater Fund's proportionate share of NPL and of the Drainage and Wastewater

Fund's contributions are provided as required supplementary information to the Drainage and Wastewater Fund's 2021 Financial Statements.

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

SCERS is a pension trust fund of the City and provides retirement, death, and disability benefits under SCERS 1 and SCERS 2. Employees first entering the system on or after January 1, 2017, are enrolled in SCERS 2, with limited exceptions for certain exempt employees and those with service credit prior to January 1, 2017. Members already enrolled in SCERS 1 do not currently have an option to switch to SCERS 2.

Under SCERS 1, retirement benefits vest after five years of credited service, while death and disability benefits vest after ten years of service. Retirement benefits are calculated as 2% multiplied by years of creditable service, multiplied by average salary, based on the highest 24 consecutive months. The benefit is actuarially reduced for early retirement. Under SCERS 2, retirement benefits vest after five years of credited service, while death and disability benefits vest after ten years of service. Retirement benefits are calculated as 1.75% multiplied by years of creditable service, multiplied by average salary, based on the highest 60 consecutive months. The benefit is actuarially reduced for early retirement.

According to the most recent actuarial valuation (with a valuation date as of January 1, 2021), which was approved by the Board on July 8, 2021 (the "2020 Actuarial Valuation"), there were 7,123 retirees and beneficiaries receiving benefits, and 9,287 active members of SCERS. There are an additional 1,366 terminated employees in SCERS who are vested and entitled to future benefits and another 1,442 who are not vested and not entitled to benefits beyond contributions and accumulated interest. From January 1, 2020, to January 1, 2021, the net number of active members in SCERS decreased by 1.6%, the net number of retirees receiving benefits increased by 1.3%, and the net number of vested terminated members increased by 7.90%.

Certain demographic data from the 2020 Actuarial Valuation are shown below:

TABLE 19
PLAN MEMBER DEMOGRAPHIC INFORMATION, SCERS

	Retirees and Beneficiaries Receiving Benefits		Active Employees	
Age Range	**Number**	**Percent**	**Number**	**Percent**
<25	-		80	0.9%
25-39	-		2,488	26.8%
40-49	9 (1)	0.1% (1)	2,399	25.8%
50-59	263	3.7%	2,628	28.3%
60-69	2,373	33.7%	1,538	16.6%
70+	4,390	62.4%	154	1.7%

(1) Includes everyone under the age of 50.

Source: 2020 Actuarial Valuation

FINANCIAL CONDITION AND ACTUARIAL VALUATIONS. As a department of the City, SCERS is subject to the City's internal control structure and is required by SMC 4.36.505E to transmit a report to the City Council annually regarding the financial condition of SCERS (the "SCERS Annual Report"). The most recent SCERS Annual Report, for the years ended December 31, 2020, and December 31, 2019, was transmitted on June 28, 2021, by CliftonLarsonAllen LLP.

Milliman Inc., as consulting actuary, has evaluated the funding status of SCERS annually since 2010. The most recent actuarial report, the 2020 Actuarial Valuation (with a valuation date as of January 1, 2021), is available on the City's website at *http://www.seattle.gov/retirement/about-us/board-of-administration#actuarialreports*.

At its July 2018 meeting, the Board adopted new assumptions to be used for the 2018 Actuarial Valuation. The assumptions were based on the 2018 Investigation of Experience Report. The adopted assumptions included a decrease in the investment return assumption, a decrease in the consumer price inflation assumption, and an overall increase in life expectancies. The following summarizes some key assumptions utilized in the 2020 Actuarial Valuation and compares those to the assumptions used in the last three actuarial valuations. In March 2022, the Board reduced the 30-year investment expectation to 6.75% following recommendations in the 2022 Experience Study. This change will be incorporated into the 2021 Actuarial Valuation (with a valuation date as of January 1, 2022), which is expected to be approved by the Board in July 2022. Employer contribution rates are projected to remain about the same over the next several years due to deferred recognition of higher than expected investment returns offset by the impact of lower return expectations for the future. The average employee contribution rate is expected to continue to decline due to the growing proportion of SCERS 2 members.

TABLE 20

ACTUARIAL ASSUMPTIONS

	2020	**2019**	**2018**	**2017**
Investment return	7.25%	7.25%	7.25%	7.50%
Price inflation	2.75%	2.75%	2.75%	3.25%
Wage growth (price inflation plus wage inflation)	3.50%	3.50%	3.50%	4.00%
Expected annual average membership growth	0.50%	0.50%	0.50%	0.50%
Interest on member contributions made on or after January 1, 2012(1)	4.00%	4.00%	4.00%	4.75%

(1) Contributions made prior to January 1, 2012, are assumed to accrue interest at 5.75%.

Source: 2020, 2019, 2018, and 2017 Actuarial Valuations

As of January 1, 2021 (as set forth in the 2020 Actuarial Valuation), the actuarial value of net assets available for benefits was $3,345.8 million and the actuarial accrued liability was $4,673.1 million. An Unfunded Actuarial Accrued Liability ("UAAL") exists to the extent that actuarial accrued liability exceeds plan assets. Per the 2020 Actuarial Valuation, the UAAL decreased from $1,370.4 million as of January 1, 2020, to $1,327.3 million as of January 1, 2021. The funding ratio increased from 68.9% as of January 1, 2020, to 71.6% as of January 1, 2021, which increase was primarily due to a greater than expected investment return. For the year ended December 31, 2020, SCERS assets experienced an investment gain of about 12.6% on a market basis (net of investment expenses), a rate of return greater than the assumed rate of 7.25% for 2020. The result is an actuarial gain on assets for 2020, but only one-fifth of this gain was recognized in the current year actuarial value of assets ("AVA"). Unlike most public pension systems, prior to January 1, 2011, all valuations were reported on a mark-to-market basis. Consequently, the full impact of annual asset gains or losses occurring in recent years was reflected in each actuarial valuation. To improve its ability to manage short-term market volatility, the City adopted a five-year asset smoothing methodology in 2011 that recognizes the asset gain or loss occurring in each year evenly over a five-year period. Under this methodology, combined with prior years' asset gains and losses, the 2020 return was a positive 10.4% on an actuarial value basis.

The following table provides historical plan funding information for SCERS:

TABLE 21
HISTORICAL SCERS SCHEDULE OF FUNDING PROGRESS [1]
($000,000)

Actuarial Valuation Date (January 1)	Actuarial Value of Assets (AVA)[2]	Actuarial Accrued Liability (AAL)[3]	Unfunded AAL (UAAL)	Funding Ratio	Covered Payroll[4]	UAAL as % of Covered Payroll
2012	1,954.3	2,859.3	(905.0)	68.3%	557.0	162.5%
2013	1,920.1	3,025.3	(1,105.2)	63.5%	567.8	194.6%
2014	2,094.3	3,260.1	(1,165.8)	64.2%	597.9	195.0%
2015	2,266.7	3,432.6	(1,165.9)	66.0%	630.9	184.8%
2016	2,397.1	3,605.1	(1,208.0)	66.5%	641.7	188.2%
2017	2,564.1	3,766.4	(1,202.3)	68.1%	708.6	169.7%
2018	2,755.2	3,941.8	(1,186.6)	69.9%	733.3	161.8%
2019	2,877.4	4,216.7	(1,339.3)	68.2%	779.1	171.9%
2020	3,040.7	4,411.1	(1,370.4)	68.9%	819.7	167.2%
2021	3,345.8	4,673.1	(1,327.3)	71.6%	878.2	151.1%

(1) For accounting purposes under GASB 67/68, UAAL is replaced with net pension liabilities. However, because the City continues to set its contribution rates based on an actuarially required contribution based on the UAAL and funding ratios calculated under the pre-GASB 67/68 methodology, both methods are currently reported in the SCERS actuarial valuations and annual reports.

(2) Based on five-year asset smoothing.

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

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

Source: Annual Actuarial Valuation Reports

In accordance with GASB 67, the 2020 SCERS audited financial statements included a calculation of TPL and NPL based on the actuarial valuation dated as of January 1, 2020, rolled forward using generally accepted actuarial procedures (assuming a 7.25% investment rate of return and 3.50% salary increases) to December 31, 2020, as follows: TPL was calculated to be $4,620.5 million, plan fiduciary net position ("Plan Net Position") was calculated to be $3,641.5 million, and NPL was calculated to be $979.0 million, for a funding ratio (Plan Net Position as a percentage of TPL) of 78.8%. A Schedule of the Drainage and Wastewater Fund's Proportionate Share of the Net Pension Liability and Schedule of the Drainage and Wastewater Fund's Contributions is set forth in the required supplementary information in Appendix C—2021 Audited Financial Statements of the Drainage and Wastewater Fund.

SCERS CONTRIBUTION RATES. Member and employer contribution rates for SCERS 1 and SCERS 2 are established separately by SMC 4.36. The SMC provides that the City contribution for SCERS 1 must match the normal contributions of SCERS 1 members and does not permit the employer rate to drop below the employee rate. There is no similar restriction in the SMC with respect to SCERS 2. The SMC also requires that the City contribute, in excess of the matching contributions, no less than the amount determined by the most recent actuarial valuation that is required to fully fund the plan. Contribution rates are recommended annually by the Board, based on the system's actuarial valuation. Benefit and contribution rates are set by the City Council.

The Actuarially Required Contribution ("ARC") rate is based on amortizing the required contribution over 30 years, meaning that the total contribution rate must be sufficient to pay for the costs of benefits earned during the current year, as well as the annual cost of amortizing the plan's UAAL over 30 years. The City Council may from time to time set the amortization period by resolution, and in 2013, it passed a resolution to close the 30-year amortization period for calculating UAAL as of the January 1, 2013, actuarial valuation. As a result, for purposes of the 2020 Actuarial Valuation calculation, a 22-year amortization period was used. This policy may be revised by the City Council in future years. The 2020 Actuarial Valuation was prepared using the Entry Age Normal Cost ("EANC") method. Under the EANC method, the actuarial present value of the projected benefits of each individual included in the valuation is allocated as a level percent of the individual's projected compensation between entry age into the system and assumed exit age (*e.g.*, termination or retirement).

Current and historical contribution rates for SCERS, based on a percentage of employee compensation (exclusive of overtime), are shown in the table below.

TABLE 22
EMPLOYER AND EMPLOYEE SCERS CONTRIBUTION RATES

Calendar Years (beginning Jan. 1)	Employer Rate	Employee Rate	Total Contribution Rate	Total ARC[(1)]	% of Total ARC Contributed	Total ARC per GASB 27[(2)]	% of Total ARC Contributed per GASB 27
2013	12.89%	10.03%	22.92%	22.92%	100%	24.05%	95%
2014	14.31%	10.03%	24.34%	24.34%	100%	25.63%	95%
2015	15.73%	10.03%	25.76%	25.76%	100%	26.38%	98%
2016	15.23%	10.03%	25.26%	25.26%	100%	N/A	N/A
2017	15.29%	10.03%	25.32%	25.32%	100%	N/A	N/A
2018	15.23% (3)	10.03%	25.26%	25.00%	101% (3)	N/A	N/A
2019	15.26% (3)	9.85% (4)	25.11%	24.40% (5)	103% (3)	N/A	N/A
2020	16.14%	9.65% (4)	25.79%	25.79% (5)	100%	N/A	N/A
2021	16.10%	9.46% (4)	25.56%	25.56% (5)	100%	N/A	N/A
2022	16.10% (3)	9.35%	25.45%	24.68% (5)	103%	N/A	N/A

(1) Reflects total actuarial required contribution (*i.e.*, employer plus employee contribution rates). Since November 21, 2011, this rate has been used for City budgeting purposes.

(2) The primary difference between the Total ARC calculation and that calculated under GASB Statement No. 27 is that the Total ARC calculation uses a 0.50% membership growth assumption, while GASB specifies an assumption of no membership growth. The GASB rate calculations take into account the lag between the determination of the ARC and the expected contribution date associated with that determination (for example, contribution rates for calendar year 2012 were based on the ARC determined as part of the January 1, 2011, actuarial valuation). Beginning in 2016, GASB Statement No. 27 was superseded by GASB 68, so this calculation is no longer performed.

(3) The City contribution rate is intentionally more than the total ARC in an effort to reduce a projected increase in future contribution rates.

(4) Reflects a blended employee contribution rate based on rates for SCERS 1 and SCERS 2 members.

(5) Since 2019, the ARC reflects a blended normal cost for SCERS 1 and SCERS 2.

Source: Seattle Municipal Code; Annual Budgets; Annual Actuarial Valuation Reports

In 2011, the City Council adopted Resolution 31334, affirming the City's intent to fully fund the annual ARC each year with its budget. See Table 22—Employer and Employee SCERS Contribution Rates and Table 23—Projected Actuarially Required Total Contribution Rates for SCERS by Employer and Employee."

The City's contracts with all labor unions that represent SCERS members limit the ability of the City to pass on increases to pension contribution rates to the employee portion. Prior contracts permitted 1% increases in 2011 and 2012 to be reflected in the employee contribution rates, but have eliminated any additional cost-sharing. Future increases to pension contribution rates will be reflected in the City's employer contribution.

As indicated in Table 22, the Total ARC is decreasing to 24.68% as a percent of payroll beginning in January 1, 2022. This compares to the 25.56% Total ARC in the current year. The employees' share will average 9.35% between SCERS 1 and SCERS 2. The employer's share needed to meet the Total ARC is decreasing from 16.10% to 15.33%. As a result, the City expects to adjust its employer contribution rate for 2022 to 15.33%, in order to meet the projected Total ARC in 2022.

Projected total actuarially required contribution rates for SCERS reported in the 2020 Actuarial Valuation are shown in the table below:

TABLE 23
PROJECTED ACTUARIALLY REQUIRED TOTAL CONTRIBUTION RATES FOR SCERS BY EMPLOYER AND EMPLOYEE

Contribution Year(1)	Assuming 7.25% Returns	Confidence Range(2)
2022	15.33%	15.33-15.33
2023	14.67%	13.59-15.78
2024	14.30%	12.01-16.79
2025	13.33%	9.57-17.58
2026	12.80%	7.30-19.19
2027	12.80%	5.23-21.74

(1) Contribution year lags valuation year by one. For example, contribution year 2022 is based on the 2020 Actuarial Valuation (as of January 1, 2021) results, amortized over 22 years beginning in 2021 if the contribution rate change takes place in 2022.

(2) Confidence range for asset returns between the 5th and 95th percentile.

Source: 2020 Actuarial Valuation

Employer contributions were $141.0 million in 2020. Employer contributions from the Drainage and Wastewater Fund were $9.7 million in 2020 and $9.7 million in 2021. The employer share for employees of each of the utility funds is allocated to and paid out of the funds of each respective utility.

INVESTMENT OF SCERS PLAN FUNDS. In accordance with chapter 35.39 RCW, the Board has established an investment policy for the systematic administration of SCERS funds. The investment of SCERS funds is governed primarily by the prudent investor rule, as set forth in RCW 35.39.060. SCERS invests retirement funds for the long term, anticipating both good and poor performing financial markets. Contributions into SCERS 1 and SCERS 2 are invested together.

The market value of SCERS' net assets increased by $491.6 million (15.6%) during 2020, including member and employer contributions of $224.3 million and net gain from investment activity totaling $516.5 million. Deductions increased by $8.7 million in 2020, primarily attributed to a $10.8 million increase in retiree benefit payments, offset by reductions in the amount of contributions refunded and administrative expenses.

Table 24 shows the historical market value of SCERS' assets (as of each December 31). Table 25 shows the historical investment returns on SCERS for the last ten years.

TABLE 24
SCERS MARKET VALUE OF ASSETS

Year (As of December 31)	Market Value of Assets (MVA)(1)
2011	$ 1,753.5
2012	1,951.4
2013	2,216.9
2014	2,322.7
2015	2,313.0
2016	2,488.5
2017	2,852.9
2018	2,717.4
2019	3,149.9
2020	3,641.5

(1) In millions.

Source: SCERS Actuarial Valuations

TABLE 25
SCERS INVESTMENT RETURNS

Year (As of December 31)	One-Year Annualized Return(1)
2011	-0.4%
2012	12.8%
2013	15.0%
2014	5.3%
2015	0.1%
2016	8.4%
2017	15.7%
2018	-3.7%
2019	17.2%
2020	12.6%

(1) Calculated net of fees.

Source: SCERS Annual Reports

Table 26 below shows the historical distribution of SCERS investments for the years 2014-2018. Table 27 shows similar information for the years 2018-2021 under a revised investment class categorization.

TABLE 26
HISTORICAL SCERS DISTRIBUTION OF INVESTMENTS BY CLASS

Investment Categories (January 1)	2018	2017	2016	2015	2014
Fixed Income	24.0%	22.9%	28.4%	24.2%	23.7%
Domestic and International Stocks	57.0%	57.4%	53.3%	60.0%	60.8%
Real Estate	10.8%	12.2%	12.8%	11.0%	10.6%
Alternative Investments	8.2%	7.4%	5.4%	4.8%	4.9%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

Source: SCERS Actuarial Valuations

TABLE 27
HISTORICAL SCERS DISTRIBUTION: REVISED INVESTMENT CLASS CATEGORIZATION

Investment Categories (January 1)	2021	2020	2019	2018
Diversifying Strategies	0.0%	0.0%	2.0%	1.9%
Fixed Income	22.7%	26.7%	28.9%	24.6%
Infrastructure	1.5%	1.2%	0.9%	0.4%
Private Equity	13.2%	8.6%	8.1%	5.2%
Public Equity	53.0%	53.1%	48.8%	57.1%
Real Estate	9.7%	10.5%	11.3%	10.8%
Total	100.0%	100.0%	100.0%	100.0%

Source: SCERS Actuarial Valuations

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

The Investment Policy defines eligible investments to include securities lending transactions. Through a custodial agent, SCERS participates in a securities lending program whereby securities are lent from the system's investment portfolio on a collateralized basis to third parties (primarily financial institutions) for the purpose of generating additional income to the system. The market value of the required collateral must meet or exceed 102% of the market value of the securities lent.

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

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

These pension plans provide retirement benefits, death benefits, and certain medical benefits for eligible active and retired employees. Retirement benefits are determined under chapters 41.18 and 41.26 RCW for the Firefighters' Pension Fund and under chapters 41.20 and 41.26 RCW for the Police Relief and Pension Fund. As of January 1, 2020, membership in these plans consisted of 560 fire employees and survivors and 638 police employees and survivors. See "Other Post-Employment Benefits" below for a discussion of medical benefits paid to retirees.

In 2015, GASB released Statement No. 73 ("GASB 73"), replacing accounting requirements previously mandated under GASB Statements Nos. 25 and 27 for public pension plans that are not within the scope of GASB 68. The City has determined that both the Firefighters' Pension Fund and the Police Relief and Pension Fund are outside the scope of GASB 67 and GASB 68, and therefore the accounting and financial reporting for these pension plans has been prepared in accordance with GASB 73.

These pension plans do not issue separate financial reports. The most recent actuarial valuations, dated January 1, 2021, use the EANC method and value plan assets at fair value. The actuarial valuation for the firefighters' pension fund uses the following long-term actuarial assumptions: inflation rate (CPI), 2.50%; investment rate of return, 5.00%; and projected salary increases, 3.25%. The actuarial valuation for the Police Relief and Pension Fund uses the following long-term actuarial assumptions: inflation rate (CPI), 2.50%; investment rate of return, 2.00%; and projected salary increases, 3.25%. Postretirement benefit increases are projected based on salary increase assumptions for benefits that increase based on salary and based on CPI assumptions for benefits based on CPI.

Since both pension plans were closed to new members effective October 1, 1977, the City is not required to adopt a plan to fund the actuarial accrued liability of these plans. In 1994, the City established an actuarial fund for the Firefighters' Pension Fund and adopted a policy of fully funding the actuarial accrued liability ("AAL") by the year 2018 (which was subsequently extended to 2028). In accordance with GASB 73, the plan had a TPL of $114.6 million as of December 31, 2020, an increase of $23.9 million from the TPL of $90.1 million as of December 31, 2019. As of the January 1, 2021 valuation, the actuarial value of net assets available for benefits in the Firefighters' Pension Fund was $29.6 million, and the AAL was $95.6 million. As a result, the UAAL was $66.0 million and the funded ratio was 30.9%. In the January 1, 2020, actuarial valuation, the UAAL was $62.4 million and the funded ratio was 30.0%. The City's employer contribution to the fund in 2020 was $8.1 million; there were no current member contributions. Under State law, partial funding of the Firefighters' Pension Fund may be provided by an annual property tax levy of up to $0.225 per $1,000 of assessed value within the City. The City does not currently levy this additional property tax, but makes contributions out of the General Fund levy. The fund also receives a share of the State tax on fire insurance premiums.

The City funds the Police Relief and Pension Fund as benefits become due. In accordance with GASB 73, the plan had a TPL of $100.5 million as of December 31, 2020, an increase of $7.6 million from the TPL of $92.9 million as of December 31, 2019. As of the January 1, 2021 valuation, the actuarial value of net assets available for benefits in the Police Relief and Pension Fund was $14.3 million, and the actuarial value of future benefits was $107.3 million. As a result, the unfunded actuarial liability was $93.0 million and the funded ratio was 13.3%. In the January 1, 2020, actuarial valuation, the unfunded actuarial liability was $91.1 million and the funded ratio was 8.7%. The City's employer contribution to the fund in 2020 was $13.9 million; there were no current member contributions. The fund also receives police auction proceeds of unclaimed property.

Law Enforcement Officers' and Fire Fighters' Retirement System. Substantially all of the City's current uniformed firefighters and police officers are enrolled in LEOFF. LEOFF is a State-wide, multiple-employer defined benefit plan administered by the DRS. Contributions by employees, employers, and the State are based on gross wages. LEOFF participants who joined the system by September 30, 1977, are Plan 1 members. LEOFF participants who joined on or after October 1, 1977, are Plan 2 members. For all of the City's employees who are covered under LEOFF, the City contributed $17.7 million in 2020 and $17.1 million in 2019. The following table outlines the contribution rates of employees and employers under LEOFF.

TABLE 28
LEOFF CONTRIBUTION RATES EXPRESSED AS A PERCENTAGE OF COVERED PAYROLL

(AS OF JULY 1, 2021)

	Plan 1	Plan 2
Employer	0.18% (1)	5.30% (1)
Employee	0.00	8.53%
State	N/A	3.41%

(1) Includes a 0.18% DRS administrative expense rate.

Source: Washington State Department of Retirement Systems

While the City's current contributions represent its full current liability under the retirement systems, any unfunded pension benefit obligations could be reflected in future years as higher contribution rates. The State Actuary's website includes information regarding the values and funding levels for LEOFF.

According to the Office of the State Actuary's June 30, 2019, valuation, LEOFF had no UAAL. LEOFF Plan 1 had a funded ratio of 141% and LEOFF Plan 2 had a funded ratio of 111%. The assumptions used by the State Actuary in calculating the accrued actuarial assets and liabilities are a 7.5% annual rate of investment return for LEOFF Plan 1 and a 7.4% annual rate of investment return for LEOFF Plan 2, 3.50% general salary increases, 2.75% consumer price index increase, and annual growth in membership of 0.95%. Liabilities were valued using the EANC method and assets were valued using the AVA, which defers a portion of the annual investment gains or losses over a period of up to eight years. As of December 31, 2020, the City reported an asset of $276.1 million for its proportionate share of the net pension asset as follows: $67.2 million for LEOFF Plan 1 and $208.9 million for LEOFF Plan 2.

For additional information, see Note 11 to the City's 2020 Annual Report, which is available on the City's website.

Other Post-Employment Benefits

The City has liability for two types of OPEB: (i) an implicit rate subsidy for health insurance covering employees retiring under SCERS 1, SCERS 2, or LEOFF Plan 2 and dependents of employees retiring under LEOFF Plan 1, and (ii) medical benefits for eligible beneficiaries of the City's Firefighters' Pension Fund and Police Relief and Pension Fund. The implicit rate subsidy is the difference between (i) what retirees pay for their health insurance as a result of being included with active employees for rate-setting purposes, and (ii) the estimated required premiums if their rates were set based on claims experience of the retirees as a group separate from active employees.

Beginning with the fiscal year ended December 31, 2018, the City has assessed its OPEB liability in accordance with GASB Statement No. 75 ("GASB 75"). While GASB 75 requires reporting and disclosure of the unfunded OPEB liability, it does not require that it be funded.

The City funds its OPEB liabilities on a pay-as-you-go basis.

The City commissions a biennial valuation report on its OPEB liabilities associated with the implicit rate subsidy for health insurance covering employees retiring under the SCERS 1, SCERS 2, or LEOFF plans. The last valuation was based on a measurement date as of January 1, 2021, and was prepared in accordance with GASB 75. It showed the total OPEB liability for the implicit rate subsidy increased to $70.3 million from $63.6 million in the prior valuation. The City's GASB 75 annual expense in 2021 was calculated at $4.8 million, which compares to $4.5 million in 2020. The valuation of the OPEB liability associated with the City's Firefighters' Pension Fund and Police Relief and Pension Fund is updated annually. The most recent valuations were prepared in accordance with GASB 75. As of December 31, 2020, the total OPEB liability in the City's Firefighters' Pension Fund increased to $300.9 million from $269.9 million. The annual OPEB expense for 2020 was $42.9 million (with $27.2 million of this increase due to changes to assumptions) and the estimated benefit payments were $12.0 million. As of December 31, 2020, the total OPEB liability in the Police Relief and Pension Fund increased to $308.6 million from $287.1 million. The annual OPEB expense for 2020 was $37.2 million (with $26.2 million of this increase due to changes to assumptions) and the estimated benefit payments were $15.7 million.

For additional information regarding the City's OPEB liability, see Note 11 to the City's 2020 Annual Report. For additional information regarding the Drainage and Wastewater Fund's portion of the City's OPEB liability, see Appendix C—2021 Audited Financial Statements of the Drainage and Wastewater Fund-Note 6.

State Paid Family and Medical Leave Insurance

On January 1, 2020, the State became the fifth state in the nation to offer paid family and medical leave benefits to workers all workers in the State, including State and local government employees. The Paid Family and Medical Leave program is a State-wide insurance program administered by the State Employment Security Department. It ensures paid leave for workers in the State when they need time off to give or receive care and for pre- and post-deployment time. Eligible workers are those who have worked at least 820 hours (equivalent to 20.5 full-time weeks) in the qualifying period before the leave begins. The program typically covers 12 weeks of leave (up to 18 weeks in certain circumstances). Workers receive up to $1,327 per week in 2022, depending on their income. The family leave benefit is funded solely by employee premiums while the medical leave benefit is funded by a mix of employer and employee premiums. Assessments for premiums began on January 1, 2019, and benefits became available to be taken starting January 1, 2020.

The City began paying assessments for premiums based on a percentage of wages on January 1, 2019. The initial rate of this assessment was 0.4% of wages that are subject to the federal social security tax. This rate increased to 0.6% on January 1, 2022, in accordance with a formula prescribed in State law, and was largely due to high utilization of the employee-funded family leave benefit. As a result, the employer share of the assessment only increased from 0.147% of Social Security wages to 0.161%. The City will continue to pay only the employer share of the 2022 assessment for most employees, estimated to be $2.7 million, approximately half of which will be paid from the General Subfund and the remainder will be paid by other funds.

State Long-Term Care Services and Supports Benefit Program

In 2019, State legislation created the Long-Term Services and Supports ("LTSS") Trust Program (the "WA Cares Program") to provide certain long-term care benefits to eligible beneficiaries. Benefits will be paid directly to LTSS providers on behalf of eligible beneficiaries. Administration of the WA Cares Program is divided among the State's Employment Security Department, Department of Social and Health Services, Health Care Authority, Office of the State Actuary, and Pension Funding Council, as well as two new bodies: the LTSS Trust Council and the LTSS Trust Commission.

As originally enacted, the WA Cares Program legislation imposed premiums on participating employees in the State, collected by employers through employee payroll deductions and remitted to the State. No employer contribution is required under State law. On January 27, 2022, Substitute House Bill 1732 ("SHB 1732") became effective, delaying implementation of the WA Cares Program, anticipating additional legislative adjustments to the program. Collection of premiums was scheduled to begin as of January 1, 2022, and benefits were to become available beginning January 1, 2025. Under SHB 1732, collection of premiums is delayed until July 1, 2023, and benefits are to become available beginning July 1, 2026. The delay is intended to provide opportunity for further review and amendment of the law prior to implementation, if necessary.

Premiums are assessed at a rate of 0.58% of each employee's wages within the State, and subject to adjustment every two years by the PFC based on actuarial studies and valuations to be performed by OSA to maintain financial solvency of the LTSS Trust, but not to exceed 0.58%. Employers are required to remit premiums on behalf of all employees other than employees who demonstrate that they have long-term care insurance. There is no employer contribution required under State law. Employees can request to exempt themselves from program participation. As of December 31, 2021, 467,919 exemption requests had been submitted. Under the originally enacted legislation, all individuals employed in the State may become eligible to receive the benefit when they have paid the LTSS trust premiums while working at least 500 hours per year for either ten years with at least five years uninterrupted, or three of the last six years. Program participants eligible to receive benefits must have been assessed by DSHS as needing assistance with at least three daily living tasks, must be at least 18 years old (and must not have been disabled before the age of 18), and must reside in the State. There is a lifetime cap on the benefit for any individual equal to 365 benefit units, which are assigned a dollar value adjusted annually at a rate not exceeding the Consumer Price Index. Employees can request to exempt themselves from program participation. As of December 31, 2021, 467,919 exemption requests had been submitted. Premiums are assessed at a rate of 0.58% of each employee's wages within the State, and subject to adjustment every two years by the PFC based on actuarial studies and valuations to be performed by OSA to maintain financial solvency of the LTSS Trust, but not to exceed 0.58%. Employers are required to remit premiums on behalf of all employees other than employees who demonstrate that they have long-term care insurance. There is no employer contribution required under State law. Collective bargaining agreements in effect prior to October 2017 are not required to be reopened or to apply the WA Cares Program requirements until the existing agreement is reopened, renegotiated, or expires.

Labor Relations

This information reflects the engagement of the Labor Relations Unit within the Seattle Department of Human Resources ("Labor Relations") with union representatives in response to the impacts of the COVID 19 emergency upon the City and the employees in the respective bargaining units. Since the Mayor's emergency declaration on March 3, 2020, Labor Relations has been actively addressing the impacts of the emergency on the workplace and working conditions of employees. Negotiation of the first Memorandum of Understanding ("MOU") providing the City with additional flexibility was concluded on May 28, 2020. Most City unions signed except for the sworn Public Safety employees (Police and Fire), Police Dispatchers, and Parking Enforcement Officers. Other agreements with unions have been reached since that date. Labor Relations have continued to work closely with all of the labor representatives to address the continuing impacts of the pandemic, along with other social and environmental crises that have affected the City and surrounding communities as well as the City's employees. Negotiating additional agreements related to the impacts of the pandemic and addressing the Mayor's vaccination mandate and other ongoing and evolving impacts of the pandemic are topics of regular weekly meetings between Labor Relations staff and all of the bargaining representatives.

In 2021, the new Protec17 bargaining unit, representing 14 Strategic Advisors in the Legislative Department, completed negotiations with the City for its initial collective bargaining agreement, which was subsequently adopted by the City Council and Mayor. Another new bargaining unit completed the certification process, also represented by Protec17, including about 31 Strategic Advisors in three small departments. It also completed negotiations with the City for its initial collective bargaining agreement, which was subsequently adopted by the City Council and Mayor.

As of January 2022, the City had 38 separate departments and offices with approximately 15,178 employees (including 11,287 regular and 3,891 temporary employees). Twenty-five different unions and 56 bargaining units represent the approximately 77% of regular City employees whose employment is governed by 34 different collective bargaining agreements (contracts).

In 2022, the City continued negotiations with the Seattle Police Management Association ("SPMA") for a new agreement to replace the contract that expired December 31, 2019. They reached a tentative agreement in early 2022 that, if ratified, will become effective by the end of the second quarter of 2022. In March 2020, both SPMA and Fire Chiefs Local 2898 negotiations were put on hiatus for a number of months due to the pandemic. Agreements on vaccine mandate impacts were reached with all unions except SPOG in September 2021. Several unions have filed unfair labor practices arising out of the vaccine mandate. Those administrative matters are pending before the State's Public Employment Relations Commission and the City is engaging in mediation with the unions on them.

Labor Relations is preparing to open negotiations with SPOG for a new contract to replace the contract that expired on December 31, 2020, as well as continuing negotiations with IBEW Local 77 on two separate contracts: Power Marketers (expired December 31, 2020) and Seattle Department of Transportation (expired January 22, 2021). These unions will continue to operate under their expired contracts until negotiations have been completed.

Looking ahead, 28 labor agreements that are either part of the Coalition of City Unions or "Coalition-like" unions have contracts expiring on December 31, 2022. These contracts include approximately 61% of the City's represented employees.

Emergency Management and Preparedness

The City's Office of Emergency Management ("OEM") is responsible for coordinating the City's response and resources during emergencies and disasters through close coordination with City departments and partner agencies. The OEM is taking a lead role in coordinating various aspects of the City's response to the COVID-19 pandemic. See "Other Considerations—Global Health Emergency Risk and COVID-19 Pandemic."

OEM prepares for emergencies; coordinates with regional, State, and federal response agencies; provides education to the community about emergency preparedness; plans for emergency recovery; and works to mitigate known hazards. It has identified, assessed, and planned for many types of hazards that may impact the City, including geophysical hazards (*e.g.*, earthquakes, landslides, tsunamis, seismic seiches, volcanic eruptions, and lahars), infectious disease outbreaks, intentional hazards (*e.g.*, terrorism, active shooter incidents, breaches in cyber security, and civil disorder), transportation incidents, fires, hazardous materials, infrastructure failure, and severe weather (*e.g.*, floods, snow, water shortages, and windstorms). However, the City cannot anticipate all potential hazards and their effects, including any potential impact on the economy of the City or the region.

The City's emergency management program was assessed by a third-party team of emergency management professionals according to the Emergency Management Accreditation Program standards and was accredited in 2016 and reaccredited in 2022.

If a disaster were to damage or destroy a substantial portion of the taxable property within the City, the assessed value of such property could be reduced, which could result in a reduction of property tax revenues. Other revenue sources, such as sales tax and lodging tax, could also be reduced. In addition, substantial financial and operational resources of the City could be required during any emergency event or disaster and could be diverted to the subsequent repair of damage to City infrastructure.

Climate Change

There are potential risks to the City associated with changes to the climate over time and from increases in the frequency, timing, and severity of extreme weather events. The City is preparing for a changing climate and the resulting economic, infrastructure, health, and other community impacts by integrating consideration of climate change into decision making and identifying mitigation and adaptation actions to enhance the resilience of services and infrastructure.

In 2019, the City adopted Resolution 31895, committing to creating a "Green New Deal" for the City to address and mitigate the effects of climate change. The City has also developed more specific plans addressing utility operations (including drainage, water supply, solid waste, and the electric system) and community preparedness. The City is monitoring and will be documenting climate impacts and likely climate risks as they arise and has not quantified potential impacts on the City, its population, or its operations. Over time, the costs could be significant and could have a material adverse effect on the City's finances by requiring greater expenditures to counteract the effects of climate change. The City's Office of Sustainability and Environment ("OSE") coordinates implementation of the

Seattle Green New Deal, the Seattle Climate Action Plan, and the Equity and Environment Initiative and plans and implements policies that transition buildings to 100% clean energy and advance zero carbon transportation.

The Green New Deal and climate-related investments in the Duwamish Valley represent climate-focused uses of the Payroll Expense Tax revenues available for 2022. In July 2021, the City Council adopted Ordinance 126393, which established a separate fund to receive Payroll Expense Tax revenues and set out a specific annual spending plan for these revenues for 2022 and beyond. This included formulas that would allocate the revenues between support of the overall General Fund and investments in four priority policy areas: affordable housing; economic recovery and assistance to small businesses, the Green New Deal, and the Equitable Development Initiative. The City's 2022 Adopted Budget includes $14.3 million supporting the Green New Deal. This includes $1.7 million to support conversions from oil-based home heating systems to electric heat pumps and $4 million in energy-efficient capital improvements in the Georgetown and South Park neighborhoods. This funding also supports workforce development for clean energy jobs, vehicle electrification for industrial enterprises, and a reserve for climate actions that will be guided by recommendations from the Green New Deal Oversight Board. Other investments by the City to address climate change are ongoing.

The City adopted Resolution 31447 in June 2013 adopting a Climate Action Plan to provide long-term planning direction and guide climate protection and adaptation efforts through 2030. In April 2018, the Mayor's Office released an updated "Climate Action Plan" that focuses on a set of short- and long-term actions that provide a roadmap for the City to act on the leading contributors of greenhouse gases: transportation and buildings. The 2018 Climate Action Plan builds on prior studies and plans implemented by the Office of Sustainability and the Environment ("OSE") that detail strategies and actions that can be taken to improve the climate preparedness of City infrastructure and services and to facilitate coordination across City government. The OSE plans include sector-specific strategies for transportation; buildings, and energy (including specific energy consumption and greenhouse gas emissions reduction targets for City buildings); trees and green space; food access; a healthy environment; and environmental justice. The 2018 Climate Action Plan remains in place as of the date of this Official Statement.

In addition, City investments in capital projects continue to be guided by a set of key policies reflecting the City's values and priorities including for sustainable building. In February 2000, the City Council adopted a Sustainable Building Policy for the City (Resolution 30121) which articulated the City's commitment to environmental, economic, and social stewardship and set the expectation that new municipal facilities meet established green building standards. Specifically, it called for all new construction and major remodel projects over 5,000 square feet to achieve a LEED Silver rating. When adopted, this policy was the first of its kind in the nation and represented a groundbreaking approach to demonstrating City leadership and transforming the marketplace.

Since 2000, the green building community has experienced exceptional growth in expertise and capacity. Recognizing this change, the City passed an updated Sustainable Buildings and Sites Policy (Resolution 31326) in 2011. The update represents a comprehensive approach that reflects advances in the green building industry, aligns the policy with the City's attention to climate change, addresses a greater range of project types, and ensures that the City continues to provide leadership that advances sustainable development in both the public and private sectors. The City's Sustainable Buildings and Sites Policy includes a number of requirements. These requirements include: for new construction, additions, and major renovation projects of 5,000 square feet or greater, the minimum required green building rating is LEED Gold; minimum requirements are established for energy and water efficiency, construction waste reductions, and bicycle amenities; and for tenant improvement projects of 5,000 square feet or greater, where the scope includes mechanical, electrical, and plumbing, the minimum required green building rating is LEED Gold. In addition to the above, City departments are encouraged to test new approaches and standards, such as the Living Building Challenge and the Sustainable SITES Initiative.

Cyber Security

Cyber security threats continue to become more sophisticated and are increasingly capable of impacting the confidentiality, integrity, and availability of City systems and applications, including those of critical controls systems. Seattle Information Technology ("Seattle IT"), a City department, working in conjunction with various City departments, has instituted and continues to institute processes, training, and controls to maintain the reliability of its systems and protect against cyber security threats as well as mitigate intrusions and plan for business continuity via data recovery. Cyber security incident response plans are reviewed regularly, and tabletop and other exercises are conducted annually to assess the effectiveness of those plans. Seattle IT and third-party professional services also conduct cyber security assessments with the intent to identify areas for continual improvement, and develop work plans to address issues and support the cyber security program. This includes technical vulnerability assessments, penetration testing, and risk assessments based on the National Institute of Standards and Technology ("NIST") 800-53a. Seattle IT continuously reviews and updates processes and technologies to mature security practices leveraging the NIST Cybersecurity Framework. Cyber security risks create potential liability for exposure of nonpublic information and could create various other operational risks. The City cannot anticipate the precise nature of any particular breach or the resulting consequences. It has had cyber security liability insurance coverage since October 2019. See "—Risk Management."

OTHER CONSIDERATIONS

Global Health Emergency Risk and COVID-19 Pandemic

Beginning in early 2020, the spread of COVID-19, the illness caused by the SARS-CoV-2 coronavirus and its variants has impacted economic conditions worldwide and has influenced the local economy as well as the revenues, expenditures, and general financial condition of the City.

The COVID-19 pandemic is ongoing, and the duration and severity of each outbreak and economic and other actions that may be taken by governmental authorities to contain or treat its impact remain uncertain. Reopening efforts implemented at any time may be reversed whenever conditions warrant. Notwithstanding the foregoing, the COVID-19 pandemic has not affected the City's ability to pay debt service on its outstanding obligations, and the City does not believe that the pandemic will affect its ability to pay future debt service on its outstanding obligations, including the Bonds, going forward.

Public Health Responses. Beginning in March 2020, social distancing, stay-at-home, masking, and vaccination requirements were implemented at various times within the City. These requirements have been adjusted repeatedly throughout the pandemic. Following the recent decline of COVID-19 cases, several public health orders and directives have been rolled back or ended, although businesses and organizations may choose to implement their own policies. Currently, vaccination verification requirements have ended and masking requirements are limited to health and long-term care settings, transportation conveyances and hubs, and correctional facilities. Home test kits are increasingly available and may be requested monthly from the Washington State Department of Health. The City government resumed reopening plans in mid-March 2022.

City Response and Federal Funding Assistance. The City initially experienced an increase in public health emergency response and other costs associated with mitigating the impacts of the COVID-19 pandemic and providing testing and vaccination sites. The City continues to address a number of social issues exacerbated by the pandemic, including homelessness, housing insecurity, and financial hardships for nonprofits and small businesses. Certain costs incurred to implement these and other measures have been offset in part by the federal and State funds awarded to the City in 2020 and 2021. The City received $131 million through the Coronavirus Relief Fund through the Coronavirus Aid, Relief, and Economic Stabilization Act (the "CARES Act") to help navigate the impact of the COVID-19 outbreak, all of which was spent prior to December 31, 2021, as required by the U.S. Department of the Treasury.

The City was also awarded $232 million of Coronavirus State and Local Fiscal Recovery Funds ("CLFR") through the American Rescue Plan Act ("ARPA") of 2021 to help the City recover from the COVID-19 pandemic. In addition to CLFR funding, the City received other federal grants intended to aid vulnerable populations particularly impacted by the pandemic.

Public Safety Funding Considerations and Protests

The City experienced a high level of protest activity in 2020 following the death of George Floyd in Minneapolis. Peaceful demonstrations in Seattle were marred by incidents of looting, vandalism, arson, property damage, and injuries. The City continues to engage in litigation related to the 2020 demonstrations as of the date of this Official Statement. These demonstrations had the effect of placing renewed emphasis on calls to reform the City's approach to public safety. The Seattle Police Department ("SPD") has been engaged in various reform efforts for many years and is currently operating under a 2012 consent decree ("2012 Consent Decree") that was imposed in response to findings by the U.S. Department of Justice ("DOJ") in 2011 outlining a "pattern or practice" of unconstitutional use of force within SPD. As a result of the public concerns over SPD's response to the demonstrations, the City announced in 2020 that it would withdraw a petition filed in 2020 to terminate that plan, and instead continues to operate under the 2012 Consent Decree.

The SPD budget was the focus of ongoing discussion and deliberation by the Executive and the City Council in 2020. The SPD 2022 Adopted Budget reflects a 2.1% reduction to SPD's budget as compared to the 2021 Adopted Budget, and an 11.6% reduction in the size of the sworn officer positions, from 1,357 in 2021 to 1,200 in the 2022 Adopted Budget. The 2022 Adopted Budget also builds upon recent efforts to expand the City's approach to ensuring community safety through programs and approaches that expand beyond a traditional, uniformed police response.

Federal Policy Risk and Other Federal Funding Considerations

Federal Sequestration. The sequestration provisions of the Budget Control Act of 2011 ("Sequestration") have been in effect since 2013 and are currently scheduled to remain in effect through federal fiscal year ("FFY") 2029. This results in a slight reduction in the expected subsidy in respect of certain Build America Bonds and Recovery Zone Economic Development Bonds previously issued by the City. The City does not expect Sequestration to materially adversely affect its ability to make debt service payments in the current or future years.

Federal Grant Funding Conditions. The City receives federal financial assistance for specific purposes that are generally subject to review or audit by the grantor agencies. Entitlement to this assistance is generally conditioned upon compliance with the terms of grant agreements and applicable federal regulations, including the expenditure of assistance for allowable purposes. Any disallowance resulting from a review or audit may become a liability of the City.

Federal Shutdown Risk. Federal government shutdowns have occurred in the past and could occur in the future. A lengthy federal government shutdown poses potential direct risks to the City's receipt of revenues from federal sources and could have indirect impacts due to the shutdown's effect on general economic conditions. The City has not experienced material adverse impacts from the federal government shutdowns that have occurred in the past but can make no assurances that it would not be materially adversely affected by any future federal shutdown.

INITIATIVE AND REFERENDUM

State-Wide Measures

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

Initiatives and referenda are submitted to the voters upon receipt of a petition signed by at least 8% (initiative) and 4% (referendum) of the number of voters registered and voting for the office of Governor at the preceding regular gubernatorial election.

In recent years, several State-wide initiative petitions to repeal or reduce the growth of taxes and fees, including City taxes, have garnered sufficient signatures to reach the ballot. Some of those tax and fee initiative measures have been approved by the voters and, of those, some remain in effect while others have been invalidated by the courts. Tax and fee initiative measures continue to be filed, but it cannot be predicted whether any more such initiatives might gain sufficient signatures to qualify for submission to the State Legislature and/or the voters or, if submitted, whether they ultimately would become law.

Local Measures

Under the City Charter, Seattle voters may initiate City Charter amendments and local legislation, including modifications to existing legislation, and through referendum may prevent legislation passed by the City Council from becoming law.

LEGAL AND TAX INFORMATION

No Litigation Relating to the Bonds

There is no litigation pending with process properly served on the City questioning the validity of the Bonds or the power and authority of the City to issue the Bonds. There is no litigation pending or threatened which would materially affect the City's ability to meet debt service requirements on the Bonds.

Other Litigation

Because of the nature of its activities, the City is subject to certain pending legal actions which arise in the ordinary course of business of running a municipality, including various lawsuits and claims involving claims for money damages. Based on its past experience, the City has concluded that its ability to pay principal of and interest on the Bonds on a timely basis will not be impaired by the aggregate amount of uninsured liabilities of the City and the timing of any anticipated payments of judgments that might result from suits and claims.

Approval of Counsel

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

Limitations on Remedies and Municipal Bankruptcies

Any remedies available to the owners of the Bonds are in many respects dependent upon judicial actions which are in turn often subject to discretion and delay and could be both expensive and time-consuming to obtain. If the City fails to comply with its covenants under the Bond Documents or to pay principal of or interest on the Bonds, there can be no assurance that available remedies will be adequate to fully protect the interests of the registered owners of the Bonds.

The rights and obligations under the Bonds and the Bond Documents may be limited by and are subject to bankruptcy, insolvency, reorganization, fraudulent conveyance, moratorium, and other laws relating to or affecting creditors' rights, to the application of equitable principles, and to the exercise of judicial discretion in appropriate cases.

A municipality such as the City must be specifically authorized under State law in order to seek relief under Chapter 9 of the U.S. Bankruptcy Code (the "Bankruptcy Code"). Washington State law permits any "taxing district" (defined to include cities) to voluntarily petition for relief under the 1898 federal bankruptcy statute that was superseded by the current Bankruptcy Code. The State Legislature has not amended the 1935 State statute to update the cross-reference to the current Bankruptcy Code, but Washington municipal corporations have nonetheless been permitted to seek relief under the Bankruptcy Code. A creditor cannot bring an involuntary bankruptcy proceeding under the Bankruptcy Code against a municipality, including the City. The federal bankruptcy courts have broad discretionary powers under the Bankruptcy Code.

The opinion to be delivered by Stradling Yocca Carlson & Rauth, a Professional Corporation, as Bond Counsel, concurrently with the issuance of the Bonds, will be subject to limitations regarding bankruptcy, reorganization, insolvency, fraudulent conveyance, moratorium, and other similar laws relating to or affecting creditors' rights. A copy of the proposed form of opinion of Bond Counsel is set forth in Appendix B.

Tax Matters

In the opinion of Bond Counsel, under existing statutes, regulations, rulings, and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements described herein, interest (and original issue discount) on the Bonds is excluded from gross income for federal income tax purposes, and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals.

The difference between the issue price of a Bond (the first price at which a substantial amount of the Bonds of a maturity is to be sold to the public) and the stated redemption price at maturity with respect to the Bond (to the extent the redemption price at maturity is greater than the issue price) constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to a Beneficial Owner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by a Beneficial Owner will increase the Beneficial Owner's basis in the applicable Bond. In the opinion of Bond Counsel, the amount of original issue discount that accrues to the Beneficial Owner of the Bond is excluded from gross income of such Beneficial Owner for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals.

Bond Counsel's opinion as to the exclusion from gross income for federal income tax purposes of interest (and original issue discount) on the Bonds is based upon certain representations of fact and certifications made by the City and others and is subject to the condition that the City complies with all requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the issuance of the Bonds to assure that interest (and original issue discount) on the Bonds will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause the interest (and original issue discount) on the Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. The City will covenant to comply with all such requirements.

The amount by which a Beneficial Owner's original basis for determining loss on sale or exchange in the applicable Bond (generally, the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable bond premium, which must be amortized under Section 171 of the Code; such amortizable bond premium reduces the Beneficial Owner's basis in the applicable Bond (and the amount of tax-exempt interest received), and is not deductible for federal income tax purposes. The basis reduction as a result of the amortization of bond premium may result in a Beneficial Owner realizing a taxable gain when a Bond is sold by the Beneficial Owner for an amount equal to or less (under certain circumstances) than the original cost of the Bond to the Beneficial Owner. Purchasers of the Bonds should consult their own tax advisors as to the treatment, computation and collateral consequences of amortizable bond premium.

The Internal Revenue Service (the "IRS") has initiated an expanded program for the auditing of tax-exempt bond issues, including both random and targeted audits. It is possible that the Bonds will be selected for audit by the IRS. It is also possible that the market value of the Bonds might be affected as a result of such an audit of the Bonds (or by an audit of similar bonds). No assurance can be given that in the course of an audit, as a result of an audit, or otherwise, Congress or the IRS might not change the Code (or interpretation thereof) subsequent to the issuance of the Bonds to the extent that it adversely affects the exclusion from gross income of interest (and original issue discount) on the Bonds or their market value.

SUBSEQUENT TO THE ISSUANCE OF THE BONDS THERE MIGHT BE FEDERAL, STATE, OR LOCAL STATUTORY CHANGES (OR JUDICIAL OR REGULATORY CHANGES TO OR INTERPRETATIONS OF FEDERAL, STATE, OR LOCAL LAW) THAT AFFECT THE FEDERAL, STATE, OR LOCAL TAX TREATMENT OF THE BONDS, INCLUDING THE IMPOSITION OF ADDITIONAL FEDERAL INCOME OR STATE TAXES ON OWNERS OF TAX-EXEMPT STATE OR LOCAL OBLIGATIONS, SUCH AS THE BONDS. THESE CHANGES COULD ADVERSELY AFFECT THE MARKET VALUE OR LIQUIDITY OF THE BONDS. NO ASSURANCE CAN BE GIVEN THAT SUBSEQUENT TO THE ISSUANCE OF THE BONDS STATUTORY CHANGES WILL NOT BE INTRODUCED OR ENACTED OR JUDICIAL OR REGULATORY INTERPRETATIONS WILL NOT OCCUR HAVING THE EFFECTS DESCRIBED ABOVE. BEFORE PURCHASING ANY OF THE BONDS, ALL POTENTIAL PURCHASERS SHOULD CONSULT THEIR TAX ADVISORS REGARDING POSSIBLE STATUTORY CHANGES OR JUDICIAL OR REGULATORY CHANGES OR INTERPRETATIONS, AND THEIR COLLATERAL TAX CONSEQUENCES RELATING TO THE BONDS.

Bond Counsel's opinion may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. Bond Counsel has not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur. The Bond Ordinance and the Tax Certificate relating to the Bonds permit certain actions to be taken or to be omitted if a favorable opinion of a bond counsel is provided with respect thereto. Bond Counsel expresses no opinion as to the effect on the exclusion from gross income for federal income tax purposes of interest (or original issue discount) on any Bond if any such action is taken or omitted based upon the advice of counsel other than Bond Counsel.

Although Bond Counsel will render an opinion that interest (and original issue discount) on the Bonds is excluded from gross income for federal income tax purposes provided that the City continues to comply with certain requirements of the Code, the ownership of the Bonds and the accrual or receipt of interest (and original issue discount) with respect to the Bonds may otherwise affect the tax liability of certain persons. Bond Counsel expresses no opinion regarding any such tax consequences. Accordingly, before purchasing any of the Bonds, all potential purchasers should consult their tax advisors with respect to collateral tax consequences relating to the Bonds.

CONTINUING DISCLOSURE AGREEMENT

Basic Undertaking to Provide Annual Financial Information and Notice of Listed Events. To meet the requirements of United States Securities and Exchange Commission ("SEC") Rule 15c2-12(b)(5) ("Rule 15c2-12")), as applicable to a participating underwriter for the Bonds, the Director of Finance is authorized to execute the Continuing Disclosure Agreement (the "CDA") for the benefit of holders of the Bonds, as follows.

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

(i) Annual financial information and operating data of the type included in this Official Statement as generally described below under "Type of Annual Information Undertaken to be Provided." The timely filing of unaudited financial statements will satisfy the requirements and filing deadlines pertaining to the filing of annual financial statements under subsection (b) below, provided that audited financial statements are to be filed if and when they are otherwise prepared and available to the City; and

(ii) Timely notice (not in excess of ten business days after the occurrence of the event) of the occurrence of any of the following listed events with respect to the Bonds:

   (a) principal and interest payment delinquencies;

   (b) non-payment related defaults, if material;

   (c) unscheduled draws on debt service reserves reflecting financial difficulties;

   (d) unscheduled draws on credit enhancements reflecting financial difficulties;

   (e) substitution of credit or liquidity providers, or their failure to perform;

   (f) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notice of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds;

   (g) modifications to rights of holders of the Bonds, if material;

   (h) Bond calls (other than scheduled mandatory redemptions of Term Bonds), if material, and tender offers;

   (i) defeasances;

   (j) release, substitution, or sale of property securing repayment of the Bonds, if material;

   (k) rating changes;

   (l) bankruptcy, insolvency, receivership, or similar event of the City, as such "Bankruptcy Events" are defined in Rule 15c2-12;

(m) the consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of the assets of the City, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and

(n) appointment of a successor or additional trustee or the change of name of a trustee, if material;

(o) incurrence of a financial obligation of the County, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the County, any of which affect security holders, if material; and

(p) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the County, any of which reflect financial difficulties.

(iii) Timely notice of a failure by the City to provide required annual financial information on or before the date specified below.

For purposes of the CDA, the term "financial obligation" means (i) a debt obligation; (ii) a derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (iii) a guarantee of (i) or (ii). The term "financial obligation" does not include municipal securities as to which a final official statement has been provided to the MSRB consistent with the Rule.

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

(i) annual financial statements of the Drainage and Wastewater System, prepared in accordance with generally accepted accounting principles applicable to governmental units (except as otherwise noted therein), as such principles may be changed from time to time and as permitted by State law;

(ii) a statement of authorized, issued and outstanding bond debt secured by revenues of the Drainage and Wastewater System;

(iii) debt service coverage ratios;

(iv) general customer statistics, such as number and type of customers and revenues by customer class; and

(v) current drainage rates and wastewater rates.

Annual financial information, as described above, will be provided to the MSRB not later than the last day of the ninth month after the end of each fiscal year of the City (currently, a fiscal year ending December 31), as such fiscal year may be changed as required or permitted by State law, commencing with the City's fiscal year ending December 31, 2022. The annual information may be provided in a single or multiple documents, and may be incorporated by specific reference to documents available to the public on the Internet website of the MSRB or filed with the SEC.

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

The City will give notice to the MSRB of the substance (or provide a copy) of any amendment to the CDA and a brief statement of the reasons for the amendment. If the amendment changes the type of annual financial information to be provided, the annual financial information containing the amended information will include a narrative explanation of the effect of that change on the type of information to be provided.

Termination of CDA. The City's obligations under the CDA will terminate upon the legal defeasance, prior repayment, or payment in full of all of the then outstanding Bonds. In addition, the City's obligations under the CDA will terminate if those provisions of Rule 15c2-12 that require the City to comply with the CDA become legally inapplicable in respect of the Bonds for any reason, as confirmed by an opinion of nationally recognized bond counsel or other counsel familiar with federal securities laws delivered to the City, and the City provides timely notice of such termination to the MSRB.

Remedy for Failure to Comply with CDA. The City has agreed to proceed with due diligence to cause any failure to comply with the CDA to be corrected as soon as practicable after the City learns of that failure. No failure by the City (or any other obligated person) to comply with the CDA will constitute a default with respect to the Bonds. The sole remedy of any holder of a Bond will be to take such actions as that holder deems necessary, including seeking an order of specific performance from an appropriate court, to compel the City or other obligated person to comply with the CDA.

Compliance with Continuing Disclosure Undertakings of the City. The City has entered into undertakings to provide annual information and the notice of the occurrence of certain events with respect to all bonds issued by the City subject to Rule 15c2-12. The City's review of its compliance during the past five years did not reveal any failure to comply, in a material respect, with any undertakings in effect during this time. Nonetheless, the City recently discovered that one table of Solid Waste utility operating statistics required by the continuing disclosure undertakings for certain outstanding Solid Waste utility revenue bonds had been omitted from its annual disclosure filings for the years ended December 31, 2017 and 2018, and has since remedied those filings.

OTHER BOND INFORMATION

Ratings on the Bonds

The Bonds have been rated "Aa1" and "AA+" by Moody's Investors Service, Inc. and S&P Global Ratings, respectively. In general, rating agencies base their ratings on rating materials furnished to them (which may include information provided by the City that is not included in this Official Statement) and on the rating agency's own investigations, studies, and assumptions. The ratings reflect only the views of the rating agencies, and an explanation of the significance of the ratings may be obtained from each rating agency. No application was made to any other rating agency for the purpose of obtaining an additional rating on the Bonds. There is no assurance that the ratings will be retained for any given period of time or that the ratings will not be revised downward, suspended, or withdrawn entirely by the rating agencies if, in their judgment, circumstances so warrant. Any such downward revision, suspension, or withdrawal of the ratings will be likely to have an adverse effect on the market price of the Bonds.

Municipal Advisor

The City has retained Piper Sandler & Co., Seattle, Washington, as municipal advisor (the "Municipal Advisor") in connection with the preparation of the City's financing plans and with respect to the authorization and issuance of the Bonds. The Municipal Advisor is not obligated to undertake and has not undertaken to make any independent verification or to assume responsibility for the accuracy, completeness, or fairness of the information contained in this Official Statement. The Municipal Advisor is a full service investment banking firm that provides financial advisory and underwriting services to state and local governmental entities. While under contract to the City, the Municipal Advisor may not participate in the underwriting of any City debt.

Purchaser of the Bonds

The Bonds are being purchased by Morgan Stanley & Co. LLC (the "Purchaser") at a price of $128,271,243.99 and will be reoffered at a price of $128,600,245.65. The Purchaser may offer and sell the Bonds to certain dealers (including dealers depositing Bonds into investment trusts) and others at prices lower than the initial offering prices set forth on page i of this Official Statement, and such initial offering prices may be changed from time to time by the Purchaser. After the initial public offering, the public offering prices may be varied from time to time.

Morgan Stanley & Co. LLC has entered into a distribution agreement with its affiliate, Morgan Stanley Smith Barney LLC. As part of the distribution arrangement, Morgan Stanley & Co. LLC may distribute municipal securities to retail investors through the financial advisor network of Morgan Stanley Smith Barney LLC. As part of this arrangement, Morgan Stanley & Co. LLC may compensate Morgan Stanley Smith Barney LLC for its selling efforts with respect to the Bonds.

Conflicts of Interest

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

Official Statement

This Official Statement is not to be construed as a contract with the owners of any of the Bonds.

The City of Seattle

By: /s/ Glen M. Lee
Glen M. Lee
Director of Finance

This page left blank intentionally.

APPENDIX A

NEW MONEY BOND ORDINANCE

Ordinance 126482, set forth in this appendix, authorizes the issuance of the new money portion of the Bonds. Ordinance 125455 (as amended by Ordinance 126482) authorized the issuance of the refunding portion of the Bonds and is substantially similar to Ordinance 126482.

This page left blank intentionally.

CITY OF SEATTLE

ORDINANCE 126482

COUNCIL BILL 120197

AN ORDINANCE relating to the drainage and wastewater system of The City of Seattle; adopting a system or plan of additions and betterments to and extensions of the existing drainage and wastewater system; authorizing the issuance and sale of drainage and wastewater revenue bonds in one or more series for the purposes of paying part of the cost of carrying out that system or plan, providing for the reserve requirement, and paying the costs of issuance of the bonds; providing parameters for the bond sale terms including conditions, covenants, and other sale terms; describing the lien of those bonds; amending certain definitions set forth in Ordinance 125455, the Omnibus Refunding Ordinance; authorizing the issuance of drainage and wastewater system refunding revenue bonds; and ratifying and confirming certain prior acts.

WHEREAS, The City of Seattle (the "City") owns, maintains, and operates a system of sanitary sewerage and storm and surface water drainage as part of Seattle Public Utilities (the "Drainage and Wastewater System"), which Drainage and Wastewater System has from time to time required various additions, improvements, betterments, and extensions; and

WHEREAS, the City desires to acquire and construct a system or plan of further additions, improvements, and betterments to, and extensions of the Drainage and Wastewater System (the "Plan of Additions") as described in this ordinance, and has a need to borrow funds to pay a portion of the costs of carrying out such Plan of Additions; and

WHEREAS, the City currently has outstanding certain drainage and wastewater revenue bonds (as identified in Exhibit A to this ordinance, the "Outstanding Parity Bonds"). Pursuant to the ordinances authorizing their issuance (the "Outstanding Parity Bond Ordinances"), the City has reserved the right to issue additional bonds ("Future Parity Bonds") having a charge and lien on the net revenue of the Drainage and Wastewater System on a parity of lien with those Outstanding Parity Bonds, and is permitted to issue such Future Parity Bonds upon satisfaction of certain conditions (the "Parity Conditions"); and

WHEREAS, the City has determined that it is in the best interest of the City and its ratepayers to authorize the issuance and sale, subject to the provisions of this ordinance, of drainage and wastewater revenue bonds as Parity Bonds to pay part of the cost of carrying out the Plan of Additions, to provide for the reserve requirement, and to pay the costs of issuance of those bonds; NOW, THEREFORE,

BE IT ORDAINED BY THE CITY OF SEATTLE AS FOLLOWS:

Section 1. **Definitions**. In this ordinance, the following capitalized terms shall have the meanings set forth in this section:

"Accreted Value" means with respect to any Capital Appreciation Bond (a) as of any Valuation Date, the amount determined for such Valuation Date in accordance with the applicable Parity Bond Documents, and (b) as of any date other than a Valuation Date, the sum of (i) the Accreted Value on the preceding Valuation Date and (ii) the product of (A) a fraction, the numerator of which is the number of days having elapsed from the preceding Valuation Date and the denominator of which is the number of days from such preceding Valuation Date to the next succeeding Valuation Date, calculated based on the assumption that Accreted Value accrues during any semiannual period in equal daily amounts on the basis of a year of 12 30-day months, and (B) the difference between the Accreted Values for such Valuation Dates.

"Adjusted Annual Debt Service" for any fiscal year means Annual Debt Service minus (a) an amount equal to ULID Assessments due in that year and not delinquent, (b) an amount equal to earnings from investments in the Reserve Subaccount, and (c) Annual Debt Service provided for by Parity Bond proceeds.

"Adjusted Gross Revenue" means, for any period, Gross Revenue (a) plus withdrawals from the Rate Stabilization Account made during that period, and (b) minus ULID Assessments, earnings from investments in the Reserve Subaccount, and deposits into the Rate Stabilization Account made during that period.

"Adjusted Net Revenue" means Adjusted Gross Revenue less Operating and Maintenance Expense.

"Annual Debt Service" for any calendar year means the sum of the amounts required in such calendar year to pay the interest due in such calendar year on all Parity Bonds outstanding, excluding interest to be paid from the proceeds of the sale of Parity Bonds or other bonds; the principal of all outstanding Serial Bonds due in such calendar year; and the Sinking Fund Requirement, if any, for such calendar year. Additionally, for purposes of calculating and determining compliance with the Coverage Requirement, the Reserve Requirement and the conditions for the issuance of Future Parity Bonds and/or entering into Parity Payment Agreements, the following shall apply:

(a) **Calculation of Interest Due -- Generally**. Except as otherwise provided below, interest on any series of Parity Bonds shall be calculated based on the actual amount of accrued, accreted, or otherwise accumulated interest that is payable in respect of that series taken as a whole, at the rate or rates set forth in the applicable Parity Bond Documents.

(b) **Capital Appreciation Bonds**. For purposes of this definition, the principal and interest portions of the Accreted Value of Capital Appreciation Bonds becoming due at maturity or by virtue of a Sinking Fund Requirement shall be included in the calculations of accrued and unpaid and accruing interest or principal in such manner and during such period of time as is specified in the Parity Bond Documents applicable to such Capital Appreciation Bonds.

(c) **Variable Interest Rate Bonds**. The amount of interest deemed to be payable on any series of Variable Interest Rate Bonds shall be calculated on the assumption that the interest rate on those bonds would be equal to the rate that is 90 percent of the average RBI during the four calendar quarters preceding the quarter in which the calculation is made.

(d) **Interest on Parity Bonds With Respect to Which a Payment Agreement is in Force**. Debt service on Parity Bonds with respect to which a Payment Agreement is in force shall be based on the net economic effect on the City expected to be produced by the terms of the Parity Bonds and the terms of the Payment Agreement. For example, if the net economic effect of the Payment Agreement and a series of Parity Bonds otherwise bearing interest at a variable rate is to produce an obligation bearing interest at a fixed interest rate, the relevant series of bonds shall be treated as fixed interest rate bonds. And if the net economic effect of the Payment Agreement and a series of Parity Bonds otherwise bearing interest at a fixed rate is to produce an obligation bearing interest at a variable interest rate, the relevant series of bonds shall be treated as Variable Interest Rate Bonds.

Accordingly, the amount of interest deemed to be payable on any Parity Bonds with respect to which a Payment Agreement is in force shall be an amount equal to the amount of interest that would be payable at the rate or rates stated in or determined pursuant to the applicable Parity Bond Documents, plus Payment Agreement Payments, minus Payment Agreement Receipts. For the purposes of calculating as nearly as practicable Payment Agreement Receipts and Payment Agreement Payments under a Payment Agreement that includes a variable rate component determined by reference to a pricing mechanism or index that is not the same as the pricing mechanism or index used to determine the variable rate interest component on the Parity Bonds to which the Payment Agreement is related, it shall be assumed that the fixed rate used in calculating Payment Agreement Payments will be equal to 105 percent of the fixed rate specified by the Payment Agreement and that the pricing mechanism or index specified by the Payment Agreement is the same as the pricing mechanism or index specified by the applicable Parity Bond Documents. Notwithstanding the other provisions of this definition, the City shall not be required to (but may in its discretion) take into account in determining Annual Debt Service the effects of any Payment Agreement that has a term of ten years or less.

(e) **Parity Payment Agreements**. For any period during which Payment Agreement Payments on a Parity Payment Agreement are taken into account in determining Annual Debt Service on related Parity Bonds under paragraph (d) of this definition, no additional debt service shall be taken into account with respect to that Parity Payment Agreement. However, for any Parity Payment Agreement during a period in which Payment Agreement Payments are not taken into account under paragraph (d) because the Parity Payment Agreement is not then related to any outstanding Parity Bonds, payments on that Parity Payment Agreement shall be taken into account by assuming:

(i) **If City is Obligated to Make Payments Based on Fixed Rate**. If the City is obligated to make Payment Agreement Payments based on a fixed rate and the Qualified Counterparty is obligated to make payments based on a variable rate index, it shall be assumed that payments by the City will be based on the assumed fixed payor rate, and that payments by the Qualified Counterparty will be based on a rate equal to the average rate determined by the variable rate index specified by the Parity Payment Agreement during the four calendar quarters preceding the quarter in which the calculation is made.

(ii) **If City is Obligated to Make Payments Based on Variable Rate Index**. If the City is obligated to make Payment Agreement Payments based on a variable rate index and the Qualified Counterparty is obligated to make payments based on a fixed rate, it shall be assumed that payments by the City will be based on a rate equal to the average rate determined by the variable rate index specified by the Parity Payment Agreement during the four calendar quarters preceding the quarter in which the calculation is made, and that the Qualified Counterparty will make payments based on the fixed rate specified by the Parity Payment Agreement.

(f) **Balloon Bonds**. ***Upon the Reserve Covenant Date, the following shall become effective:*** For purposes of calculating debt service on any Balloon Bonds, the City may assume that the principal of those Balloon Bonds, together with interest thereon at a rate equal to the assumed RBI-based rate set forth in subsection (c) of this definition, will be amortized in equal annual installments over a term of 30 years.

(g) **Adjustments for Defeased Bonds**. For purposes of calculating and determining compliance with the Coverage Requirement, the Reserve Requirement, and the Parity Conditions, Annual Debt Service shall be adjusted as set forth in subsection 21(d) of this ordinance.

"Authorized Denomination" means $5,000 or any integral multiple thereof within a maturity of a Series, or such other minimum authorized denominations as may be specified in the applicable Bond Documents.

"Average Annual Debt Service" means, at the time of calculation, the sum of the Annual Debt Service remaining to be paid to the last scheduled maturity of the applicable series of Parity Bonds divided by the number of years such bonds are scheduled to remain outstanding.

"Balloon Bonds" means any series of Parity Bonds, the aggregate principal amount (including Sinking Fund Requirements) of which becomes due and payable in any calendar year in an amount that constitutes 25 percent or more of the initial aggregate principal amount of such series of Parity Bonds.

"Beneficial Owner" means, with regard to a Bond, the owner of any beneficial interest in that Bond.

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

"Bond Documents" means (a)(i) with respect to any Series of the Bonds, this ordinance (including any amendatory or supplemental ordinances), and (ii) with respect to a series of Parity Bonds other than a Series of the Bonds, the applicable Parity Bond Ordinance(s); (b) the authenticated bond form; and (c) the written agreement(s) setting forth the Bond Sale Terms and additional terms, conditions, or covenants pursuant to which such bond was issued and sold, as set forth in any one or more of the following (if any): (i) a sale resolution, (ii) a bond purchase contract (as defined in the applicable authorizing ordinance), (iii) a bond indenture or a fiscal agent or paying agent agreement (other than the State fiscal agency contract), and (iv) a direct purchase or continuing covenant agreement.

"Bond Insurance" means any municipal bond insurance policy, guaranty, surety bond, or similar credit enhancement device providing for or securing the payment of all or part of the principal of and interest on any Parity Bonds, issued by an insurance company licensed to conduct an insurance business in any state of the United States (or by a service corporation acting on behalf of one or more such insurance companies), or by any other financial institution qualified to provide such credit enhancement device.

"Bond Purchase Contract" means a written offer to purchase a Series of the Bonds, pursuant to certain Bond Sale Terms, which offer has been accepted by the City in accordance with this ordinance. In the case of a competitive sale, the Purchaser's bid for a Series, together with the official notice of sale and a Pricing Certificate confirming the Bond Sale Terms, shall comprise the Bond Purchase Contract.

"Bond Register" means the books or records maintained by the Bond Registrar for the purpose of registering ownership of each Bond.

"Bond Registrar" means the Fiscal Agent (unless the Director of Finance appoints a different person to act as bond registrar with respect to a particular Series), or any successor bond registrar selected in accordance with the Registration Ordinance.

"Bond Sale Terms" means the terms and conditions for the sale of a Series of the Bonds approved by the Director of Finance consistent with the parameters set forth in Section 5 of this ordinance, including the amount, date or dates, denominations, interest rate or rates (or mechanism for determining the interest rate or rates), payment dates, final maturity, redemption rights, price, and other terms, conditions or covenants. In connection with a negotiated sale or private placement, the Bond Sale Terms shall be set forth in the Bond Purchase Contract; in connection with a competitive sale, the Bond Sale Terms shall be set forth in a Pricing Certificate.

"Bonds" means the Drainage and Wastewater System revenue bonds issued pursuant to this ordinance.

"Book-Entry Form" means a fully registered form in which physical bond certificates are registered only in the name of the Securities Depository (or its nominee), as Registered Owner, with the physical bond certificates held by and immobilized in the custody of the Securities Depository (or its designee), where the system for recording and identifying the transfer of the ownership interests of the Beneficial Owners in those Bonds is neither maintained by nor the responsibility of the City or the Bond Registrar.

"Capital Appreciation Bond" means any Parity Bond, all or a portion of the interest on which is compounded and accumulated at the rates or in the manner, and on the dates, set forth in the applicable Bond Documents and is payable only upon redemption or on the maturity date of such Parity Bond. A Parity Bond that is issued as a Capital Appreciation Bond, but which later converts to an obligation on which interest is paid periodically, shall be a Capital Appreciation Bond until the conversion date and thereafter shall no longer be a Capital Appreciation Bond, but shall be treated as having a principal amount equal to its Accreted Value on the conversion date. For purposes of computing the principal amount of Parity Bonds held by the Owner of any Capital Appreciation Bond in connection with any notice, consent, request, or demand, the principal amount of a Capital Appreciation Bond shall be deemed to be its Accreted Value at the time that such notice, consent, request, or demand is given or made.

"Capital Improvement Program" or **"CIP"** means those portions of the City's "2021-2026 Capital Improvement Program" relating to the Drainage and Wastewater System, adopted by Ordinance 126237, together with any previously adopted Capital Improvement Program of the City. For purposes of this ordinance, the CIP includes all amendments, updates, supplements or replacements that may be adopted from time to time by ordinance.

"City" means The City of Seattle.

"City Council" means the City Council of the City, as duly and regularly constituted from time to time.

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

"Construction Account" means the Drainage and Wastewater Construction Account, 2022, created in the Drainage and Wastewater Fund by this ordinance.

"Continuing Disclosure Agreement" means, for each Series sold in an offering subject to federal securities regulations requiring a written undertaking to provide continuing disclosure, a continuing disclosure agreement entered into pursuant to Section 23 of this ordinance, in substantially the form attached to this ordinance as Exhibit B.

"Contract Resource Obligation" means an obligation of the City that is designated as a Contract Resource Obligation and is entered into in accordance with Section 20 of this ordinance.

"Coverage Requirement" means Adjusted Net Revenue equal to at least 1.25 times Adjusted Annual Debt Service on all Parity Bonds then outstanding.

"Covered Parity Bonds" means all Outstanding Parity Bonds, each Series of the Bonds, and each series of Future Parity Bonds. ***From and after the Reserve Covenant Date, the term "Covered Parity Bonds" shall exclude each series of Parity Bonds for which the Bond Sale Terms provide that, from and after the Reserve Covenant Date, such series shall no longer be treated as a series of Covered Parity Bonds and shall no longer be secured by the amounts in the Reserve Subaccount.***

"DTC" means The Depository Trust Company, New York, New York.

"Defeasible Bonds" means any outstanding Parity Bonds that are eligible to be defeased pursuant to the Omnibus Defeasance Ordinance.

"Director of Finance" or **"Director"** means the Director of the Finance Division of the Department of Finance and Administrative Services, or any other officer who succeeds to substantially all of the responsibilities of that office.

"Drainage and Wastewater Fund" means the fund created by Ordinance 84390 and later renamed by Ordinance 114155, into which is paid the Gross Revenue of the Drainage and Wastewater System.

"Drainage and Wastewater System" means the drainage and wastewater system of the City, including the sanitary sewerage and storm and surface water drainage systems, as it now exists (except properties, interests, and rights under the jurisdiction of the City's Parks and Recreation Department, Seattle Center Department, Seattle Public Utilities Water System, City Light Department, and Department of Finance and Administrative Services), and all additions thereto and betterments and extensions thereof at any time made, together with any utility systems of the City hereafter combined with the Drainage and Wastewater System. The Drainage and Wastewater System shall not include any separate utility system that may be created, acquired or constructed by the City as provided in Section 19 of this ordinance.

"Event of Default" has the meaning assigned to that term in subsection 25(a) of this ordinance.

"Fiscal Agent" means the fiscal agent of the State, as the same may be designated by the State from time to time.

"Future Parity Bond Ordinance" means any ordinance passed by the City Council providing for the issuance and sale of a series of Future Parity Bonds, and any other ordinance amending or supplementing the provisions of any such ordinance.

"Future Parity Bonds" means, with reference to any Series, all revenue bonds and obligations of the Drainage and Wastewater System (other than that Series and any other Parity Bonds then outstanding) issued or entered into after the Issue Date of such Series, the payment of which constitutes a charge and lien on Net Revenue equal in priority with the charge and lien upon such revenue for the payment of the amounts required to be paid into the Parity Bond Account in accordance with Section 15 of this ordinance. Future Parity Bonds may include Parity Payment Agreements and any other obligations issued in compliance with the Parity Conditions.

“Government Obligations” means, unless otherwise limited in the Bond Documents for a particular Series of the Bonds, any government obligation as that term is defined in RCW 39.53.010, as amended at any time.

“Gross Revenue” means (a) all income, revenues, receipts and profits derived by the City through the ownership and operation of the Drainage and Wastewater System; (b) the proceeds received by the City directly or indirectly from the sale, lease or other disposition of any of the properties, rights or facilities of the Drainage and Wastewater System; (c) Payment Agreement Receipts, to the extent that such receipts are not offset by Payment Agreement Payments; and (d) the investment income earned on money held in any fund or account of the City, including any bond redemption funds and the accounts therein, in connection with the ownership and operation of the Drainage and Wastewater System. Gross Revenue does not include: (a) income derived from investments irrevocably pledged to the payment of any defeased bonds payable from Gross Revenue; (b) investment income set aside for or earned on money in any fund or account created or maintained solely for the purpose of complying with the arbitrage rebate provisions of the Code; (c) any gifts, grants, donations or other funds received by the City from any State or federal agency or other person if such gifts, grants, donations or other funds are the subject of any limitation or reservation imposed by the donor or grantor or imposed by law or administrative regulation to which the donor or grantor is subject, limiting the application of such funds in a manner inconsistent with the application of Gross Revenue hereunder; (d) the proceeds of any borrowing for capital improvements (or the refinancing thereof); (e) the proceeds of any liability or other insurance, including but not limited to insurance proceeds compensating the City for the loss of a capital asset, but excluding business interruption insurance or other insurance of like nature insuring against the loss of revenues; (f) general *ad valorem* taxes, excise taxes and special assessments (other than ULID Assessments), including interest and penalties thereon; and (g) earnings of any separate utility system that may be created, acquired, or constructed by the City pursuant to Section 19 of this ordinance.

"Independent Utility Consultant" means an independent person or firm having a favorable reputation for skill and experience with drainage and wastewater systems of comparable size and character to the Drainage and Wastewater System in such areas as are relevant to the purpose for which they were retained.

"Issue Date" means, with respect to a Bond, the initial date on which that Bond is issued and delivered to the initial Purchaser in exchange for its purchase price.

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

"MSRB" means the Municipal Securities Rulemaking Board.

"Maximum Annual Debt Service" means, at the time of calculation, the maximum amount of Annual Debt Service that shall become due in the current calendar year or in any future calendar year with respect to the Parity Bonds then outstanding.

"Net Revenue" means, for any period, Gross Revenue less Operating and Maintenance Expense.

"Omnibus Defeasance Ordinance" means Ordinance 126223, as amended at any time, authorizing the defeasance of Defeasible Bonds (as such ordinance may be amended from time to time) or any future ordinance pursuant to which the Bonds (or any Series of the Bonds) are designated as Defeasible Bonds.

"Omnibus Refunding Ordinance" means Ordinance 125455, as amended at any time, authorizing the issuance of Refunding Parity Bonds (as such ordinance may be amended from time to time), or any future ordinance pursuant to which the Bonds (or any Series of the Bonds) are designated as "Refundable Bonds."

"Operating and Maintenance Expense" means all expenses incurred by the City in causing the Drainage and Wastewater System to be operated and maintained in good repair, working order and condition, including without limitation: (a) deposits, premiums, assessments or other payments for insurance, if any, on the Drainage and Wastewater System; (b) payments into pension funds; (c) State-imposed taxes; (d) amounts due under Contract Resource Obligations in accordance with Section 20 of this ordinance; (e) payments made to another person or entity for treatment or disposal of sewage or other commodity or service; and (f) payments with respect to any other expenses of the Drainage and Wastewater System that are properly treated as Operating and Maintenance Expense under generally accepted accounting principles applicable to municipal corporations, including payments (other than payments out of proceeds of Parity Bonds or other obligations not issued to pay current expenses of the Drainage and Wastewater System) into reasonable reserves for items of operating or maintenance expense the payment of which is not immediately required. Operating and Maintenance Expense does not include: depreciation, amortization or other similar recognitions of non-cash expense items made for accounting purposes only; taxes levied or imposed by the City, or payments in lieu of City taxes; payments of claims or judgments; or capital additions or capital replacements of the Drainage and Wastewater System.

"Outstanding Parity Bond Ordinances" means those ordinances authorizing the issuance and sale of the Outstanding Parity Bonds, as identified in Exhibit A to this ordinance.

"Outstanding Parity Bonds" means those outstanding Parity Bonds identified in Exhibit A to this ordinance. When used in reference to a particular date or series of Parity Bonds, Outstanding Parity Bonds shall mean those Parity Bonds (including any Parity Bonds issued subsequent to the effective date of this ordinance) that are outstanding as of that date or as of the issue date of such series.

"Owner" means, without distinction, the Registered Owner and the Beneficial Owner of a Bond.

"Parity Bond Account" means the Drainage and Wastewater Revenue Bond Account, 1990, created by Ordinance 115098 in the Drainage and Wastewater Fund for the purpose of paying and securing payment of the principal of and interest on Parity Bonds.

"Parity Bond Documents" means those Bond Documents applicable to a series of Parity Bonds.

"Parity Bond Ordinance" means any ordinance passed by the City Council providing for the issuance and sale of a series of Parity Bonds, and any other ordinance amending or supplementing the provisions of any Parity Bond Ordinance.

"Parity Bonds" means the Outstanding Parity Bonds identified in Exhibit A to this ordinance, each Series of the Bonds, and any Future Parity Bonds then outstanding. Parity Bonds may include Parity Payment Agreements in accordance with Section 17 of this ordinance.

"Parity Certificate" means a certificate delivered pursuant to Section 17 of this ordinance for purposes of satisfying the Parity Conditions in connection with the issuance of Future Parity Bonds.

"Parity Conditions" means, (a) for purposes of establishing that a Series of the Bonds may be issued on parity with the Parity Bonds outstanding as of the Issue Date of such Series, the conditions for issuing Future Parity Bonds set forth in the Parity Bond Ordinances relating to those Parity Bonds that are then outstanding; and (b) for purposes of issuing Future Parity Bonds on parity with a Series of the Bonds, the conditions described in subsection (a) of this definition together with the conditions set forth in Section 17 of this ordinance.

"Parity Payment Agreement" means a Payment Agreement entered into in compliance with the Parity Conditions and under which the City's payment obligations are expressly stated to constitute a charge and lien on Net Revenue equal in rank with the charge and lien upon such Net Revenue required to be paid into the Parity Bond Account to pay and secure the payment of interest on Parity Bonds. For purposes of determining percentages of ownership of Parity Bonds under this ordinance or under applicable Parity Bond Documents, Parity Payment Agreements shall be deemed to have no principal amount, and any notice, consent, or similar rights (if any) shall be determined only as set forth in the applicable Parity Payment Agreement.

"Payment Agreement" means a written agreement entered into by the City and a Qualified Counterparty, as authorized by any applicable laws of the State, for the purpose of managing or reducing the City's exposure to fluctuations or levels of interest rates, or for other interest rate, investment, asset or liability management purposes, and that provides for (i) an exchange of payments based on interest rates, ceilings, or floors on such payments; (ii) options on such payments; (iii) any combination of the foregoing; or (iv) any similar device. A Payment

Agreement may be entered into on either a current or forward basis. A Payment Agreement must be entered into in connection with (or incidental to) the issuance, incurring, or carrying of particular bonds, notes, bond anticipation notes, commercial paper, or other obligations for borrowed money (which may include leases, installment purchase contracts, or other similar financing agreements or certificates of participation in any of the foregoing).

"Payment Agreement Payments" means the amounts periodically required to be paid by the City to a Qualified Counterparty pursuant to a Payment Agreement.

"Payment Agreement Receipts" means the amounts periodically required to be paid by a Qualified Counterparty pursuant to a Payment Agreement.

"Permitted Investments" means any investments or investment agreements permitted for the investment of City funds under the laws of the State, as amended from time to time.

"Plan of Additions" means the CIP, as it may be modified from time to time. The Plan of Additions includes (a) the purchase and installation of all materials, supplies, appliances, equipment and facilities; (b) the acquisition of all permits, franchises, property and property rights, and other capital assets; and (c) all engineering, consulting and other professional services and studies (whether performed by the City or by other public or private entities), each as necessary or convenient to carry out the Plan of Additions. The Plan of Additions includes all amendments, updates, supplements or replacements to the CIP, all of which automatically shall constitute amendments to the Plan of Additions. The Plan of Additions also may be modified to include other improvements, without amending the CIP if the City determines by ordinance that those amendments or other improvements constitute a system or plan of additions to or betterments or extensions of the Drainage and Wastewater System.

"Pricing Certificate" means a certificate executed by the Director of Finance as of the pricing date confirming the Bond Sale Terms for the sale of a Series of Bonds to the Purchaser in a competitive sale, in accordance with the parameters set forth in Section 5 of this ordinance.

"Principal and Interest Subaccount" means the subaccount of that name created in the Parity Bond Account by Ordinance 115098 for the payment of the principal of and interest on Parity Bonds.

"Purchaser" means the entity or entities who have been selected by the Director of Finance in accordance with this ordinance to serve as underwriter, purchaser, or successful bidder in a sale of any Series.

"Qualified Counterparty" means a party (other than the City or a party related to the City) who is the other party to a Payment Agreement, (a)(i) whose senior debt obligations are rated in one of the three highest rating categories of each Rating Agency (without regard to any gradations within a rating category), or (ii) whose obligations under the Payment Agreement are guaranteed for the entire term of the Payment Agreement by a bond insurer or other institution which has been assigned a credit rating in one of the two highest rating categories of each Rating Agency; and (b) who is otherwise qualified to act as the other party to a Payment Agreement under any applicable laws of the State.

"Qualified Insurance" means any Bond Insurance that, as of the time of issuance of such credit enhancement device, is provided by an entity rated in one of the two highest rating categories (without regard to any gradations within a rating category) by at least two nationally recognized rating agencies.

"Qualified Letter of Credit" means any letter of credit, standby bond purchase agreement, or other liquidity facility issued by a financial institution for the account of the City in connection with the issuance of any Parity Bonds, which institution maintains an office, agency or branch in the United States and, as of the time of issuance of such instrument, is rated in one of the two highest rating categories (without regard to any gradations within such rating categories) by at least two nationally recognized rating agencies.

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

"Rate Stabilization Account" means the account of that name previously established by Section 26 of Ordinance 118974.

"Rating Agency" means any nationally recognized rating agency then maintaining a rating on a series of then outstanding Parity Bonds at the request of the City.

"Record Date" means, unless otherwise defined in the Bond Documents, in the case of each interest or principal payment date, the Bond Registrar's close of business on the 15th day of the month preceding the interest or principal payment date. With regard to redemption of a Bond prior to its maturity, the Record Date shall mean the Bond Registrar's close of business on the day prior to the date on which the Bond Registrar sends the notice of redemption to the Registered Owner(s) of the affected Bonds.

"Refundable Bonds" means Parity Bonds that may be refunded pursuant to the Omnibus Refunding Ordinance.

"Refunding Parity Bonds" means Future Parity Bonds that satisfy the applicable Parity Conditions and are issued pursuant to the Omnibus Refunding Ordinance, or other Future Parity Bond Ordinance, for the purpose of refunding any Refundable Bonds.

"Registered Owner" means, with respect to a Bond, the person in whose name that Bond is registered on the Bond Register. For so long as a Series of the Bonds is in Book-Entry Form under the Letter of Representations, the Registered Owner of such Series shall mean the Securities Depository.

"Registration Ordinance" means Ordinance 111724 establishing a system of registration for the City's bonds and other obligations pursuant to Seattle Municipal Code Chapter 5.10, as amended at any time.

"Reserve Covenant Date" means the earlier of (a) the date on which the City has obtained consents of the requisite percentage of Registered Owners of the Parity Bonds then outstanding, in accordance with the provisions of the applicable Outstanding Parity Bond Documents; or (b) the date on which all of the following Outstanding Parity Bonds have been redeemed or defeased: Drainage and Wastewater Revenue Bonds, 2009A (Taxable Build America Bonds – Direct Payment); Drainage and Wastewater Improvement and Refunding Revenue Bonds, 2012; Drainage and Wastewater Improvement and Refunding Revenue Bonds, 2014; and Drainage and Wastewater System Improvement and Refunding Revenue Bonds, 2016.

"Reserve Requirement" means the least of (a) Maximum Annual Debt Service on all Parity Bonds outstanding at the time of calculation, (b) 1.25 times Average Annual Debt Service on all Parity Bonds outstanding at the time of calculation, or (c) the sum of 10 percent of the proceeds of each series of Parity Bonds then outstanding, as of the delivery of each such series. ***From and after the Reserve Covenant Date, the Reserve Requirement shall mean the least 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 percent of the proceeds of each series of Covered Parity Bonds then outstanding, determined as of the Issue Date of each such series.

"Reserve Security" means any Qualified Insurance or Qualified Letter of Credit obtained by the City to satisfy part or all of the Reserve Requirement, and which is not cancelable on less than three years' notice.

"Reserve Subaccount" means the subaccount of that name created in the Parity Bond Account by Ordinance 115098 for the purpose of securing the payment of the principal of and interest on Parity Bonds.

"Rule 15c2-12" means Rule 15c2-12 promulgated by the SEC under the Securities Exchange Act of 1934, as amended.

"SEC" means the United States Securities and Exchange Commission.

"Securities Depository" means DTC, any successor thereto, any substitute Securities Depository selected by the City, or the nominee of any of the foregoing. Any successor or substitute Securities Depository must be qualified under applicable laws and regulations to provide the services proposed to be provided by it.

"Serial Bonds" means Parity Bonds maturing in specified years, for which no Sinking Fund Requirements are mandated.

"Series" means a series of the Bonds issued pursuant to this ordinance.

"Sinking Fund Account" means any account created in the Parity Bond Account to amortize the principal or make mandatory redemptions of Term Bonds.

"Sinking Fund Requirement" means, for any calendar year, the principal amount and premium, if any, of Term Bonds required to be purchased, redeemed, paid at maturity or paid into any Sinking Fund Account for such calendar year, as established pursuant to the Bond Documents relating to such Term Bonds.

"State" means the State of Washington.

"State Auditor" means the office of the Auditor of the State or such other department or office of the State authorized and directed by State law to make audits.

"Tax Credit Subsidy Bond" means any Taxable Bond that is designated by the City as a tax credit bond pursuant to the Code, and which is further designated as a "qualified bond" under Section 6431 or similar provision of the Code, and with respect to which the City is eligible to claim a Tax Credit Subsidy Payment.

"Tax Credit Subsidy Payment" means a payment by the federal government with respect to a Tax Credit Subsidy Bond.

"Tax-Exempt Bond" means any Parity Bond, the interest on which is intended, as of the Issue Date, to be excludable from gross income for federal income tax purposes.

"Taxable Bond" means any Parity Bond, the interest on which is <u>not</u> intended, as of the Issue Date, to be excludable from gross income for federal income tax purposes.

"Term Bond" means any Parity Bond that is issued subject to mandatory redemption prior to its maturity in Sinking Fund Requirements.

"ULID" means a utility local improvement district of the City created for the acquisition or construction of additions to and betterments and extensions of the Drainage and Wastewater System.

"ULID Assessments" means all assessments levied and collected in a ULID, if and only if those assessments are pledged to be paid into the Parity Bond Account, in which case they shall be included in Gross Revenue. ULID Assessments shall include all installments of principal, payments of interest, and penalties and interest on delinquencies, but shall not include any prepaid assessments paid into a construction fund or account.

"Valuation Date" means, with respect to any Capital Appreciation Bond, the date or dates, determined as set forth in the Parity Bond Documents relating to the relevant series of Parity Bonds, on which specific Accreted Values are assigned to that Capital Appreciation Bond.

"Variable Interest Rate" means any interest rate that fluctuates during the stated term of a Parity Bond (or during a stated period during which the Parity Bond is designated as a Variable Interest Rate Bond), whether due to a remarketing, a market index reset, or other mechanism set forth in the applicable Bond Documents. The Bond Documents for any Series of the Bonds bearing interest at a Variable Interest Rate shall set forth: (a) the available method(s) of computing interest (the "interest rate modes"); (b) the particular period or periods of time (or manner of determining such period or periods of time) for which each value of such Variable Interest Rate (or each interest rate mode) shall remain in effect; (c) provisions for conversion from one interest rate mode to another and for setting or resetting the interest rates; and (d) the time or times upon which any change in such Variable Interest Rate (or any conversion of interest rate modes) shall become effective.

"Variable Interest Rate Bond" means, for any period of time, any Parity Bond that bears interest at a Variable Interest Rate during that period. A Parity Bond shall not be treated as a Variable Interest Rate Bond if the net economic effect of: (a) interest rates on a particular series of Parity Bonds, as set forth in the applicable Bond Documents, and (b) either (i) interest rates on another series of Parity Bonds issued at substantially the same time, or (ii) a Payment Agreement related to that particular series of Parity Bonds, is to produce obligations that bear interest at a fixed rate. A Parity Bond with respect to which a Payment Agreement is in force shall be treated as a Variable Interest Rate Bond if the net economic effect of the Payment Agreement is to produce an obligation that bears interest at a Variable Interest Rate.

Section 2. **Adoption of Plan of Additions**. The City specifies, adopts and orders the Plan of Additions to be carried out as generally provided for in the documents comprising the Plan of Additions. The estimated cost of the Plan of Additions, as near as may be determined, is declared to be $1,332 million, of which approximately $88 million is expected to be financed from proceeds of the Bonds and investment earnings thereon.

Section 3. **Authorization of Bonds; Due Regard Finding**.

(a) **The Bonds**. The City is authorized to issue Drainage and Wastewater System revenue bonds, payable from the sources described in Section 13 of this ordinance, in the maximum principal amount stated in Section 5 of this ordinance to provide funds (a) to pay part of the cost of carrying out the Plan of Additions; (b) to provide for the Reserve Requirement (if any); (c) to capitalize interest on (if necessary) and pay the costs of issuance of the Bonds; and (d) for other Drainage and Wastewater System purposes approved by ordinance. The Bonds may be issued in one or more Series and may be combined with other Drainage and Wastewater System revenue bonds (including Refunding Parity Bonds) authorized separately. The Bonds shall be designated Drainage and Wastewater System Revenue Bonds and shall be numbered separately and shall have any name, year and series or other label as deemed necessary or appropriate by the Director of Finance.

(b) **City Council Finding**. The City Council finds that, in creating the Parity Bond Account and in fixing the amounts to be paid into it in accordance with this ordinance and the parameters for the Bond Sale Terms set forth in Section 5 of this ordinance, the City Council has exercised due regard for the cost of operation and maintenance of the Drainage and Wastewater

System, and is not setting aside into the Parity Bond Account a greater amount than in the judgment of the City Council, based on the rates established from time to time consistent with subsection 16(b) of this ordinance, will be sufficient, in the judgment of the City Council, to meet all expenses of operation and maintenance of the Drainage and Wastewater System and to provide the amounts previously pledged for the payment of all outstanding obligations payable out of Gross Revenues and pledged for the payment of the Bonds. Therefore, the City Council hereby finds that the issuance and sale of the Bonds is in the best interest of the City and in the public interest.

Section 4. **Manner of Sale of Bonds**. The Director of Finance may provide for the sale of each Series by competitive sale, negotiated sale, limited offering, or private placement and may select and enter into agreements with remarketing agents or providers of liquidity with respect to Variable Interest Rate Bonds. The Purchaser of each Series shall be chosen through a selection process acceptable to the Director of Finance. The Director of Finance is authorized to specify a date and time of sale and a date and time for the delivery of each Series; in the case of a competitive sale, to provide an official notice of sale including bid parameters and other bid requirements, and provide for the use of an electronic bidding mechanism; to determine matters relating to a forward or delayed delivery of the Bonds; and to determine such other matters and take such other action as, in the Director's determination, may be necessary, appropriate, or desirable in order to carry out the sale of each Series. Each Series must be sold on Bond Sale Terms consistent with the parameters set forth in Section 5 of this ordinance.

Section 5. **Appointment of Designated Representative; Bond Sale Terms**.

(a) **Designated Representative**. The Director of Finance is appointed to serve as the City's designated representative in connection with the issuance and sale of the Bonds in accordance with RCW 39.46.040(2) and this ordinance.

(b) **Parameters for Bond Sale Terms**. The Director of Finance is authorized to approve, on behalf of the City, Bond Sale Terms for the sale of the Bonds in one or more Series, and, in connection with each such sale, to execute a Bond Purchase Contract (or, in the case of a competitive sale, a Pricing Certificate) confirming the Bond Sale Terms and such related agreements as may be necessary or desirable, consistent with the following parameters:

(i) **Maximum Principal Amount**. The maximum aggregate principal amount of all Series of the Bonds authorized by this ordinance is not to exceed $88 million.

(ii) **Date or Dates**. Each Bond shall be dated its Issue Date, as determined by the Director of Finance. The initial Issue Date (without restricting any reissuance date with respect to a Series of Variable Interest Rate Bonds) may be no later than December 31, 2024.

(iii) **Denominations.** The Bonds shall be issued in Authorized Denominations.

(iv) **Interest Rate(s)**. Each Bond shall bear interest from its Issue Date or from the most recent date to which interest has been paid or duly provided, whichever is later, unless otherwise provided in the Bond Documents. Each Series of the Bonds shall bear interest at one or more fixed interest rates or Variable Interest Rates. The net interest cost for any fixed rate Series may not exceed a rate of 10 percent per annum. The Bond Documents for any Series may provide for multiple interest rates and interest rate modes, and may provide conditions and mechanisms for the Director of Finance to effect a conversion from one mode to another. Nothing in this ordinance shall be interpreted to prevent the Bond Documents for any Series from including a provision for adjustments to interest rates during the term of the Series upon the occurrence of certain events specified in the applicable Bond Documents.

(v) **Payment Dates**. Interest shall be payable on dates acceptable to the Director of Finance. Principal shall be payable on dates acceptable to the Director of Finance, which shall include payment at the maturity of each Bond, in accordance with any Sinking Fund Requirements applicable to Term Bonds, and otherwise in accordance with any redemption or tender provisions.

(vi) **Final Maturity**. Each Bond shall mature no later than 40 years after its Issue Date.

(vii) **Redemption Prior to Maturity**. The Bond Sale Terms may include redemption and tender provisions, as determined by the Director of Finance in his discretion, consistent with Section 8 of this ordinance and subject to the following:

(A) **Optional Redemption**. The Director of Finance may designate any Bond as subject to optional redemption prior to its maturity. Any Bond that is subject to optional redemption prior to maturity must be callable on at least one or more dates occurring not more than 10½ years after the Issue Date, consistent with subsection 8(a) of this ordinance.

(B) **Mandatory Redemption**. The Director of Finance may designate any Bond as a Term Bond, subject to mandatory redemption prior to its maturity on the dates and in principal payment amounts set forth in Sinking Fund Requirements, consistent with subsection 8(b) of this ordinance.

(C) **Extraordinary Redemptions**. The Director of Finance may designate any Bond as subject to extraordinary optional redemption or extraordinary mandatory redemption upon the occurrence of an extraordinary event, as such event or events may be set forth in the applicable Bond Documents, consistent with subsection 8(c) of this ordinance.

(D) **Tender Options**. The Director of Finance may designate any Variable Interest Rate Bond as subject to tender options, as set forth in the applicable Bond Documents.

(viii) **Price**. The Director of Finance may approve in the Bond Sale Terms an aggregate purchase price for each Series of the Bonds that is, in the Director's judgment, the price that produces the most advantageous borrowing cost for the City, consistent with the parameters set forth in this ordinance and in any applicable bid documents.

(ix) **Other Terms and Conditions**.

(A) **Expected Life of Capital Facilities**. As of the Issue Date of each Series, the Director of Finance must additionally find to the Director's satisfaction that the average expected life of the capital facilities to be financed with the proceeds (or allocable share of proceeds) of that Series must exceed the weighted average maturity of such Series (or share thereof) allocated to financing those capital facilities.

(B) **Parity Conditions Satisfied**. As of the Issue Date of each Series, the Director of Finance must find that the Parity Conditions have been met or otherwise satisfied, so that such Series is permitted to be issued as Parity Bonds.

(C) **Additional Terms, Conditions, and Agreements**. The Bond Sale Terms for any Series may provide for Bond Insurance, a Reserve Security, Qualified Letter of Credit, credit enhancement, or for any other Payment Agreement as the Director of Finance may find necessary or desirable. The Bond Sale Terms for any Series may provide for multiple interest rate modes and may include provisions for conversion from any interest rate mode to any other mode. To that end, the Bond Sale Terms may include such additional terms, conditions, and covenants as may be necessary or desirable, including but not limited to: restrictions on investment of Bond proceeds and pledged funds (including any escrow established for the defeasance of the Bonds), provisions for the conversion of interest rate modes, provisions for the reimbursement of a credit enhancement provider or Qualified Counterparty, and requirements to give notice to or obtain the consent of a credit enhancement provider or a Qualified Counterparty. The Director of Finance is authorized to execute, on behalf of the City, such additional certificates and agreements as may be necessary or desirable to reflect such terms, conditions, and covenants.

(D) **Reserve Requirement**. The Bond Sale Terms must establish whether the Series is to be treated as Covered Parity Bonds and must establish the method of providing for the Reserve Requirement, consistent with Section 15 of this ordinance.

(E) **Tax Status of the Bonds**. The Director of Finance may determine that any Series of the Bonds may be designated or qualified as Tax-Exempt Bonds, Taxable Bonds or Tax Credit Subsidy Bonds, consistent with Section 22 of this ordinance.

Section 6. **Bond Registrar; Registration and Transfer of Bonds**.

(a) **Registration of Bonds; Bond Registrar**. The Bonds shall be issued only in registered form as to both principal and interest and shall be recorded on the Bond Register. The Fiscal Agent is appointed to act as Bond Registrar for each Series of the Bonds, unless otherwise determined by the Director of Finance.

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

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

The Bond Registrar shall be responsible for its representations contained in the Bond Registrar's certificate of authentication on the Bonds. The Bond Registrar may become an Owner of Bonds with the same rights it would have if it were not the Bond Registrar and, to the extent permitted by law, may act as depository for and permit any of its officers or directors to act as members of, or in any other capacity with respect to, any committee formed to protect the rights of Owners.

Bonds surrendered to the Bond Registrar may be exchanged for Bonds in any Authorized Denomination of an equal aggregate principal amount and of the same Series, interest rate and maturity. Bonds may be transferred only if endorsed in the manner provided thereon and surrendered to the Bond Registrar. Any exchange or transfer shall be without cost to an Owner or transferee. The Bond Registrar shall not be obligated to exchange or transfer any Bond during the period between the Record Date and the corresponding interest payment or principal redemption date.

(c) **Securities Depository; Book-Entry Form**. Unless otherwise determined by the Director of Finance, the Bonds initially shall be issued in Book-Entry Form and registered in the name of the Securities Depository. The Bonds so registered shall be held fully immobilized in Book-Entry Form by the Securities Depository in accordance with the provisions of the Letter of

Representations. Neither the City nor the Bond Registrar shall have any responsibility or obligation to participants of the Securities Depository or the persons for whom they act as nominees with respect to the Bonds regarding the accuracy of any records maintained by the Securities Depository or its participants of any amount in respect of principal of or interest on the Bonds, or any notice that is permitted or required to be given to Registered Owners hereunder (except such notice as is required to be given by the Bond Registrar to the Securities Depository). Registered ownership of a Bond initially held in Book-Entry Form, or any portion thereof, may not be transferred except: (i) to any successor Securities Depository; (ii) to any substitute Securities Depository appointed by the City or such substitute Securities Depository's successor; or (iii) to any person if the Bond is no longer held in Book-Entry Form.

Upon the resignation of the Securities Depository from its functions as depository, or upon a determination by the Director of Finance to discontinue utilizing the then-current Securities Depository, the Director of Finance may appoint a substitute Securities Depository. If the Securities Depository resigns from its functions as depository and no substitute Securities Depository can be obtained, or if the Director of Finance determines not to utilize a Securities Depository, then the Bonds shall no longer be held in Book-Entry Form and ownership may be transferred only as provided herein.

Nothing in this ordinance shall prevent the Bond Sale Terms from providing that a Series of the Bonds shall be issued in certificated form without utilizing a Securities Depository, and that the Bonds of such Series shall be registered as of their Issue Date in the names of the Owners thereof, in which case ownership may be transferred only as provided in this ordinance.

(d) **Lost or Stolen Bonds**. In case any Bond shall be lost, stolen or destroyed, the Bond Registrar may authenticate and deliver a new bond or bonds of like amount, date, tenor, and effect to the Registered Owner(s) thereof upon the Registered Owner(s)' paying the expenses and charges of the City in connection therewith and upon filing with the Bond Registrar evidence satisfactory to the Bond Registrar that such bond or bonds were actually lost, stolen or destroyed and of Registered Ownership thereof, and upon furnishing the City with indemnity satisfactory to both.

Section 7. **Payment of Bonds**.

(a) **Payment**. Each Bond shall be payable in lawful money of the United States of America on the dates and in the amounts as provided in the Bond Documents applicable to that Series. Principal of and interest on each Bond issued as a Parity Bond shall be payable solely out of the Parity Bond Account and shall not be a general obligation of the City. No Bonds of any Series shall be subject to acceleration under any circumstances.

(b) **Bonds Held In Book-Entry Form**. Principal of and interest on each Bond held in Book-Entry Form shall be payable in the manner set forth in the Letter of Representations.

(c) **Bonds Not Held In Book-Entry Form**. Interest on each Bond not held in Book-Entry Form shall be payable by electronic transfer on the interest payment date, or by check or draft of the Bond Registrar mailed on the interest payment date to the Registered Owner at the address appearing on the Bond Register on the Record Date. The City, however, is not required to make electronic transfers except pursuant to a request by a Registered Owner in writing received at least ten days prior to the Record Date and at the sole expense of the Registered Owner. Principal of each Bond not held in Book-Entry Form shall be payable upon presentation and surrender of the Bond by the Registered Owner to the Bond Registrar.

Section 8. **<u>Redemption and Purchase of Bonds</u>**.

(a) **Optional Redemption**. All or some of the Bonds may be subject to redemption prior to their stated maturity dates at the option of the City at the times and on the terms set forth in the applicable Bond Documents.

(b) **Mandatory Redemption**. All or some of the Bonds of any Series may be designated as Term Bonds, subject to mandatory redemption in Sinking Fund Requirements, as set forth in the applicable Bond Documents. If not redeemed or purchased at the City's option prior to maturity, Term Bonds (if any) must be redeemed, at a price equal to 100 percent of the principal amount to be redeemed plus accrued interest, on the dates and in the years and Sinking Fund Requirements as set forth in the applicable Bond Documents. If the City optionally redeems or purchases a Term Bond prior to maturity, the principal amount of that Term Bond that is so redeemed or purchased (irrespective of its redemption or purchase price) shall be credited against the remaining Sinking Fund Requirements for that Term Bond in the manner as directed by the Director of Finance. In the absence of direction by the Director of Finance, credit shall be allocated to the remaining Sinking Fund Requirements for that Term Bond on a *pro rata* basis.

(c) **Extraordinary Redemption Provisions**. All or some of the Bonds of any Series may be subject to extraordinary optional or extraordinary mandatory redemption prior to maturity upon the occurrence of an extraordinary event, at the prices, in the principal amounts, and on the dates, all as set forth in the applicable Bond Documents.

(d) **Selection of Bonds for Redemption; Partial Redemption**. If fewer than all of the outstanding Bonds are to be redeemed at the option of the City, the Director of Finance shall select the Series and maturity or maturities to be redeemed. If less than all of the principal amount of a maturity of the selected Series is to be redeemed, if such Series is held in Book-

Entry Form, the portion of such maturity to be redeemed shall be selected for redemption by the Securities Depository in accordance with the Letter of Representations, and if the Series is not then held in Book-Entry Form, the portion of such maturity to be redeemed shall be selected by the Bond Registrar randomly in such manner as the Bond Registrar shall determine. All or a portion of the principal amount of any Bond that is to be redeemed may be redeemed in any applicable Authorized Denomination. If less than all of the outstanding principal amount of any Bond is redeemed, upon surrender of that Bond to the Bond Registrar there shall be issued to the Registered Owner, without charge, a new Bond (or Bonds, at the option of the Registered Owner) of the same Series, maturity, and interest rate in any Authorized Denomination in the aggregate principal amount to remain outstanding.

(e) **Purchase**. The City reserves the right and option to purchase any or all of the Bonds at any time at any price acceptable to the City plus accrued interest to the date of purchase.

Section 9. **Notice of Redemption; Rescission of Notice**. Unless otherwise set forth in the applicable Bond Documents, the City must cause notice of any intended redemption of Bonds to be given not fewer than 20 nor more than 60 days prior to the date fixed for redemption by first class mail, postage prepaid, to the Registered Owner of any Bond to be redeemed at the address appearing on the Bond Register on the Record Date, and the requirements of this sentence shall be deemed to have been fulfilled when notice has been mailed as so provided, whether or not it is actually received by the Owner of any Bond. Interest on Bonds called for redemption shall cease to accrue on the date fixed for redemption unless the Bond or Bonds called are not redeemed when presented pursuant to the call.

In the case of an optional or extraordinary optional redemption, the notice may state that the City retains the right to rescind the redemption notice and the related optional redemption of

Bonds by giving a notice of rescission to the affected Registered Owners at any time on or prior to the scheduled optional redemption date. Any notice of optional redemption that is rescinded by the Director of Finance shall be of no effect, and the Bonds for which the notice of optional redemption has been rescinded shall remain outstanding.

Section 10. **Failure to Pay Bonds**. If any Bond is not paid when properly presented at its maturity or redemption date, the City shall be obligated to pay, solely from the Parity Bond Account and the other sources pledged in this ordinance, interest on that Bond at the same rate provided on that Bond from and after its maturity or redemption date until that Bond, including principal, redemption premium (if any), and interest, is paid in full or until sufficient money for its payment in full is on deposit in the Parity Bond Account and that Bond has been called for payment by giving notice of that call to the Registered Owner of that Bond.

Section 11. **Form and Execution of Bonds**. The Bonds shall be typed, printed, or reproduced in a form consistent with the provisions of this ordinance and State law; shall be signed by the Mayor and Director of Finance, either or both of whose signatures may be manual or in facsimile; and the seal of the City or a facsimile reproduction thereof shall be impressed or printed thereon.

Only Bonds bearing a certificate of authentication in substantially the following form (with the designation, year, and Series adjusted consistent with this ordinance), manually signed by the Bond Registrar, shall be valid or obligatory for any purpose or entitled to the benefits of this ordinance: "This Bond is one of the fully registered The City of Seattle, Washington, [Drainage and Wastewater Revenue Bonds], [Year], [Series], described in [this ordinance]." The authorized signing of a certificate of authentication shall be conclusive evidence that the Bond so authenticated has been duly executed, authenticated and delivered and is entitled to the benefits of this ordinance.

If any officer whose manual or facsimile signature appears on a Bond ceases to be an officer of the City authorized to sign bonds before the Bond bearing the officer's manual or facsimile signature is authenticated or delivered by the Bond Registrar or issued by the City, that Bond nevertheless may be authenticated, delivered and issued and, when authenticated, issued and delivered, shall be as binding on the City as though that person had continued to be an officer of the City authorized to sign bonds. Any Bond also may be signed on behalf of the City by any person who, on the actual date of signing of the Bond, is an officer of the City authorized to sign bonds, although that person did not hold the required office on the date of issuance of that Series of the Bonds.

Section 12. **Construction Account; Deposit of Proceeds**. An account to be known as the Drainage and Wastewater Construction Subaccount, 2022 is created in the Drainage and Wastewater Construction Account within the Drainage and Wastewater Fund. After depositing accrued interest (if any) into the Principal and Interest Subaccount and depositing amounts necessary to provide for the Reserve Requirement (if any) into the Reserve Subaccount, the remaining principal proceeds of the sale of a Series of the Bonds shall be deposited into the Construction Account (or such other fund or account as may be directed by the Director of Finance) to be used (a) to pay part of the costs of carrying out the Plan of Additions, and (b) to pay capitalized interest on (if necessary) and the costs of issuance of the Series. Until needed to pay such costs, the City may invest principal proceeds and interest thereon temporarily in any Permitted Investments, and the investment earnings may, as determined by the Director of

Finance, be either (a) retained in the Construction Account to be spent for the purposes of that account, or (b) deposited in the Parity Bond Account.

Section 13. **Security for the Bonds; Parity with Outstanding Parity Bonds**. The Bonds shall be special limited obligations of the City payable from and secured solely by the Net Revenue (including all ULID Assessments, if any) and money in the Parity Bond Account and the subaccounts therein, ***except that from and after the Reserve Covenant Date, money in the Reserve Subaccount shall secure only Covered Parity Bonds***. The Net Revenue (including all ULID Assessments, if any) is pledged to make the payments into the Parity Bond Account required by this ordinance. This pledge constitutes a charge and lien upon such Net Revenue prior and superior to all other liens and charges whatsoever.

The Bonds shall be issued on parity with the Outstanding Parity Bonds and all Future Parity Bonds, without regard to date of issuance or authorization and without preference or priority of right or lien. Nothing in this ordinance prevents the City from issuing revenue bonds or other obligations that are a charge or lien upon Net Revenue subordinate to the payments required to be made from Net Revenue into the Parity Bond Account and the subaccounts therein. The City covenants that, for as long as any Bond is outstanding, it will not issue any other revenue obligations (or create any special fund or account therefor), which will have any priority over or which will rank on a parity with the payments required in respect of the Parity Bonds, and that it will issue Future Parity Bonds only accordance with Section 17 of this ordinance.

The Bonds shall not constitute general obligations of the City, the State, or any political subdivision of the State or a charge upon any general fund or upon any money or other property of the City, the State or any political subdivision of the State not specifically pledged by this ordinance.

Section 14. **Priority Expenditure of Gross Revenue; Flow of Funds**. Gross Revenue shall be deposited as received in the Drainage and Wastewater Fund and used for the following purposes only, in the following order of priority:

(a) To pay the Operating and Maintenance Expense;

(b) To make all payments into the Principal and Interest Subaccount required to be made in order to pay the interest on and principal of all Parity Bonds (including all net payments under Parity Payment Agreements) when due;

(c) To make all payments required to be made into the Reserve Subaccount with respect to Parity Bonds secured by the Reserve Subaccount;

(d) To make all payments required to be made into any revenue bond, note, warrant or other revenue obligation redemption fund, debt service account, or reserve account created to pay and secure the payment of the principal of and interest on any revenue bonds or short-term obligations of the City having a charge and lien upon Net Revenue subordinate to the lien thereon for the payment of the principal of and interest on the Parity Bonds; and

(e) Without priority, to any of the following purposes: to retire by redemption or purchase any outstanding revenue bonds or revenue obligations of the Drainage and Wastewater System; to make necessary additions, betterments, improvements, or repairs to, or extensions and replacements of the Drainage and Wastewater System; to pay City taxes or other payments in lieu of taxes payable from Gross Revenue; to make deposits to the Rate Stabilization Account; or for any other lawful purpose of the Drainage and Wastewater System.

Section 15. **<u>Parity Bond Account</u>**. A special account of the City known as the Parity Bond Account has been previously created and shall be maintained as a separate account within the Drainage and Wastewater Fund, for the sole purpose of paying the principal of and premium, if any, and interest on the Parity Bonds as the same shall become due. The Parity Bond Account consists of the Principal and Interest Subaccount and the Reserve Subaccount, and may additionally include such subaccounts as the Director of Finance may deem necessary, so long as the maintenance of such subaccounts does not conflict with the rights of the owners of Parity Bonds. Principal of, premium (if any) and interest on the Parity Bonds shall be payable out of the Parity Bond Account.

(a) **Required Payments Into the Parity Bond Account**. So long as any Parity Bonds are outstanding (including amounts required under any Parity Payment Agreement), the City shall set aside and pay into the Parity Bond Account all ULID Assessments on their collection and, out of Net Revenue, certain fixed amounts without regard to any fixed proportion, namely:

(i) Into the Principal and Interest Subaccount on or before each date on which interest on or principal of Parity Bonds (including Sinking Fund Requirements and net payments under any Parity Payment Agreements) shall become due and payable, an amount that will be sufficient, together with other money on deposit therein, to pay such principal, interest, Sinking Fund Requirements, and net payments then due on Parity Payment Agreements as the same shall become due; and

(ii) Into the Reserve Subaccount an amount necessary to provide for the Reserve Requirement within the time and in the manner required by this ordinance and the Bond Sale Terms. The amount necessary, if any, to satisfy the Reserve Requirement upon the issuance of a Series of the Bonds may be funded (A) on the Issue Date, by a deposit of bond sale proceeds, available funds of the Drainage and Wastewater System, or a Reserve Security; or (B) in annual installments from Net Revenue so that the Reserve Requirement is fully funded by no later than the fifth anniversary of the Issue Date of such Series. The manner of funding the Reserve Requirement for the Bonds shall be set forth in the Bond Sale Terms.

To meet the required payments to be made into the Parity Bond Account, the Director of Finance may transfer any money from any funds or accounts of the City legally available therefor, except bond redemption funds, refunding escrow funds or defeasance funds. The Director of Finance may provide for the purchase, redemption or defeasance of any Parity Bonds by the use of money on deposit in any subaccount in the Parity Bond Account as long as the money remaining in those subaccounts is sufficient to satisfy the required deposits in those subaccounts for the remaining Parity Bonds.

(b) **Reserve Subaccount**. The Reserve Subaccount previously has been created and maintained as a subaccount within the Parity Bond Account for the purpose of securing the payment of the principal of and interest on all Parity Bonds outstanding (including amounts due under any Parity Payment Agreements if required under such agreement). The City covenants that it will at all times, so long as any Covered Parity Bonds are outstanding, maintain the Reserve Subaccount at the Reserve Requirement (taking into account scheduled payments to fund the Reserve Requirement over time), as it is adjusted from time to time, except for withdrawals as authorized by this ordinance. Any withdrawals authorized below from subaccounts within the Reserve Subaccount shall be made on a pro rata basis except if the provider of a Reserve Security requires all cash and investments in the Reserve Subaccount to be withdrawn before draws on the Reserve Security, or unless the City receives an opinion of Bond

Counsel to the effect that such pro rata withdrawal is not required to maintain the exclusion of interest on the Parity Bonds then outstanding from gross income for federal income tax purposes.

(i) **Use of Reserve Subaccount for Payment of Debt Service**. In the event of a deficiency in the Principal and Interest Subaccount to meet current installments of either principal (including Sinking Fund Requirements) or interest (including amounts payable under any Parity Payment Agreement), the Director of Finance may make withdrawals of money or proceeds of Reserve Security in the Reserve Subaccount. ***From and after the Reserve Covenant Date, the withdrawals authorized by this paragraph shall be limited to the amounts necessary to meet current installments of either principal (or Sinking Fund Requirements) or interest (including net payments under Parity Payment Agreements) with respect to Covered Parity Bonds.*** Any deficiency created in the Reserve Subaccount by reason of any such withdrawal or claim against a Reserve Security shall then be made up from the ULID Assessments and Net Revenue first available after making necessary provisions for the required payments into the Principal and Interest Subaccount.

(ii) **Application of Funds in Reserve Account**. The money in the Reserve Subaccount may be applied to the payment of the last outstanding Covered Parity Bonds, and when the total amount in the Parity Bond Account (including investment earnings) equals the total amount of principal and interest for all then-outstanding Covered Parity Bonds to the last maturity thereof, no further payment need be made into the Parity Bond Account in respect of the Covered Parity Bonds. Money in the Reserve Subaccount (including investment earnings) in excess of the Reserve Requirement may be withdrawn and deposited in the Principal and Interest Subaccount and spent for the purpose of retiring Covered Parity Bonds or may be deposited in any other fund or account and spent for any other lawful Drainage and Wastewater System purpose.

(c) **Investment of Money in Parity Bond Account**. All money in the Parity Bond Account may be kept in cash or invested in Permitted Investments maturing not later than the date when needed (for investments in the Principal and Interest Subaccount) or the last maturity of any outstanding Parity Bonds (for investments in the Reserve Subaccount). In no event shall any money in the Parity Bond Account or any other money reasonably expected to be used to pay principal of and/or interest on the Parity Bonds be invested at a yield which would cause any Series issued as Tax-Exempt Bonds or Tax Credit Subsidy Bonds to be arbitrage bonds within the meaning of Section 148 of the Code. Income from investments in the Principal and Interest Subaccount shall be deposited in that subaccount. Income from investments in the Reserve Subaccount shall be deposited in that subaccount until the amount therein is equal to the Reserve Requirement for all Parity Bonds, and thereafter shall be deposited in the Principal and Interest Subaccount. Notwithstanding the provisions for deposit or retention of earnings in the Parity Bond Account, any earnings which are subject to a federal tax or rebate requirement may be withdrawn from the Parity Bond Account for deposit in a separate fund or account for that purpose. If no longer required for such rebate, money in that separate fund or account shall be returned to the Parity Bond Account.

(d) **Failure to Deposit Money in Parity Bond Account**. If the City fails to set aside and pay into the Parity Bond Account, or the subaccounts therein, the amounts set forth in this section, the registered owner of any of the outstanding Parity Bonds may bring action against the City for failure to make the required deposits to the Parity Bond Account only in accordance with Section 25 of this ordinance regarding Events of Default.

Section 16. **Parity Bond Covenants**. The City covenants with the Owner of each Bond at any time outstanding, as follows:

(a) **Operation and Maintenance of the Drainage and Wastewater System**. The City will pay all Operating and Maintenance Expense and otherwise meet the obligations of the City under this ordinance. It will at all times maintain and keep the Drainage and Wastewater System in good repair, working order and condition, will make all necessary and proper additions, betterments, renewals and repairs thereto, and improvements, replacements and extensions thereof so that at all times the business carried on in connection therewith will be properly and advantageously conducted, and will at all times operate or cause to be operated the Drainage and Wastewater System and the business in connection therewith in an efficient manner and at a reasonable cost.

(b) **Establishment and Collection of Rates and Charges**. The City will establish, maintain, revise as necessary, and collect rates and charges for services and facilities provided by the Drainage and Wastewater System so that Adjusted Net Revenue in each fiscal year will be at least equal to the Coverage Requirement. The failure of the City to comply with this subsection shall not be an Event of Default if the City promptly retains an Independent Utility Consultant to recommend to the City Council adjustments in the rates of the Drainage and Wastewater System necessary to meet the requirements of this subsection and if the City Council adopts the recommended modifications within 180 days of the date the failure became known to the City Council.

(c) **Sale or Disposition of Drainage and Wastewater System**. The City will not sell, lease, mortgage, or in any manner encumber or dispose of all of the property of the Drainage and Wastewater System unless provision is made for the payment into the Parity Bond Account of an amount sufficient to pay the principal of (including redemption premium, if any) and interest on Parity Bonds then outstanding; and it will not sell, lease, mortgage, or in any manner encumber or dispose of (each a "transfer") any part of the property of the Drainage and Wastewater System that is used, useful and material to the operation thereof, except consistent with one or more of the following:

(i) If provision is made for replacement thereof, or for payment into the Parity Bond Account of the total amount of Gross Revenue received from the portion of the Drainage and Wastewater System transferred, which shall not be less than an amount which shall bear the same ratio to the amount of Parity Bonds then outstanding as the Gross Revenue available for debt service for such outstanding bonds for the 12 months preceding such transfer from the portion of the Drainage and Wastewater System so transferred bears to the Gross Revenue available for debt service for the then outstanding Parity Bonds from the entire Drainage and Wastewater System of the City for the same period. Any such money so paid into the Parity Bond Account shall be used to retire such Parity Bonds at the earliest possible date; or

(ii) If the aggregate depreciated cost value of the property being transferred under this subsection in any fiscal year comprises no more than 5 percent of the total assets of the Drainage and Wastewater System; or

(iii) If the proceeds from such transfer are used to acquire new useful operating facilities or properties of the Drainage and Wastewater System, or are used to retire outstanding Parity Bonds or other revenue obligations of the Drainage and Wastewater System, and if, at the time of such transfer, the City has on file a certificate of both the Director of Finance and the Director of Seattle Public Utilities (or any officer who succeeds to substantially all of the responsibilities of either office) demonstrating that in their opinion, upon such transfer and the use of proceeds of the transfer as proposed by the City, the remaining facilities of the Drainage and Wastewater System will retain their operational integrity and, based on the financial statements for the most recent fiscal year available, the proposed transfer would not prevent the Drainage and Wastewater System from complying with the Coverage Requirement during the five fiscal years following the fiscal year in which the transfer is to occur. The certificate shall take into account (A) the reduction in revenue and expenses, if any, resulting from the transfer; (B) the use of any proceeds of the transfer for the redemption of Parity Bonds; (C) the estimate of revenue from customers anticipated to be served by any additions to and betterments and extensions of the Drainage and Wastewater System financed in part by the proposed portion of the proceeds of the transfer; and (D) any other adjustment permitted in the preparation of a certificate under subsection 17(b) of this ordinance. Before such a transfer, the City also must obtain confirmation from each of the Rating Agencies to the effect that the rating then in effect will not be reduced or withdrawn upon such transfer.

(d) **Books and Records**. The City will keep proper and separate accounts and records in which complete and separate entries shall be made of all transactions relating to the Drainage and Wastewater System, and it will furnish the Registered Owner(s) of the Bonds or any subsequent Registered Owner(s) thereof, at the written request of such Registered Owner(s), complete operating and income statements of the Drainage and Wastewater System in reasonable detail covering any fiscal year not more than six months after the close of such fiscal year, and it will grant any Registered Owner(s) of at least 25 percent of the outstanding Bonds the right at all reasonable times to inspect the entire Drainage and Wastewater System and all records, accounts and data of the City relating thereto. Upon request of any Registered Owner of any of the Bonds, it also will furnish to such Registered Owner a copy of the most recently completed audit of the Drainage and Wastewater System's accounts by the State Auditor.

Section 17. **Future Parity Bonds**.

(a) **Issuance of Future Parity Bonds**. The City reserves the right to issue Future Parity Bonds and to enter into Parity Payment Agreements for any lawful purpose of the Drainage and Wastewater System (including for the purpose of refunding a portion of the then-outstanding Parity Bonds) only if, at the time of the issuance of such series of Future Parity Bonds (or upon the effective date of the Parity Payment Agreement), the following conditions are satisfied:

(i) There must be no deficiency in the Parity Bond Account, and no Event of Default with respect to any Parity Bonds shall have occurred and be continuing.

(ii) The Bond Documents must provide that all ULID Assessments shall be paid directly into the Parity Bond Account.

(iii) The Bond Documents must provide for the payment of the principal thereof and the interest thereon out of the Parity Bond Account.

(iv) The Bond Documents must provide for the payment of any Sinking Fund Requirements from money in the Principal and Interest Subaccount.

(v) For each series of Future Parity Bonds that is to be issued as a series of Covered Parity Bonds, the Bond Documents must provide for the deposit into the Reserve Subaccount of an amount, if any, necessary to fund the Reserve Requirement upon the issuance of those Future Parity Bonds (if any), which requirement may be satisfied: (A) by a deposit, made on the Issue Date of such series, of proceeds of that series of Future Parity Bonds or other money legally available for such purpose; (B) by obtaining one or more Reserve Securities (or a deposit of cash plus Reserve Securities) available to be drawn upon in specific amounts to be paid into the Reserve Subaccount and credited against the deposits required to be maintained in the Reserve Subaccount; or (C) by a deposit of amounts necessary to fund the Reserve Requirement from ULID Assessments and Net Revenue within five years from the date of issuance of those Future Parity Bonds, in five approximately equal annual payments. Immediately prior to the issuance of Future Parity Bonds, amounts then deposited in the Reserve Subaccount shall be valued as determined on the most recent annual financial report of the City applicable to the Drainage and Wastewater System, and the additional amounts, if any, required to be deposited into the Reserve Subaccount to satisfy the Reserve Requirement shall be based on that valuation.

(vi) There must be on file with the City a Parity Certificate as described in subsection (b). However, if the proposed Future Parity Bonds (or any portion thereof) are to be issued for the purpose of refunding outstanding Parity Bonds (referred to as the "Refunding Parity Bonds"), no Parity Certificate shall be required as to that portion issued for refunding purposes if the Director of Finance finds and certifies that the Adjusted Annual Debt Service on the refunding portion of the proposed Refunding Parity Bonds is not more than $5,000 greater than the Adjusted Annual Debt Service on the Parity Bonds to be refunded thereby. Alternatively, Refunding Parity Bonds may be issued upon delivery of a Parity Certificate.

(b) **Parity Certificate**. A Parity Certificate required under subsection (a)(vi) may be provided as follows:

(i) A certificate may be prepared and signed by the Director of Finance, demonstrating that during any 12 consecutive calendar months out of the immediately preceding 24 calendar months Adjusted Net Revenue was at least equal to the Coverage Requirement for all Parity Bonds plus the Future Parity Bonds proposed to be issued (and assuming that the debt service of the proposed Future Parity Bonds for that 12-month period was the Average Annual Debt Service for those proposed Future Parity Bonds); or

(ii) A certificate may be prepared and signed by both the Director of Finance and the Director of Seattle Public Utilities (or any officer who succeeds to substantially all of the responsibilities of either office), demonstrating that, in their opinion, Adjusted Net Revenue for the five fiscal years next following the earlier of (A) the end of the period during which interest on those Future Parity Bonds is to be capitalized or, if no interest is capitalized, the fiscal year in which the Future Parity Bonds are issued, or (B) the date on which substantially all the new facilities financed with those Future Parity Bonds are expected to commence operations, such Adjusted Net Revenue, further adjusted as provided in subsections (b)(ii)(1) through (4), will be at least equal to the Coverage Requirement. That certificate may take into account the following adjustments:

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

(2) Net revenue from customers of the Drainage and Wastewater System who have become customers during the 12-consecutive-month period or thereafter, and their estimate of net revenue from any customers to be connected to the Drainage and Wastewater System who have paid the required connection charges, adjusted to reflect one year's net revenue from those customers;

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

(4) Net revenue from any person, firm, corporation or municipal corporation under any executed contract for drainage and wastewater or other utility service, which revenue was not included in historical Net Revenue of the Drainage and Wastewater System.

(c) **Other Provisions**. Nothing contained in this ordinance shall prevent the City from issuing Future Parity Bonds to refund maturing Parity Bonds, money for the payment of which is not otherwise available, or revenue bonds that are a charge or lien upon Net Revenue subordinate to the charge or lien of the Parity Bonds, or from pledging to pay Net Revenue and/or assessments levied for ULID improvements constructed from the proceeds of subordinate lien bonds into a bond redemption fund created for the payment of the principal of and interest on subordinate lien bonds.

(d) **Effect of Issuance of Future Parity Bonds**. If the Parity Conditions are met and complied with at the time of the issuance of such Future Parity Bonds, then payments into the Parity Bond Fund with respect to such Future Parity Bonds shall rank equally with the payments out of the Net Revenue required to be made into the Parity Bond Fund by this ordinance. Nothing set forth herein shall prevent the City from (i) issuing revenue bonds or other obligations that are a charge upon the Net Revenue junior and inferior to the payments required to be made therefrom into the Parity Bond Fund for the payment of the Parity Bonds, provided that such subordinate bonds may not be subject to acceleration under any circumstances; or (ii) issuing Refunding Parity Bonds for the purpose of refunding Outstanding Parity Bonds, upon compliance with the Parity Conditions set forth in this section.

(e) **Reserve Requirement; Election Not to Designate Bonds as Covered Parity Bonds**. Notwithstanding anything in this section to the contrary, the City may elect, by reflecting such election in the Bond Sale Terms relating to the issuance or sale of a series of Future Parity Bonds, that, from and after the Reserve Covenant Date, such series shall not be deemed to be a series of Covered Parity Bonds, shall not be secured by the amounts in the Reserve Account, and shall be excluded from the calculation of the Reserve Requirement.

Section 18. **Rate Stabilization Account**. The Rate Stabilization Account has been created as a separate account in the Drainage and Wastewater Fund. The City may at any time, as determined by the Director of Finance and consistent with the flow of funds set forth in Section 14 of this ordinance, deposit in the Rate Stabilization Account Gross Revenue and any other money received by the Drainage and Wastewater System and available for this purpose. The Director of Finance may, upon authorization by the City Council, withdraw any or all of the money in the Rate Stabilization Account for inclusion in Adjusted Gross Revenue for any fiscal year of the City. Such deposits or withdrawals may be made up to and including the date 90 days after the end of the fiscal year for which the deposit or withdrawal will be included as Adjusted Gross Revenue. No deposit of Gross Revenue may be made into the Rate Stabilization Account to the extent that such deposit would prevent the City from meeting the Coverage Requirement in the relevant fiscal year.

Section 19. **Separate Utility Systems**. The City may create, acquire, construct, finance, own and operate one or more additional systems for drainage and wastewater service or other commodity or service relating to the Drainage and Wastewater System. The revenue of that separate utility system shall not be included in Gross Revenue and may be pledged to the payment of revenue obligations issued to purchase, construct, condemn or otherwise acquire or expand the separate utility system. Neither Gross Revenue nor Net Revenue shall be pledged by the City to the payment of any obligations of a separate utility system except (a) as a Contract

Resource Obligation, upon compliance with Section 20 of this ordinance, or (b) with respect to the Net Revenue, on a basis subordinate to the lien of the Parity Bonds on that Net Revenue.

Section 20. **Contract Resource Obligations**. The City may at any time enter into one or more Contract Resource Obligations for the acquisition, from facilities to be constructed, of drainage and wastewater services or other commodity or service relating to the Drainage and Wastewater System, as follows:

(a) The City may determine that, and may agree under a Contract Resource Obligation to provide that, all payments under that Contract Resource Obligation (including payments prior to the time that drainage and wastewater services or other commodity or service is being provided, or during a suspension or after termination of supply or service) shall be an Operating and Maintenance Expense if the following requirements are met at the time such a Contract Resource Obligation is entered into:

(i) No Event of Default has occurred and is continuing; and

(ii) There shall be on file a certificate of an Independent Utility Consultant stating that (A) the payments to be made by the City in connection with the Contract Resource Obligation are reasonable for the commodity or service rendered; (B) any facilities to be constructed to provide the commodity or service are sound from a drainage and wastewater services or other commodity or service planning standpoint, are technically and economically feasible in accordance with prudent utility practice, and are likely to provide such commodity or service no later than a date set forth in the Independent Utility Consultant's certification; and (C) Adjusted Net Revenue (further adjusted by the Independent Utility Consultant's estimate of the payments to be made in accordance with the Contract Resource Obligation) for the five fiscal years following the year in which the Contract Resource Obligation is incurred, as such Adjusted

Net Revenue is estimated by the Independent Utility Consultant in accordance with the provisions of and adjustments permitted in subsection 17(b) of this ordinance, will be at least equal to the Coverage Requirement.

(b) Payments required to be made under Contract Resource Obligations shall not be subject to acceleration.

(c) Nothing in this section shall be deemed to prevent the City from entering into other agreements for the acquisition of drainage and wastewater services or other commodity or service from existing facilities and from treating those payments as an Operating and Maintenance Expense. Nothing in this section shall be deemed to prevent the City from entering into other agreements for the acquisition of drainage and wastewater services or other commodity or service from facilities to be constructed and from agreeing to make payments with respect thereto, such payments constituting a charge and lien on Net Revenue subordinate to that of the Parity Bonds.

Section 21. **Refunding and Defeasance of the Bonds**.

(a) **Bonds Designated as Refundable and Defeasible Bonds**. Each Series of the Bonds is designated as a series of "Refundable Bonds" for purposes of the Omnibus Refunding Ordinance and as "Defeasible Bonds" for purposes of the Omnibus Defeasance Ordinance.

(b) **Refunding; Defeasance**. The City may issue Refunding Parity Bonds pursuant to the laws of the State or use money available from any other lawful source (i) to pay when due the principal of (including premium, if any) and interest on any Bond, or any portion thereof, included in a refunding or defeasance plan (the "Defeased Bonds"); (ii) to redeem and retire, release, refund, or defease the Defeased Bonds; and (iii) to pay the costs of such refunding or defeasance. If money and/or Government Obligations maturing at a time or times and in an amount sufficient (together with known earned income from the investment thereof) to redeem and retire, release, refund, or defease the Defeased Bonds in accordance with their terms is set aside in a special trust fund or escrow account irrevocably pledged to such redemption, retirement, or defeasance (the "Trust Account"), then all right and interest of the Owners of the Defeased Bonds in the covenants of this ordinance and in Net Revenue and the funds and accounts pledged to the payment of such Defeased Bonds, other than the right to receive the funds so set aside and pledged, thereafter shall cease and become void. Such Owners thereafter shall have the right to receive payment of the principal of and interest or redemption price on the Defeased Bonds from the Trust Account. After establishing and fully funding such a Trust Account, the Defeased Bonds shall be deemed to be no longer outstanding, and the Director of Finance may then apply any money in any other fund or account established for the payment or redemption of the Defeased Bonds to any lawful purpose.

(c) **Notice of Defeasance or Refunding**. Unless otherwise specified in the Bond Documents, notice of refunding or defeasance shall be given, and selection of Bonds for any partial refunding or defeasance shall be conducted, in the manner set forth in this ordinance for the redemption of Bonds.

(d) **Annual Debt Service Calculation Adjustments for Defeased Bonds.** If the refunding or defeasance plan provides (i) that the Defeased Bonds (or the Refunding Parity Bonds issued to redeem those Defeased Bonds) are to be secured by money and/or Government Obligations pending the redemption of the Defeased Bonds, and (ii) that certain money and/or Government Obligations are pledged irrevocably for the redemption of the Defeased Bonds, then only the debt service on such Bonds as are not Defeased bonds (and any Refunding Parity

Bonds, the payment of which is not so secured by the refunding plan) shall be included in the calculation of Annual Debt Service.

Section 22. **Provisions Relating to Federal Tax Issues**. The Bond Documents may include such additional terms and covenants relating to federal tax matters as the Director of Finance deems necessary or appropriate, including the following:

(a) **Tax-Exempt Bonds**. For each Series of the Bonds issued as Tax-Exempt Bonds, the City covenants that it will take all actions, consistent with the terms of such Series as set forth in the applicable Bond Documents that are reasonably within its power and necessary to prevent interest on that Series from being included in gross income for federal income tax purposes. The City further covenants that it will neither take any action nor make or permit any use of gross proceeds of that Series (or other funds of the City treated as gross proceeds of that Series) at any time during the term of such Series that will cause interest on such Series to be included in gross income for federal income tax purposes. The City also covenants that, to the extent the arbitrage rebate requirement of Section 148 of the Code is applicable to any Series issued as Tax-Exempt Bonds, it will take all actions necessary to comply (or to be treated as having complied) with that requirement in connection with that Series (including the calculation and payment of any penalties that the City may elect to pay as an alternative to calculating rebatable arbitrage and the payment of any other penalties if required under Section 148 of the Code) to prevent interest on such Series from being included in gross income for federal income tax purposes.

(b) **Taxable Bonds; Tax Credit Subsidy Bonds**. For each Series of the Bonds issued as Taxable Bonds or as Tax Credit Subsidy Bonds, the Director of Finance is authorized to make provision in the Bonds and other Bond Documents, to execute additional written agreements, and to make additional covenants on behalf of the City, all as the Director may deem necessary or appropriate in order to obtain, maintain, and administer such tax status. In the case of Tax Credit Subsidy Bonds, such additional covenants and agreement may include (without limiting the generality of the foregoing) those necessary in order for the City (i) to receive from the United States Treasury the applicable Tax Credit Subsidy Payments in respect of such Tax Credit Subsidy Bonds, and (ii) to ensure that such Series otherwise become and remain eligible for tax benefits under the Code.

Section 23. **Official Statement; Continuing Disclosure**.

(a) **Preliminary Official Statement**. The Director of Finance and other appropriate City officials are directed to cause the preparation of and review the form of a preliminary official statement in connection with each sale of one or more Series to the public. For the sole purpose of the Purchaser's compliance with paragraph (b)(1) of Rule 15c2-12, the Director of Finance is authorized to deem that preliminary official statement final as of its date, except for the omission of information permitted to be omitted by Rule 15c2-12. The City approves the distribution to potential purchasers of the Bonds of a preliminary official statement that has been deemed final in accordance with this subsection.

(b) **Final Official Statement**. The City approves the preparation of a final official statement for each sale of one or more Series to be sold to the public in the form of the preliminary official statement with such modifications and amendments as the Director of Finance deems necessary or desirable, and further authorizes the Director of Finance to execute and deliver such final official statement to the Purchaser. The City authorizes and approves the distribution by the Purchaser of that final official statement to purchasers and potential purchasers of the Bonds.

(c) **Undertaking to Provide Continuing Disclosure**. To meet the requirements of paragraph (b)(5) of Rule 15c2-12, as applicable to a participating underwriter for a Series of the Bonds, the Director of Finance is authorized to execute a written Continuing Disclosure Agreement with respect to that Series, in substantially the form attached to this ordinance as Exhibit B.

Section 24. **Supplemental or Amendatory Bond Documents**. This ordinance and the other applicable Bond Documents for any particular Series of the Bonds may not be supplemented or amended in any respect subsequent to the Issue Date of such Series, except in accordance with and subject to the provisions of this section.

(a) **Amendments Without Bond Owner Consent**. From time to time and at any time, without the consent of or notice to any owners of Parity Bonds, the City may supplement or amend the Bond Documents applicable to any Series of the Bonds for any of the purposes set forth in this subsection (a). Any such supplement or amendment may be passed, adopted, or otherwise approved by the City, without requiring the consent of the registered owners of any Parity Bonds, but may become effective only upon receipt by the City of an opinion of Bond Counsel stating that such supplement or amendment is authorized or permitted by this ordinance and, upon the effective date thereof, will be valid and binding upon the City in accordance with its terms, and will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the affected Series of the Bonds, if such Series was issued and sold as Tax-Exempt Bonds. The types of supplements and amendments permitted under this subsection (a) are as follows:

(i) To cure any formal defect, omission, inconsistency, or ambiguity in the Bond Documents for such Series in a manner not adverse to the owners of any Parity Bonds;

(ii) To impose upon the Bond Registrar (with its consent) for the benefit of the owners of Parity Bonds any additional rights, remedies, powers, authority, security, liabilities, or duties which may lawfully be granted, conferred, or imposed and which are not contrary to or inconsistent with such Bond Documents as theretofore in effect;

(iii) To add to the covenants and agreements of, and limitations and restrictions upon, the City in the Bond Documents, other covenants, agreements, limitations and restrictions to be observed by the City which are not contrary to or inconsistent with such Bond Documents as theretofore in effect;

(iv) To confirm, as further assurance, any pledge under (and the subjection to any claim, lien, or pledge created or to be created by) such Bond Documents on any other money, securities, or funds;

(v) To alter the Authorized Denominations of a Series of the Bonds and to make correlative amendments and modifications to the applicable Bond Documents regarding (A) exchangeability of such Bonds for Bonds of different authorized denominations, (B) redemptions of portions of Bonds of particular authorized denominations, and (C) similar amendments and modifications of a technical nature;

(vi) To comply with any future federal law or interpretation to preserve the exclusion of the interest on any Series of the Bonds issued and sold as Tax-Exempt Bonds from gross income for federal income tax purposes and the entitlement of the City to receive from the United States Treasury the applicable Tax Credit Subsidy Payments in respect of any Series of the Bonds issued and sold as Tax Credit Subsidy Bonds;

(vii) To modify, alter, amend, or supplement the Bond Documents in any other respect which is not materially adverse to the owners of the Parity Bonds and does not involve a change described in subsection (c); and

(viii) To add to the covenants and agreements of (or limitations and restrictions upon) the City set forth in any Bond Documents, such additional or alternative covenants, agreements, limitations, or restrictions to be observed by the City as the City may determine are necessary or convenient to accommodate a provider of Qualified Insurance or provider of a Reserve Security and are not materially adverse to the owners of the Parity Bonds.

(b) **Amendments With Bond Owner Consent**. With the consent of registered owners of not less than 60 percent in aggregate principal amount of the Parity Bonds then outstanding, the City may pass, adopt, or otherwise approve any supplement or amendment (other than amendments requiring unanimous consent as set forth in subsection (c)) to any Bond Document that is deemed necessary or desirable by the City for the purpose of modifying, altering, amending, supplementing, or rescinding, in any particular, any of the terms or provisions contained in such Bond Document other than those terms and provisions described in subsection (c).

(c) **Amendments Prohibited Except Upon Unanimous Consent**. Unless approved in writing by or on behalf of the registered owner of each Parity Bond then outstanding, nothing contained in this section shall permit, or be construed as permitting (i) a change in the times, amounts, or currency of payment of the principal of or interest on any outstanding Parity Bond, (ii) a reduction in the principal amount or redemption price of any outstanding Parity Bond, (iii) a change in the method of determining the rate of interest thereon (other than a conversion to a new interest rate mode in accordance with the applicable Bond Documents), (iv) a preference or priority of any Parity Bond over any other Parity Bond, or (v) a reduction in the percentage of the aggregate principal amount of the then-outstanding Parity Bonds required to effect a change under subsection (b).

(d) **Notice to Bond Owners**. If at any time the City passes, adopts, or otherwise approves a supplement or amendment for any of the purposes of subsection (b) or (c), the Bond Registrar shall cause notice of the proposed supplement or amendment to be given by first class mail (i) to all registered owners of the then outstanding Parity Bonds, (ii) to each provider of Bond Insurance or a Reserve Security, and (iii) to each Rating Agency. Such notice shall briefly set forth the nature of the proposed supplement or amendment and shall state that a copy is on file at the office of the City Clerk for inspection by all owners of the then outstanding Parity Bonds.

(e) **Effective Date; Consents**. Any supplement or amendment, substantially as described in the notice mailed pursuant to subsection (d), may go into effect upon delivery to the Bond Registrar of (i) the required consents, in writing, of registered owners of the Parity Bonds, and (ii) an opinion of Bond Counsel stating that such supplement or amendment is authorized or permitted by this ordinance. Upon the effective date thereof, such supplement or amendment will be valid and binding upon the City in accordance with its terms and will not adversely affect the exclusion from gross income for federal income tax purposes of interest on any Tax-Exempt Bonds.

If registered owners of not less than the percentage of Parity Bonds required by this section shall have consented to and approved such a supplement or amendment, no owner of any Parity Bond shall have any right (i) to object to the passage, adoption, or approval of such supplement or amendment, (ii) to object to any of the terms and provisions contained therein or the operation thereof, (iii) in any manner to question the propriety of the passage, adoption, or approval thereof, (iv) to enjoin or restrain the City from passing, adopting, or otherwise approving the same, or (v) to enjoin or restrain the City, any authorized official thereof, or the Bond Registrar from taking any action pursuant to the provisions thereof. For purposes of determining whether consents representing the requisite percentage of principal amount of Parity Bonds have been obtained, the Accreted Value of Capital Appreciation Bonds shall be deemed to be the principal amount. It shall not be necessary to obtain approval of the particular form of any proposed supplement, but it shall be sufficient if the consent shall approve the substance thereof.

(f) **Effect of Amendment**. Upon the effective date of any supplement or amendment, this ordinance (or the relevant Bond Document, if not set forth herein) shall be deemed to be modified and amended in accordance therewith, and the respective rights, duties and obligations of the City and all owners of Parity Bonds then outstanding shall thereafter be determined, exercised, and enforced in accordance with and subject in all respects to such modifications and amendments. All the terms and conditions of any such supplement or amendment shall be deemed to be a part of this ordinance and the Bond Documents for any and all purposes.

(g) **Special Amendments**. If and to the extent that it is determined that the written consent of Registered Owners of the Bonds is required under subsection (b) or (c) of this section, the Registered Owners from time to time of the Bonds, by taking and holding the same, are deemed to have consented to any supplement or amendment to the Bond Documents effecting any one or more of the following changes:

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

(ii) To permit or require Tax Credit Subsidy Payments to be deposited into the Principal and Interest Subaccount and credited against the Net Revenue otherwise required to be deposited into the Principal and Interest Subaccount; and

(iii) To permit the reimbursement obligations of the City under any Qualified Letter of Credit or Qualified Insurance (other than a Qualified Letter of Credit or Qualified Insurance obtained to satisfy all or part of the Reserve Requirement) to be secured by a lien and charge on Net Revenue equal in rank with the lien and charge upon such Net Revenue required to be paid into the Parity Bond Account to pay and secure the payment of the principal of and interest on Parity Bonds.

Section 25. **Defaults and Remedies**.

(a) **Events of Default**. Each of the following shall constitute an Event of Default with respect to the Bonds:

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

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

Notwithstanding anything in this section to the contrary, the failure of the City or any obligated person to comply with the Continuing Disclosure Agreement shall not constitute an Event of Default, and the sole remedy of any holder of a Bond shall be to seek an order of specific performance from an appropriate court to compel the City to comply with the Continuing Disclosure Agreement.

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

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

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

(c) **Suits at Law or in Equity**. Upon the occurrence of an Event of Default and during the continuance thereof, the Bond Owners' Trustee may, and upon the written request of the registered owners of not less than 25 percent in principal amount of the Parity Bonds outstanding shall, take such steps and institute such suits, actions or other proceedings, all as it may deem appropriate for the protection and enforcement of the rights of the registered owners of the Parity Bonds, to collect any amounts due and owing to or from the City, or to obtain other appropriate relief, and may enforce the specific performance of any covenant, agreement or condition contained in this ordinance or set forth in any of the Parity Bonds.

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

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

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

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

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

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

(e) **Duties and Obligations of Bond Owners' Trustee**. The Bond Owners' Trustee shall not be liable except for the performance of such duties as are specifically set forth herein. During an Event of Default, the Bond Owners' Trustee shall exercise such of the rights and powers vested in it hereby, and shall use the same degree of care and skill in its exercise, as a prudent person would exercise or use under the circumstances in the conduct of such person's own affairs. The Bond Owners' Trustee shall have no liability for any act or omission to act hereunder except for the Bond Owners' Trustee's own negligent action, its own negligent failure to act or its own willful misconduct. The duties and obligations of the Bond Owners' Trustee shall be determined solely by the express provisions of this ordinance, and no implied powers, duties or obligations of the Bond Owners' Trustee shall be read into this ordinance.

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

The Bond Owners' Trustee shall not be bound to recognize any person as a registered owner of any Parity Bond until registered ownership, if disputed, has been established to its reasonable satisfaction.

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

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

(i) an Event of Default has happened and is continuing; and

(ii) a Bond Owners' Trustee has been appointed; and

(iii) such owner previously shall have given to the Bond Owners' Trustee written notice of the Event of Default on account of which such suit, action or proceeding is to be instituted; and

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

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

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

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

Section 26. **General Authorization**. In addition to the specific authorizations in this ordinance, the Mayor and the Director of Finance and each of the other appropriate officers of the City are each authorized and directed to do everything as such officer may judge necessary, appropriate, or desirable in order to carry out the terms and provisions of, and complete the transactions contemplated by, this ordinance. In particular and without limiting the foregoing:

(a) The Director of Finance, in the Director's discretion and without further action by the City Council, (i) may issue requests for proposals to provide underwriting services or financing facilities (including, without limitation, Qualified Insurance, a Qualified Letter of Credit, or other credit support or liquidity facility), and may execute engagement letters and other agreements with underwriters and other financial institutions (including providers of liquidity or credit support) based on responses to such requests; (ii) may select and make decisions regarding the Bond Registrar, fiscal or paying agents, and any Securities Depository for each Series of the

Bonds; (iii) may take any and all actions necessary or convenient to provide for the conversion of interest rate modes for any Series in accordance with the applicable Bond Documents; and (iv) may take such actions on behalf of the City as are necessary or appropriate for the City to designate, qualify, or maintain the tax-exempt treatment with respect to any Series issued as Tax-Exempt Bonds, to receive from the United States Treasury the applicable Tax Credit Subsidy Payments in respect of any Series issued as Tax Credit Subsidy Bonds, and to otherwise receive any other federal tax benefits relating to any Series of the Bonds that are available to the City; and

(b) The Mayor and the Director of Finance are each separately authorized to execute and deliver (i) any and all contracts or other documents as are consistent with this ordinance and for which the City's approval is necessary or to which the City is a party (including but not limited to agreements with escrow agents, refunding or defeasance trustees, liquidity or credit support providers, providers of Qualified Insurance or Reserve Securities, remarketing agents, underwriters, lenders or other financial institutions, fiscal or paying agents, Qualified Counterparties, custodians, and the Bond Registrar); and (ii) such other contracts or documents incidental to: the issuance and sale of any Series of the Bonds; the establishment of the interest rate or rates on a Bond; or the conversion, tender, purchase, remarketing, or redemption of a Bond, as may in the judgment of the Mayor or Director of Finance, as applicable, be necessary or appropriate.

Section 27. **Amendment of Omnibus Refunding Ordinance**. The following definition in the Omnibus Refunding Ordinance is amended to read as set forth in this section. Amendments are shown as revisions to Ordinance 125455, and amendments are marked using double underlining to indicate added text and using double parentheses and strikethrough formatting to indicate deleted text.

(a) **Amendments to Section 1**. The following definition is amended as follows:

* * *

"**Refundable Bonds**" means ((~~each~~)) any series of Parity Bonds or outstanding subordinate obligations of the Drainage and Wastewater System that have been designated, or may in the future be designated, as refundable under this ordinance. For purposes of the Omnibus Refunding Ordinance, the outstanding State loans listed on Exhibit C to this amendatory ordinance, and all future loan agreements entered into pursuant to chapter 39.69 RCW, are designated as Refundable Bonds.

* * *

(b) The amendments set forth in this section are intended to supplement the Omnibus Refunding Ordinance in a manner that is not materially adverse to the owners of the Outstanding Parity Bonds. Nonetheless, any amendment set forth in this section that is found by a court of competent jurisdiction to materially adversely affect owners of outstanding Parity Bonds shall be of no force or effect, and the provisions of the Omnibus Refunding Ordinance prior to the effective date of this amendatory ordinance shall continue in effect as to such outstanding Parity Bonds.

Section 28. **Severability**. The provisions of this ordinance are declared to be separate and severable. The invalidity of any clause, sentence, paragraph, subdivision, section, subsection, or portion of this ordinance, or the invalidity of its application to any person or circumstance, does not affect the validity of the remainder of this ordinance or the validity of its application to other persons or circumstances.

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

Section 30. **Section Headings**. Section headings in this ordinance are nonsubstantive.

Section 31. **Effective Date**. This ordinance shall take effect and be in force 30 days after its approval by the Mayor, but if not approved and returned by the Mayor within ten days after presentation, it shall take effect as provided by Seattle Municipal Code Section 1.04.020.

Passed by the City Council the 22nd day of November, 2021, and signed by me in open session in authentication of its passage this 22nd day of November, 2021.

President ____________ of the City Council

☑ Approved / ☐ returned unsigned / ☐ vetoed this 2nd day of December, 2021.

Jenny A. Durkan, Mayor

Filed by me this 2nd day of December, 2021.

Monica Martinez Simmons, City Clerk

(Seal)

Exhibits:
Exhibit A – Outstanding Drainage and Wastewater System Parity Bonds
Exhibit B – Form of Continuing Disclosure Agreement
Exhibit C – Outstanding Subordinate Obligations Designated as Refundable Bonds

EXHIBIT A

OUTSTANDING DRAINAGE AND WASTEWATER PARITY BONDS

Issue Name	Dated Date	Original Par Amount	Bond Legislation		
			New Money Ord.	**Refunding Ord.**	**Bond Sale Res.**
Drainage and Wastewater Revenue Bonds, Series 2009A (Taxable Build America Bonds – Direct Payment)	12/17/2009	$102,535,000	Ord. 123055	- -	Res. 31177
Drainage and Wastewater Improvement and Refunding Revenue Bonds, 2012	06/27/2012	$222,090,000	Ord. 123753	Ord. 121938 (as amended by Ord. 122209 and Ord. 122637)	Res. 31387
Drainage and Wastewater Improvement and Refunding Revenue Bonds, 2014	07/10/2014	$133,180,000	Ord. 124337	Ord. 124338 (amending and restating Ord. 121938)	Res. 31531
Drainage and Wastewater System Improvement and Refunding Revenue Bonds, 2016	06/22/2016	$160,910,000	Ord. 124914	Ord. 124338 (amending and restating Ord. 121938)	Res. 31674
Drainage and Wastewater System Improvement and Refunding Revenue Bonds, 2017	07/28/2017	$234,125,000	Ord 125297	Ord. 124338 (amending and restating Ord. 121938) (as amended by Ord. 124914)	Res. 31756
Drainage and Wastewater System Improvement Revenue Bond, 2020A (Ship Canal Water Quality Project-N18106WA) (WIFIA Loan)	04/24/2020	NTE $192,181,651	Ord. 125454 (as amended by Ord. 125712)	- -	- -
Drainage and Wastewater System Improvement and Refunding Revenue Bonds, 2021	06/08/2021	$111,010,000	Ord. 125454 (as amended by Ords. 125712 and 126222)	Ord. 125455	- -

EXHIBIT B

FORM OF CONTINUING DISCLOSURE AGREEMENT

The City of Seattle, Washington (the "City") makes the following written undertaking (the "Undertaking") for the benefit of the Owners of the City's Drainage and Wastewater System Revenue Bonds, [Year] [Series] (the "Bonds"), for the sole purpose of assisting the underwriter for the Bonds in meeting the requirements of paragraph (b)(5) of Rule 15c2-12 (the "Rule"), as applicable to a participating underwriter for the Bonds. Capitalized terms used but not defined below shall have the meanings given in Ordinance ________ (the "Bond Ordinance").

(a) Undertaking to Provide Annual Financial Information and Notice of Listed Events. The City undertakes to provide or cause to be provided, either directly or through a designated agent, to the Municipal Securities Rulemaking Board (the "MSRB"), in an electronic format as prescribed by the MSRB, accompanied by identifying information as prescribed by the MSRB:

(i) Annual financial information and operating data regarding the Municipal Light and Power System (the "Light System") of the type included in the final official statement for the Bonds and described in subsection (b) of this section ("annual financial information"). The timely filing of unaudited financial statements shall satisfy the requirements and filing deadlines pertaining to the filing of annual financial statements under subsection (b), provided that audited financial statements are to be filed if and when they are otherwise prepared and available to the City.

(ii) Timely notice (not in excess of 10 business days after the occurrence of the event) of the occurrence of any of the following events with respect to the Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notice of Proposed Issue (IRS Form 5701 – TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds; (7) modifications to rights of holders of the Bonds, if material; (8) Bond calls (other than scheduled mandatory redemptions of Term Bonds), if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the City, as such "Bankruptcy Events" are defined in the Rule; (13) the consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of the assets of the City other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor or additional trustee or the change of name of a trustee, if material; (15) incurrence of a financial obligation of the City, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the City, any of which affect holders of the Bonds, if material; and (16) any default, event of acceleration, termination event, modification of terms, or other similar event under the terms of a financial obligation of the City, any of which reflect financial difficulties.

For purposes of this Undertaking, the term "financial obligation" shall mean a debt obligation; derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or a guarantee of either a debt obligation or a derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation. The term "financial obligation" does not include municipal securities as to which a final official statement has been provided to the MSRB consistent with the Rule.

(iii) Timely notice of a failure by the City to provide required annual financial information on or before the date specified in subsection (b) of this section.

(b) Type of Annual Financial Information Undertaken to be Provided. The annual financial information and operating data that the City undertakes to provide in subsection (a) of this section:

(i) Shall consist of (1) annual financial statements of the Drainage and Wastewater System prepared in accordance with applicable generally accepted accounting principles applicable to governmental units (except as otherwise noted herein), as such principles may be changed from time to time and as permitted by applicable state law; (2) a statement of outstanding bonded debt secured by Revenues of the Drainage and Wastewater System; (3) debt service coverage ratios; (4) general customer statistics, such as number and type of customers and revenues by customer class; and (5) current drainage rates and wastewater rates;

(ii) Shall be provided not later than the last day of the ninth month after the end of each fiscal year of the City (currently, a fiscal year ending December 31), as such fiscal year may be changed as required or permitted by state law, commencing with the City's fiscal year ending December 31, 20__; and

(iii) May be provided in a single document or multiple documents, and may be incorporated by specific reference to documents available to the public on the Internet website of the MSRB or filed with the Securities and Exchange Commission.

(c) Amendment of Undertaking. This Undertaking is subject to amendment after the primary offering of the Bonds without the consent of any Owner or holder of any Bond, or of any broker, dealer, municipal securities dealer, participating underwriter, rating agency or the MSRB, under the circumstances and in the manner permitted by the Rule, including:

(i) The amendment may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of the City, or type of business conducted by the City;

(ii) The Undertaking, as amended, would have complied with the requirements of the Rule at the time of the primary offering, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(iii) The amendment does not materially impair the interests of holders, as determined either by parties unaffiliated with the City (e.g., bond counsel or other counsel familiar with federal securities laws), or by an approving vote of bondholders pursuant to the terms of the Bond Ordinance at the time of the amendment.

The City will give notice to the MSRB of the substance (or provide a copy) of any amendment to this Undertaking and a brief statement of the reasons for the amendment. If the amendment changes the type of annual financial information to be provided, the annual financial information containing the amended financial information will include a narrative explanation of the effect of that change on the type of information to be provided.

(d) Beneficiaries. This Undertaking shall inure to the benefit of the City and any Owner of Bonds, and shall not inure to the benefit of or create any rights in any other person.

(e) Termination of Undertaking. The City's obligations under this Undertaking shall terminate upon the legal defeasance, prior redemption, or payment in full of all of the Bonds. In addition, the City's obligations under this Undertaking shall terminate if those provisions of the Rule that require the City to comply with this Undertaking become legally inapplicable in respect of the Bonds for any reason, as confirmed by an opinion of nationally recognized bond counsel or other counsel familiar with federal securities laws delivered to the City, and the City provides timely notice of such termination to the MSRB.

(f) Remedy for Failure to Comply with Undertaking. As soon as practicable after the City learns of any material failure to comply with this Undertaking, the City will proceed with due diligence to cause such noncompliance to be corrected. No failure by the City or other obligated person to comply with this Undertaking shall constitute a default in respect of the Bonds. The sole remedy of any Owner of a Bond shall be to take such actions as that Owner deems necessary, including seeking an order of specific performance from an appropriate court, to compel the City or other obligated person to comply with this Undertaking.

(g) Designation of Official Responsible to Administer Undertaking. The Director of Finance of the City (or such other officer of the City who may in the future perform the duties of that office) or his or her designee is the person designated, in accordance with the Bond Ordinance, to carry out this Undertaking of the City in respect of the Bonds set forth in this section and in accordance with the Rule, including, without limitation, the following actions:

(i) Preparing and filing the annual financial information undertaken to be provided;

(ii) Determining whether any event specified in subsection (a)(ii) has occurred, assessing its materiality, where necessary, with respect to the Bonds, and preparing and disseminating any required notice of its occurrence;

(iii) Determining whether any person other than the City is an "obligated person" within the meaning of the Rule with respect to the Bonds, and obtaining from such person an undertaking to provide any annual financial information and notice of listed events for that person in accordance with the Rule;

(iv) Selecting, engaging and compensating designated agents and consultants, including but not limited to financial advisors and legal counsel, to assist and advise the City in carrying out this Undertaking; and

(v) Effecting any necessary amendment of the Undertaking.

EXHIBIT C

LIST OF OUTSTANDING SUBORDINATE OBLIGATIONS DESIGNATED AS REFUNDABLE BONDS

Loan Name/Reference	Project Description	Year of Agreement	Maximum Loan Amount
L0500007	High Point	2004	$ 2,679,413
PW-04-691-058	Thornton Creek	2004	$ 3,700,000
PW-05-691-051	South Park	2005	$ 3,400,000
L0600021	Thornton Creek	2006	$ 6,983,021
PC-12-951-033	Midvale	2011	$ 4,000,000
L1200022	Capitol Hill Water Quality	2014	$ 1,880,598
EL160631	Henderson	2015	$36,372,252
WQC-2019-SeaPUD-0050	Ship Canal Water Quality Project	2019	$25,000,000
PC20-96103-041	Pearl Street	2020	$10,000,000
WQC-2021-SeaPUD-00191	Ship Canal Water Quality Project	2021	$66,000,000

APPENDIX B

FORM OF BOND COUNSEL OPINION

This page left blank intentionally.

Stradling Yocca Carlson & Rauth
A Professional Corporation
601 Union Street, Suite 2424
Seattle, WA 98101
206 829 3000
stradlinglaw.com

Stradling

[Date of Approving Opinion]

The City of Seattle, Washington

Re: The City of Seattle, Washington
$117,165,000 Drainage and Wastewater System Improvement and Refunding Revenue Bonds, 2022

We have served as bond counsel to The City of Seattle, Washington (the "City"), in connection with the issuance of the above referenced bonds (the "Bonds"). In our capacity as bond counsel, we have examined such law and such certified proceedings and other documents as we have deemed necessary to render this opinion. As to matters of fact material to this opinion, we have relied upon representations contained in the certified proceedings and other certifications of public officials furnished to us.

The Bonds are issued by the City pursuant to Ordinance 126482 (the "New Money Ordinance"), and Ordinance 125455, as amended by Ordinance 126482 (as amended, the "Refunding Bond Ordinance," and together, the "Bond Ordinances") to provide the funds (i) to pay for part of the costs of various projects of the Drainage and Wastewater System, (ii) to make a deposit into the Reserve Subaccount, if necessary, (iii) to refund certain of the City's outstanding Drainage and Wastewater System Improvement and Refunding Revenue Bonds, 2012, and (iv) to pay the costs of issuance of the Bonds and administering the Refunding Plan, all as set forth in the Bond Documents (as that term is defined in the Bond Ordinances).

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

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

As of the date of initial delivery of the Bonds to the purchaser thereof and full payment therefor, it is our opinion that under existing law:

1. The City is a duly organized and legally existing first class city under the laws of the State of Washington.

2. The City has duly authorized and approved the Bond Ordinances and the Bonds are issued in full compliance with the provisions of the Constitution and laws of the State of Washington, the Bond Ordinances and other ordinances and resolutions of the City relating thereto.

3. The Bonds constitute valid obligations of the City payable solely out of the Net Revenue of the Drainage and Wastewater System and money in the Parity Bond Account (including the Reserve Subaccount therein) and the Rate Stabilization Account, except only to the extent that enforcement of payment may be limited by bankruptcy, insolvency or other laws affecting creditors' rights and by the principles of equity if equitable remedies are sought.

4. The Bonds are not general obligations of the City.

5. Assuming compliance by the City after the date of issuance of the Bonds with applicable requirements of the Code, under existing statutes, regulations, rulings and judicial decisions, the interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals.

This opinion is given as of the date hereof, and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention, or any changes in law that may hereafter occur.

We express no opinion herein concerning the completeness or accuracy of any official statement, offering circular or other sales or disclosure material relating to the issuance of the Bonds or otherwise used in connection with the Bonds. We bring to your attention the fact that the foregoing opinions are expressions of our professional judgment on the matters expressly addressed and do not constitute guarantees of result.

Respectfully submitted,

APPENDIX C

2021 AUDITED FINANCIAL STATEMENTS OF THE DRAINAGE AND WASTEWATER FUND

This page left blank intentionally.

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, 2021 and 2020

MOSSADAMS

Table of Contents

Report of Independent Auditors

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Seattle Public Utilities – Drainage and Wastewater Fund (the Fund), which comprise the statements of net position as of December 31, 2021 and 2020, and the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as of December 31, 2021 and 2020, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

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, 2021 and 2020, the changes in its financial position, or, where applicable, its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of Seattle Public Utilities' proportionate share of the net pension liability, schedule of Seattle Public Utilities' contributions, and the schedule of Seattle Public Utilities' proportionate share of the OPEB liability and related ratios (collectively, required supplementary information) be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the 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 as listed in the table of contents. The other information comprises the debt service coverage calculation, wastewater system operating statistics and billed revenues, major wastewater customers annual billed revenues and volumes, major drainage customers annual billed revenues and acreage, 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 does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the 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 29, 2022, on our consideration of the Fund’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Fund's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fund’s internal control over financial reporting and compliance.

Moss Adams LLP

Seattle, Washington
April 29, 2022

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, 2021 and 2020. The revenues, expenses, assets, deferred outflows and inflows of resources, and liabilities of the City of Seattle's drainage and wastewater system are recorded in the Fund, the functions of which are primarily supported by user fees and charges to customers. The financial situation of other aspects of Seattle City government, including other utility services and general government operations, are reported elsewhere.

Overview of the Financial Statements

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

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

The statements of net position present information, as of December 31, 2021 and 2020, 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, 2021 and 2020. All changes in net position are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. These statements reflect the results of the Fund's operations for the years identified to provide information about the Fund's credit worthiness and its ability to successfully recover all its costs through service fees and other charges.

The statements of cash flows are required to provide information about the Fund's cash receipts and cash payments during the years ended December 31, 2021 and 2020. To provide answers to questions about sources, uses, and impacts to cash, these statements report cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities for the reporting period.

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

Financial Analysis

Increases or decreases in net position may serve over time as a useful indicator of whether the Fund's financial position is improving or deteriorating. At December 31, 2021 and 2020, the Fund's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources, resulting in a net position of $642.8 million and $535.7 million, respectively. In 2021, the Fund's overall net position increased $107.1 million (20.0%) as compared to an increase in net position of $83.9 million (18.6%) in 2020.The following summary statements of net position present the assets and deferred outflows of resources of the Fund and show the mix of liabilities, deferred inflows of resources, and net position used to acquire these assets and deferred outflows of resources:

Statements of Net Position

	2021	2020	2019
ASSETS			
Current assets	$ 298,624,077	$ 290,290,608	$ 292,633,791
Capital assets, net	1,458,311,283	1,340,766,313	1,222,123,319
Other	169,476,374	94,755,675	146,614,940
Total assets	1,926,411,734	1,725,812,596	1,661,372,050
DEFERRED OUTFLOWS OF RESOURCES	18,797,831	19,742,729	28,726,503
Total assets and deferred outflows of resources	$ 1,945,209,565	$ 1,745,555,325	$ 1,690,098,553
LIABILITIES			
Current liabilities	$ 86,365,059	$ 81,095,767	$ 78,747,523
Revenue bonds	836,446,999	792,616,317	823,179,448
Other	354,816,463	320,602,583	327,655,004
Total liabilities	1,277,628,521	1,194,314,667	1,229,581,975
DEFERRED INFLOWS OF RESOURCES	24,735,164	15,544,036	8,677,263
NET POSITION			
Net investment in capital assets	630,159,592	531,961,816	448,542,091
Restricted	22,186,974	21,150,712	22,384,553
Unrestricted	(9,500,686)	(17,415,906)	(19,087,329)
Total net position	642,845,880	535,696,622	451,839,315
Total liabilities, deferred inflows of resources, and net position	$ 1,945,209,565	$ 1,745,555,325	$ 1,690,098,553

Financial Analysis (continued)

2021 Compared to 2020

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

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

Other assets increased by $74.7 million (78.9%) from 2020. This is mostly attributable to a $78.2 million increase in restricted cash and equity in pooled investments resulting from issuing 2021 Drainage and Wastewater System Improvement and Refunding Revenue Bonds (Note 4).The increase was offset by a $3.2 million reduction in other charges and a $0.3 million reduction in external infrastructure costs, net.

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

Liabilities – Current liabilities increased by $5.3 million (6.5%) from 2020. This is mostly attributable to a $2.2 million increase in the current portion of bonds payable, a $1.2 million increase in the current portion of loans payable, a $1.2 million increase in claims payable, a $0.8 million increase in environmental liabilities, and a $0.8 million increase in interest payable. This increase was offset by a decrease of $0.5 million in salaries, benefits, and payroll taxes payable; and a $0.5 million decrease in other current liabilities.

Noncurrent liabilities increased by $78.0 million (7.0%) from 2020. This increase is mostly attributable to an increase of $43.8 million in revenue bonds and related liabilities due from issuing a new bond, and a $44.1 million increase in loans. Additional increases are a $3.4 million increase in long-term environmental liabilities because of changes in estimates, a $3.2 million increase in claims payable, a $0.7 million increase in compensated absences payable and a $0.4 million increase in unfunded other post-employment benefits. The increases were offset by a $17.4 million decrease in net pension liability (Note 9) because of contributions and changes in assumptions, and by a $0.2 million decrease in other noncurrent liabilities.

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

Financial Analysis (continued)

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

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

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

2020 Compared to 2019

Assets – Current assets decreased $2.3 million (-0.8%) over the prior year primarily due to a $11.9 million decrease in operating cash and equity in pooled investments, a $4.7 million decrease in due from other funds, and a $3.3 million decrease in unbilled revenue. These decreases were offset by increases of $12.9 million in due from other governments and $4.6 million in accounts receivable, net of allowance for doubtful accounts. The decrease in operating cash is primarily due to capital spending increases.

Capital assets increased by $118.6 million (9.7%) from 2019. Construction in progress and other plant assets increased $150.5 million; the increase is mostly due to infrastructure, rehabilitation, and improvements. This change was offset by $31.9 million increase in accumulated depreciation (Note 3).

Other assets decreased by $51.9 million (-35.4%) from 2019. This is mostly attributable to a $49.9 million reduction in restricted cash and equity in pooled investments used to fund capital projects, a $3.7 million reduction in other charges, a $0.3 million reduction in external infrastructure costs, and a $0.3 million reduction in regulatory assets-bond issue costs. The decreases were offset by an increase of a $2.4 million long-term receivable due from another city department.

Deferred outflows of resources – Deferred outflows of resources decreased by $9.0 million (-31.3%) from 2019. This change resulted mainly from assumptions related to pension accounting and differences in expected and actual experience in other post-employment benefits (OPEB).

Liabilities – Current liabilities increased by $2.3 million (3.0%) from 2019. This is mostly attributable to a $5.4 million increase in accounts payable and a $1.1 million increase in environmental liabilities. This increase was offset by a decrease of $4.0 million in salaries, benefits, and payroll taxes payable, and a $0.3 million decrease in revenue bonds due within one year.

Financial Analysis (continued)

Noncurrent liabilities decreased by $37.6 million (-3.3%) from 2019. This decrease is mostly attributable to a decrease of $30.6 million in revenue bonds and related liabilities, a $19.2 million decrease in net pension liability (Note 9) because of contributions and changes in assumptions, a $1.2 million decrease in long-term environmental liabilities because of changes in estimates, and a $0.4 million decrease in claims payable. The decrease was offset by a $11.0 million increase in loan debt, a $1.6 million increase in other noncurrent liabilities, and a $1.1 million increase in compensated absences payable.

Deferred inflows of resources – Deferred inflow of resources increased by $6.9 million (79.1%) from 2019. This increase is due to assumptions related to pension accounting and the difference between expected and actual expense in other post-employment benefits (OPEB).

Net position – The largest portion of the Fund's net position ($532.0 million or 99.3%) reflects the Fund's investment in capital assets such as land, buildings, and equipment, less accumulated depreciation and any related outstanding debt used to acquire those assets. The Fund uses these assets to provide services to customers; consequently, these assets are not available for future spending. Although the Fund's investment in its capital assets is reported net of related debt, the resources needed to repay the debt are provided by fees paid by customers for services provided by these assets. In 2020, net investment in capital assets increased by $83.4 million from 2019 due to an increase in capital assets placed in service, net of depreciation offset by the related debt.

The Fund's restricted net position ($21.2 million or 3.9%) represents resources that are subject to restrictions on how they may be used. This portion of net position decreased by $1.2 million from 2019.

The remaining portion of the Fund's net position (negative $17.4 million or -3.3%) represents resources that are unrestricted. The unrestricted portion of net position increased by $1.7 million from the prior year.

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

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

	2021	2020	2019
Operating revenues	$ 502,517,146	$ 460,295,464	$ 454,381,865
Operating expenses	(387,224,204)	(385,937,282)	(370,768,095)
Net operating income	115,292,942	74,358,182	83,613,770
Non-operating revenues and expenses	(1,341,557)	12,564,569	(2,005,208)
Environmental remediation	(6,802,127)	(3,065,444)	(8,902,462)
Change in net position	$ 107,149,258	$ 83,857,307	$ 72,706,100

Financial Analysis (continued)

2021 Compared to 2020

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

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

Nonoperating revenues net of expenses in 2021 decreased by $13.9 million compared to 2020. There was a $9.5 million decrease in contributions and grants and a $10.3 million decrease in investment income. The decreases were offset by a $3.4 million increase in interest expense and $2.5 million increase in other, net.

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

2020 Compared to 2019

The current year operating revenues increased by $5.9 million (1.3%) from 2019. Drainage has additional revenues of $11.6 million due to an average rate increase of 8.0%. Sewerage has an average rate increase of 7.4%, but due to the impacts of COVID-19, sewer revenue decreased by $5.8 million. Other operating revenues increased by $0.8 million.

The current year operating expenses increased by $15.2 million (4.1%) from 2019. The increase can be attributed to $8.7 million increase in other operating expenses; $3.1 million increase in intergovernmental payments; $2.1 million for services; $1.5 million for depreciation and amortization; and $0.3 million in salaries, wages, and personnel benefits. Of the $8.7 million increase in other operating expenses, $7.8 million is due to increase in capital outlays, $1.2 million due to one-time natural resource damage (NRD) settlement, offset by $0.2 million decrease in other miscellaneous operating expense. For the $3.1 million increase in intergovernmental payments, it consists of $1.7 million for city and state taxes and $1.4 million for wastewater treatment. These increases were offset by a decrease in supplies by $0.5 million.

Nonoperating revenues net expenses in 2020 increased by $14.6 million as compared to 2019. There was a $15.3 million increase in contributions and grants and a $3.9 million decrease in investment income, while there was a $3.2 million reduction in interest expense.

The Fund had an environmental remediation expense of $3.1 million for 2020 as compared to $8.9 million in 2019 (Note 10), resulting from changes in estimated costs for remediation management and construction.

Capital Assets

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

Summary of Capital Assets, Net of Accumulated Depreciation

	2021	2020	2019
Land and land rights	$ 46,662,046	$ 46,644,353	$ 40,330,875
Buildings	13,827,790	14,909,819	14,294,425
Infrastructure	957,421,593	936,517,320	893,366,112
Machinery and equipment	59,128,903	61,984,467	65,786,979
Computer systems	19,898,976	21,622,034	22,083,185
Construction in progress	356,932,019	256,896,036	184,069,459
Artwork	4,439,956	2,192,284	2,192,284
Capital assets, net of accumulated depreciation	$ 1,458,311,283	$ 1,340,766,313	$ 1,222,123,319

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

2021 Compared to 2020

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

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

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

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

- $172.7 million for construction of a combined sewer overflow storage facility for the Ballard, Fremont, and Wallingford combined sewer overflow basins (Ship Canal Water Quality Project)
- $43.6 million for sewer and storm water system improvements and rehabilitations
- $26.8 million for combined sewer overflow control
- $26.5 million for building a pump station facility near 7th Street and Riverside in South Park
- $13.3 million for Natural Drainage Systems
- $10.5 million for improvements to Taylor Creek downstream from Rainier Ave South
- $9.0 million for infrastructure improvements in South Park
- $4.8 million for upgrading the core Oracle utilities applications

Capital Assets (continued)

- $3.7 million for the South Park Stormwater Treatment Facility
- $3.1 million for replacing the 45th Ave SW culvert
- $3.0 million for construction project artwork
- $2.3 million for relocating existing drainage and sewer mains as necessary to accommodate SDOT's Waterfront Seattle Program

2020 Compared to 2019

The Fund's investment in capital assets, net of accumulated depreciation, for the year ended December 31, 2020, was $1.3 billion. This represented an increase of approximately $118.6 million (9.7%) compared to 2019.

Highlights of the Fund's major capital assets placed in service during 2020 included the following:

- $14.4 million for pipe rehabilitation and improvement
- $14.2 million for pump station improvement
- $8.4 million for environmental remediation
- $4.2 million for combine sewer outfall pipeline and structures improvement
- $3.9 million for culvert replacement
- $3.4 million for drainage pipeline and sewer pipeline
- $3.3 million for combined sewer valve and equipment
- $20.6 million for various other small construction projects

Highlights of the Fund's major construction projects in progress at the end of 2020 include the following:

- $112.1 million for construction of a combined sewer overflow storage facility for the Ballard, Fremont, and Wallingford combined sewer overflow basins (Ship Canal Water Quality Project)
- $20.8 million for sewer and storm water system improvement
- $16.2 million to build a pump station facility near 7th Street and Riverside in South Park
- $16.0 million for the Alaskan Way Viaduct and Waterfront combined sewer overflow control
- $8.6 million for pipe improvements in the Alaska Way Viaduct Battery Street Tunnel project
- $7.9 million for improvements to Taylor Creek downstream from Rainier Ave South
- $6.2 million for upgrading pump stations and force main in East Montlake
- $4.9 million for construction project artwork
- $4.4 million for infrastructure improvements in South Park
- $4.2 million for raingardens, cisterns and other national drainage improvements
- $4.1 million for roadside bioretention for Longfellow Creek
- $3.3 million for the Delridge 168/169 combined sewer overflow control
- $3.2 million for the South Park Stormwater Treatment Facility
- $2.7 million for building 15-18 blocks of bioretention systems in Thornton Creek
- $2.5 million for upgrading the core Oracle utilities applications
- $2.2 million for replacing the 45th Ave SW culvert

Debt Administration

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

2021 Compared to 2020

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

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

2020 Compared to 2019

At the end of 2020, the Fund had $742.0 million in bonded debt, as compared to $769.6 million in 2019, all of which was secured solely by drainage and wastewater system revenues. This decrease of $27.6 million is attributed to payment of debt principal.

At the end of 2020, the Fund had an outstanding loan balance of $56.1 million compared to $45.0 million in 2019. This increase is due to a $12.2 million drawdown from a loan with the Washington State Department of Ecology and a $1.6 million draw drawdown from a new loan with the Washington State Department of Commerce. The increase is offset by a $2.8 million payment of debt principal.

Requests for Information

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

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

	December 31, 2021	December 31, 2020
ASSETS		
CURRENT ASSETS		
Operating cash and equity in pooled investments	$ 219,234,623	$ 218,713,930
Receivables		
Accounts, net of allowance	36,482,866	28,968,477
Interest and dividends	267,830	290,861
Unbilled revenues	30,892,100	23,065,535
Due from other funds	616,993	549,260
Due from other governments	9,182,977	16,732,054
Materials and supplies inventory	1,912,173	1,895,318
Prepayments and other current assets	34,515	75,173
Total current assets	298,624,077	290,290,608
NONCURRENT ASSETS		
Restricted cash and equity in pooled investments	116,360,934	38,208,242
Prepayments long-term	449,501	484,017
Long-term receivable due from another city department	2,286,529	2,362,227
Environmental costs and recoveries	2,602,646	2,621,276
External infrastructure costs, net	17,278,109	17,570,958
Regulatory assets - bond issue costs	5,005,221	4,864,855
Other charges	25,493,434	28,644,100
Capital assets		
Land and land rights	46,662,046	46,644,353
Plant in service, excluding land	1,521,835,041	1,475,448,530
Less accumulated depreciation	(471,557,779)	(440,414,890)
Construction in progress	356,932,019	256,896,036
Other property, net	4,439,956	2,192,284
Total noncurrent assets	1,627,787,657	1,435,521,988
Total assets	1,926,411,734	1,725,812,596
DEFERRED OUTFLOWS OF RESOURCES		
Unamortized loss on refunded debt	5,478,663	5,594,783
Pension and OPEB contributions and changes in assumptions	13,319,168	14,147,946
Total deferred outflows of resources	18,797,831	19,742,729
Total assets and deferred outflow of resources	$ 1,945,209,565	$ 1,745,555,325

See accompanying notes.

	December 31, 2021	December 31, 2020
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	$ 16,477,768	$ 16,444,533
Salaries, benefits, and payroll taxes payable	3,036,768	3,532,877
Compensated absences payable	341,723	303,286
Due to other funds	51,403	-
Due to other governments	13,554,286	13,726,395
Interest payable	11,547,880	10,774,345
Taxes payable	553,942	432,255
Revenue bonds due within one year	29,525,000	27,300,000
Claims payable	2,773,063	1,545,720
Environmental liabilities	3,589,550	2,811,563
Loans payable, due within one year	4,052,026	2,852,381
Other	861,650	1,372,412
Total current liabilities	86,365,059	81,095,767
NONCURRENT LIABILITIES		
Compensated absences payable	6,492,720	5,762,426
Claims payable	8,285,004	5,106,321
Environmental liabilities	181,309,027	177,947,420
Loans	97,292,470	53,202,388
Unfunded other post employment benefits	3,536,572	3,101,715
Net pension liability	54,686,589	72,049,064
Other noncurrent liabilities	3,214,081	3,433,249
Revenue bonds	769,890,000	742,030,000
Less bonds due within one year	(29,525,000)	(27,300,000)
Bond discount and premium, net	96,081,999	77,886,317
Total noncurrent liabilities	1,191,263,462	1,113,218,900
Total liabilities	1,277,628,521	1,194,314,667
DEFERRED INFLOWS OF RESOURCES		
Unamortized gain on advanced refunding	1,058,942	-
Deferred inflows - pension and OPEB	23,676,222	15,544,036
Total deferred inflows of resources	24,735,164	15,544,036
NET POSITION		
Net investment in capital assets	630,159,592	531,961,816
Restricted for		
External infrastructure costs	8,023,753	7,275,625
Other charges	14,163,221	13,875,087
Unrestricted	(9,500,686)	(17,415,906)
Total net position	642,845,880	535,696,622
Total liabilities, deferred inflows of resources, and net position	$ 1,945,209,565	$ 1,745,555,325

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,	
	2021	2020
OPERATING REVENUES		
Charges for services and other revenues	$ 502,517,146	$ 460,295,464
OPERATING EXPENSES		
Salaries, wages, and personnel benefits	51,740,074	56,137,465
Supplies	3,036,534	2,681,606
Services	52,877,338	45,359,063
Intergovernmental payments	231,618,599	229,641,448
Depreciation and amortization	41,285,602	39,639,090
Other operating expenses	6,666,057	12,478,610
Total operating expenses	387,224,204	385,937,282
OPERATING INCOME	115,292,942	74,358,182
NONOPERATING REVENUES (EXPENSES)		
Investment income	729,491	11,044,448
Interest expense	(18,655,517)	(22,104,486)
Contributions and grants	12,179,624	21,685,659
Other, net	4,404,845	1,938,948
Total nonoperating revenues (expenses)	(1,341,557)	12,564,569
INCOME BEFORE SPECIAL ITEMS	113,951,385	86,922,751
ENVIRONMENTAL REMEDIATION	(6,802,127)	(3,065,444)
CHANGE IN NET POSITION	107,149,258	83,857,307
NET POSITION		
Beginning of year	535,696,622	451,839,315
End of year	$ 642,845,880	$ 535,696,622

See accompanying notes.

Statements of Cash Flows

	Years Ended December 31, 2021	Years Ended December 31, 2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	$ 497,394,151	$ 451,226,887
Cash paid to suppliers	(225,953,824)	(222,674,866)
Cash paid to employees	(61,515,195)	(63,398,263)
Cash paid for taxes	(65,646,749)	(60,822,545)
Net cash provided by operating activities	144,278,383	104,331,213
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Noncapital grants received	3,804,375	13,151,712
Payments for environmental liabilities	(2,643,903)	(3,176,623)
Net cash provided by noncapital financing activities	1,160,472	9,975,089
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from long-term debt	189,152,756	13,832,217
Principal payments on long-term debt	(88,520,502)	(25,255,792)
Capital expenditures and other charges paid	(142,147,708)	(148,598,885)
Interest paid on long-term debt	(34,531,105)	(35,728,077)
Build America Bonds federal interest subsidy	1,584,823	1,632,214
Capital fees and grants received	8,375,248	8,533,947
Proceeds from sale of capital assets	153,319	54,856
Net cash used in capital and related financing activities	(65,933,169)	(185,529,520)
CASH FLOWS FROM INVESTING ACTIVITIES		
Net change on investment	(832,301)	9,421,742
NET CHANGE IN CASH AND EQUITY IN POOLED INVESTMENTS	78,673,385	(61,801,476)
CASH AND EQUITY IN POOLED INVESTMENTS		
Beginning of year	256,922,172	318,723,648
End of year	$ 335,595,557	$ 256,922,172
CASH AT THE END OF THE YEAR CONSISTS OF		
Operating cash and equity in pooled investments	$ 219,234,623	$ 218,713,930
Noncurrent restricted cash and equity in pooled investments	116,360,934	38,208,242
Total cash at the end of the year	$ 335,595,557	$ 256,922,172

See accompanying notes.

Seattle Public Utilities –
Drainage and Wastewater Fund
(An Enterprise Fund of the City of Seattle)
Statements of Cash Flows (continued)

	Years Ended December 31, 2021	2020
RECONCILIATION OF NET OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES		
Operating income	$ 115,292,942	$ 74,358,182
Adjustments to reconcile net operating income to net cash from operating activities		
Adjustment for net pension liability	(8,401,511)	(3,760,766)
Depreciation and amortization	41,285,602	39,639,090
Other cash (payments) receipts	(590,849)	1,884,092
Changes in operating assets and liabilities		
Accounts receivable	(7,514,389)	(4,593,852)
Unbilled revenues	(7,826,565)	3,347,084
Due from other funds	(67,733)	4,678,970
Due from other governments	7,549,077	(12,912,562)
Materials and supplies inventory	(16,854)	(62,610)
Other assets	150,872	(2,368,370)
Accounts payable	33,235	5,368,990
Salaries, benefits, and payroll taxes payable	(496,109)	(4,044,614)
Compensated absences payable	768,731	1,139,834
Due to other funds	51,403	(10,632)
Due to other governments	(172,109)	(103,087)
Claims payable	4,406,026	(528,036)
Taxes payable	121,687	(845)
Other liabilities	(295,073)	2,300,345
Total adjustments	28,985,441	29,973,031
Net cash from operating activities	$ 144,278,383	$ 104,331,213

See accompanying notes.

Note 1 – Operations and Summary of Significant Accounting Policies

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

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

SPU receives certain services from other departments and agencies of the City, including information technology and others that are normally considered to be general and administrative. The Fund is charged a share of these costs and during 2021 and 2020, paid $25,945,159 and $24,391,299, 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 $58,248,201 and $54,335,864 for these taxes in 2021 and 2020, respectively.

The utility billing function is co-managed by SPU, Seattle City Light (SCL), and the Seattle Information Technology Department (ITD). SPU provides customer service through the call center and walk-in center. ITD maintains the Customer Information System (CIS). SPU and SCL bill and reimburse each other for these services. SPU reimburses ITD for the information technologies services mentioned above. Within SPU, the costs and reimbursements were shared among its three utility funds (Water, Drainage and Wastewater, and Solid Waste). The Fund received reimbursements related to the call center and walk-in center of $2,333,999 and $2,397,843 in 2021 and 2020, respectively. The Fund paid $116,971 and $32,076 for the utility billing services in 2021 and 2020, respectively.

Wastewater disposal and drainage services provided to other City departments and agencies are billed at rates prescribed by City ordinances. The Fund collected $3,205,419 in 2021 and $3,693,851 in 2020 from the City for wastewater services provided. The Fund also collected $10,808,33 in 2021 and $10,825,403 in 2020 from the City for drainage services.

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

Note 1 – Operations and Summary of Significant Accounting Policies (continued)

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

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

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

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

Allowance for doubtful accounts – A reserve has been established for uncollectible accounts receivable based on actual historical write-off trends and knowledge of specific circumstances that indicate collection of an account may be unlikely. As of December 31, 2021 and 2020, the Fund's allowance for doubtful accounts was $1,854,640 and $1,338,981, 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.

Note 1 – Operations and Summary of Significant Accounting Policies (continued)

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

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

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

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

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

Note 1 – Operations and Summary of Significant Accounting Policies (continued)

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

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

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

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

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

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

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

Note 1 – Operations and Summary of Significant Accounting Policies (continued)

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

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

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

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

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

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

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

Note 1 – Operations and Summary of Significant Accounting Policies (continued)

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

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

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

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

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

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

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

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

Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Net position is restricted when constraints placed on net position use are either (1) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or (2) imposed by law through constitutional provisions or enabling legislation. The Fund's restricted net position as of December 31, 2021 and 2020, is related to external infrastructure costs, certain other charges, and retainage. Unrestricted net position is the portion that is not "net investment in capital assets" or "restricted."

Note 1 – Operations and Summary of Significant Accounting Policies (continued)

Arbitrage rebate requirement – The Fund is subject to the Internal Revenue Code (IRC), Section 148(f), related to its tax-exempt revenue bonds. The IRC requires that earnings on gross proceeds of any revenue bonds that are in excess of the amount prescribed be surrendered to the Internal Revenue Service. As such, the Fund would record such a rebate as a liability. The Fund had no liability for arbitrage as of December 31, 2021 and 2020.

Accounting standard changes – GASB has issued Statement No. 87, *Leases*. The new GASB standard on leases was issued in June 2017 and was originally scheduled to be effective for reporting periods beginning after December 15, 2019. Due to the COVID-19 pandemic, GASB issued statement No. 95, which delayed the implementation dates of certain statements. As a result, GASB 87 will be effective for the Fund for reporting periods beginning after June 15, 2021. Under this rule, leases are all assumed to be capital financings of the underlying asset with only a narrow range of short-term equipment and motor vehicle leases treated as an ‘operating lease. GASB now assumes that all leases are ‘capital leases’ except for the specific exceptions noted. The Fund is evaluating the impact of this standard on the financial statements.

GASB has also issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5–22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a cost of a capital asset reported in a business-type activity or enterprise fund. The Statement was issued in June 2018 and was originally scheduled to be effective for reporting periods beginning after December 15, 2019. Due to the COVID-19 pandemic, GASB issued statement No. 95, which delayed the implementation dates of certain statements. GASB 89 is effective for the Fund for the year ended December 31, 2021. The Fund invoked regulatory accounting under GASB 62 effective January 1, 2021, and continues to capitalize interest as a charge to projects.

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

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

Note 1 – Operations and Summary of Significant Accounting Policies (continued)

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

Note 2 – Cash and Equity in Pooled Investments

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

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

As of December 31, 2021 and 2020, the City did not have custodial credit risk. The City's deposits are covered by insurance provided by the Federal Deposit Insurance Corporation (FDIC) and the National Credit Union Association (NCUA), as well as protection provided by the Washington State Public Deposit Protection Commission (PDPC) as established in RCW 39.58. The PDPC makes and enforces regulations and administers a program to ensure public funds deposited in banks and thrifts are protected if a financial institution becomes insolvent. The PDPC approves which banks, credit unions, and thrifts can hold state and local government deposits and monitors collateral pledged to secure uninsured public deposits. This secures public treasurers' deposits when they exceed the amount insured by the FDIC or NCUA by requiring banks, credit unions, and thrifts to pledge securities as collateral.

As of December 31, 2021 and 2020, 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. The City maintains a custody relationship with Wells Fargo under the state of Washington's statewide custody provider program arranged by the State Treasurer's Office. The City mitigates counterparty risk by settling trades through its custodian on a delivery-versus-payment method.

Note 2 – Cash and Equity in Pooled Investments (continued)

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

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

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

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

Corporate notes must mature within 5.5 years from the time of purchase and must be rated at least weak single-A or better by all the major rating agencies that rate the note at the time of purchase. No single issuer rated AA or better may exceed 3% of the Pool's market value. No single issuer rated in the single-A category may exceed 2% of the Pool's market value.

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

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

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

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

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

Note 2 – Cash and Equity in Pooled Investments (continued)

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, 2021, and 2020, the Fund did not have any dedicated investments. The City's Statement of Investment Policy was modified on January 1, 2018, with an effective date of March 8, 2018. There have been no subsequent changes to the policy.

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

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

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

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

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

Fair value of pooled investments – The City reports investments at fair value and categorizes its fair value measurements within the fair value hierarchy established by GASB Statement No. 72, *Fair Value Measurement and Application*. Fair value of the City's pooled investments fluctuates with changes in interest rates and the underlying size of the pooled investment portfolio. To mitigate interest rate risk in the City's pooled investment portfolio, the City typically holds its investments to maturity and manages its maturities to ensure sufficient monthly cash flow to meet its liquidity requirements.

As of December 31, 2021, the City held $555.1 million on deposit in the Washington State Local Government Investment Pool (LGIP) managed by the Office of the Washington State Treasurer. The City's investments in the LGIP are reported at amortized cost, which approximates fair value. It is overseen by the Office of the State Treasurer, the State Finance Committee, the Local Government Investment Pool Advisory Committee, and the Washington State Auditor's Office.

Note 2 – Cash and Equity in Pooled Investments (continued)

The City reports its investments at fair value and categorizes its fair value measurements within the fair value hierarchy established by U.S. GAAP. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction amongst market participants at the measurement date (an exit price). Fair value is a market-based measurement for a particular asset or liability based on assumptions that market participants would use in pricing the asset or liability. Such assumptions include observable and unobservable inputs of market data, as well as assumptions about risk and the risk inherent in the inputs to the valuation technique.

Valuation techniques to determine fair value should be consistent with one or more of three approaches: the market approach, cost approach, and income approach. The City uses a combination of the market and cost approach for the valuation of pooled investments.

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

The City uses market pricing for its over-the-counter investments as provided by its contractual custodial agent, Wells Fargo Institutional Retirement & Trust, and its third-party investment accounting vendor FIS AvantGard LLC. Both Wells Fargo and FIS contract with Interactive Data Pricing and Reference Data, Inc., for securities pricing.

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

Level 1 – Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Fund can access at the measurement date.

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

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

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

Note 2 – Cash and Equity in Pooled Investments (continued)

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

Investments	Fair Value as of December 31, 2021	Fair Value Measurements Using Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Weighted Average Maturity (Days)
U.S. Treasury and U.S. government-backed securities	$ 745,736,783	$ 745,736,783	$ -	$ -	651
U.S. government agency securities	719,408,575	-	719,408,575	-	950
Local government investment pool	555,140,850	-	555,140,850		3
U.S. government agency mortgage-				-	
backed securities	358,218,426	-	358,218,426	-	2,375
Municipal bonds	203,186,845	-	203,186,845		603
Repurchase agreements	125,430,820	-	125,430,820	-	3
Corporate bonds	88,971,783	-	88,971,783	-	632
International Bank for Reconstruction and Development	25,364,250	-	25,364,250	-	971
	$ 2,821,458,332	$ 745,736,783	$ 2,075,721,549	$ -	
Weighted Average Maturity of the City's Pooled Investments					788

As of December 31, 2020, the City's pooled investments were categorized within the fair value hierarchy as follows:

Investments	Fair Value as of December 31, 2020	Fair Value Measurements Using Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Weighted Average Maturity (Days)
U.S. government agency securities	$ 760,599,687	$ -	$ 760,599,687	$ -	1,111
Local government investment pool	519,690,038	-	519,690,038	-	1
U.S. Treasury and U.S. government-backed securities	470,004,815	470,004,815	-	-	732
Municipal bonds	319,681,755	-	319,681,755	-	2,597
U.S. government agency mortgage-backed securities	268,695,014	-	268,695,014	-	1,616
Corporate bonds	92,745,580	-	92,745,580	-	509
Repurchase agreements	72,592,802	-	72,592,802	-	4
International Bank for Reconstruction and Development	41,064,600	-	41,064,600	-	1,654
	$ 2,545,074,291	$ 470,004,815	$ 2,075,069,476	$ -	
Weighted Average Maturity of the City's Pooled Investments					1,010

Note 2 – Cash and Equity in Pooled Investments (continued)

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

	2021	2020
Operating cash and equity in pooled investments	$ 219,234,623	$ 218,713,930
Restricted cash and equity in pooled investments	116,360,934	38,208,242
Total	$ 335,595,557	$ 256,922,172
Balance as a percentage of City pool cash and investments	11.9%	10.1%

Concentration of credit risk – Concentration risk is the risk of loss attributed to the magnitude of investments in a single issuer. The City manages concentration risk by limiting its investments in any one issuer in accordance with the City's investment policy and state statutes. The policy limits vary for each investment category. State statute and the City's Statement of Investment Policy do not stipulate concentration limits for holdings of U.S. Government or U.S. Government Agency Obligations. However, as noted under credit risk, the City's Statement of Investment Policy outlines maximum percentage allocations for municipal securities and commercial paper, as well as bank notes and corporate notes.

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

	2021		2020	
Issuer	Fair Value	Percent of Total Investments	Fair Value	Percent of Total Investments
United States Government	$ 745,736,783	26%	$ 470,004,815	18%
Local Government Investment Pool	555,140,850	20%	519,690,038	20%
Federal National Mortgage Association	412,991,031	15%	292,500,837	11%
Federal Home Loan Bank	159,613,722	6%	200,784,989	8%
Federal Home Loan Mortgage Corp	196,090,506	7%	193,228,369	8%
Federal Farm Credit Bank	129,090,979	5%	152,404,144	6%

Note 3 – Capital Assets

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

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

Capital asset activity consisted of the following for the year ended December 31, 2020:

	Beginning Balance	Additions and Transfers In	Retirements and Transfers Out	Ending Balance
Buildings	$ 24,969,031	$ 1,602,147	$ -	$ 26,571,178
Infrastructure	1,199,929,441	66,600,481	(3,908,329)	1,262,621,593
Machinery and equipment	114,564,808	4,305,974	(617,158)	118,253,624
Computer systems	64,591,791	3,410,344	-	68,002,135
Total capital assets, excluding land	1,404,055,071	75,918,946	(4,525,487)	1,475,448,530
Less accumulated depreciation	(408,524,370)	(33,822,537)	1,932,017	(440,414,890)
	995,530,701	42,096,409	(2,593,470)	1,035,033,640
Construction in progress	184,069,459	170,506,892	(97,680,315)	256,896,036
Land and land rights	40,330,875	6,313,478	-	46,644,353
Artwork	2,192,284	-	-	2,192,284
Capital assets, net	$ 1,222,123,319	$ 218,916,779	$ (100,273,785)	$ 1,340,766,313

During 2021 and 2020, the Fund capitalized interest costs as a regulatory asset relating to construction of $13,379,712 and $10,514,450, respectively.

Note 4 – Revenue Bonds

The Fund issues bonds to provide financing for capital improvements. Payment of debt service on the bonds is derived solely from the revenues generated by the Fund. The Fund has $30,872,471 in a debt service reserve fund and has obtained reserve insurance policies to meet the remainder of its reserve requirements. The total bonds outstanding as of December 31, 2021 and 2020, were $769,890,000 and $742,030,000, respectively. Revenue bonds outstanding as of December 31, 2021 and 2020, consisted of the following Municipal Drainage and Wastewater bonds:

Name of Issue	Issuance Date	Maturity Years	Interest Rates	Original Issue Amount	Bonds Outstanding 2021	Bonds Outstanding 2020
2009 Improvement, Series A a (Taxable)	12/17/09	2017-2039	4.2-5.5%	$ 102,535,000	$ 86,530,000	$ 89,920,000
2009 Improvement and Refunding, Series B	12/17/09	2010-2027	2.0-4.0%	36,680,000	-	8,545,000
2012 Improvement and Refunding	6/27/12	2012-2042	2.0-5.0%	222,090,000	106,135,000	163,355,000
2014 Improvement and Refunding	7/10/14	2015-2044	3.0-5.0%	133,180,000	113,265,000	117,750,000
2016 Improvement and Refunding	6/22/16	2016-2046	4.0-5.0%	160,910,000	145,730,000	149,845,000
2017 Improvement and Refunding	6/28/17	2018-2047	4.0-5.0%	234,125,000	207,220,000	212,615,000
2021 Improvement and Refunding	5/19/21	2022-2051	4.0-5.0%	111,010,000	111,010,000	-
				$ 1,000,530,000	$ 769,890,000	$ 742,030,000

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

Years Ending December 31,	Principal	Interest	Total
2022	$ 29,525,000	$ 33,877,853	$ 63,402,853
2023	29,605,000	32,398,603	62,003,603
2024	31,060,000	30,910,496	61,970,496
2025	32,585,000	29,344,496	61,929,496
2026	33,045,000	27,798,496	60,843,496
2027 - 2031	168,720,000	114,684,731	283,404,731
2032 - 2036	163,525,000	77,418,830	240,943,830
2037 - 2041	147,130,000	43,004,508	190,134,508
2042 - 2046	107,310,000	16,634,000	123,944,000
2047 - 2051	27,385,000	2,544,600	29,929,600
	$ 769,890,000	$ 408,616,613	$ 1,178,506,613

Note 4 – Revenue Bonds (continued)

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

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

The following table shows the revenue bond activity during the year ended December 31, 2020:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable					
Revenue bonds	$ 769,605,000	$ -	$ (27,575,000)	$ 742,030,000	$ 27,300,000
Add (deduct) deferred amounts					
Issuance premiums	81,600,896	-	(3,286,891)	78,314,005	-
Issuance discounts	(451,449)	-	23,761	(427,688)	-
Total bonds payable	$ 850,754,447	$ -	$ (30,838,130)	$ 819,916,317	$ 27,300,000

Defeasance of debt – The Fund defeased certain obligations by placing the proceeds of new bonds and a certain amount of operating cash in an irrevocable trust to provide for all future debt service payments on the old bonds. As a result, the old bonds are considered defeased, and the corresponding liabilities and trust account assets are not included in the statements of net position. In 2021, $56,920,000 bonds were defeased and $8,545,000 bonds were redeemed as shown below:

Name of Issue	Amount Outstanding at December 31, 2020	Additions	Redemptions	Amount Outstanding at December 31, 2021
2009 Improvement and Refunding, Series B	$ -	$ 8,545,000	$ (8,545,000)	$ -
2012 Improvement and Refunding	-	48,375,000	-	48,375,000
	$ -	$ 56,920,000	$ -	$ 48,375,000

Note 4 – Revenue Bonds (continued)

In May 2021, the Fund issued $111,010,000 of Drainage and Wastewater Improvement and Refunding Revenue Bonds with varying annual principal payments due beginning 2022 and ending in 2051, at interest rates ranging from 4.0 percent and 5.0 percent. A portion of the proceeds were used to fully refund the remaining 2009 Improvement and Refunding, Series B bonds. As a result of the refunding, the Fund reduced total debt service requirements by $1.1 million resulting in an economic gain (difference between the present value of the debt service payments on the old and new debts) of $1.0 million.

In July 2021, the Fund used $49,970,980.47 operating cash to partially defease 2012 bonds. As a result of the partial defeasance, the Fund reduced total debt service requirements by $48.3 million.

Financial covenants – The revenue bonds contain certain financial covenants, the most significant of which requires the Fund to maintain net revenue available for debt service of at least equal to 125% of annual debt service. For 2021, net revenue available for debt service, as defined by the bond covenants, was 381% of annual debt service. Management believes the Fund was in compliance with all debt covenants as of December 31, 2021. For more information, see Other Information (page 54).

Note 5 – Leases

The Fund has noncancelable operating lease commitments for real and personal properties, with payments of $ 373,056 and $364,107 in 2021 and 2020, respectively. The Fund has three leases, one at 5821 First Avenue South that expires on February 28, 2025, one at 2702 6th Avenue South that expires on July 31, 2025, the last one at 4209 21st Avenue West that expires on September 30, 2029. Rents are paid as they become due and payable. Minimum lease payments under the leases for the years ending December 31 are as follows:

2022	$	381,122
2023		389,195
2024		397,273
2025		362,065
2026		349,155
2027 - 2031		999,456
	$	2,878,266

Note 6 – Postemployment Benefit Plans

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

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

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

Other postemployment benefits plan description – Health care plans for active and retired employees are administered by the City of Seattle as single-employer defined benefit public employee health care plans.

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

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and on the pattern of sharing of costs between the employer and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future. Actuarial calculations reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

Note 6 – Postemployment Benefit Plans (continued)

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 2014-2017.

Actuarial data and assumptions	**2021**
Valuation date	January 1, 2020
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Discount rate	2.12%
Health care cost trend rates – medical	6.32% in 2021, decreasing to 6.09% in 2022, and decreasing by varying amounts until 2030 thereafter
Health care cost trend rates – Rx	8.50% in 2021, decreasing to 8.00% in 2022, and decreasing by varying amounts until 2030 thereafter
Participation	25% of active employees who retire participate

Mortality

General Service (Actives)
- Males: RP-2014 Employees Table for Males, adjusted by 60%
- Females: RP-2014 Employees Table for Females, adjusted by 95%
- Rates are projected generationally using Scale MP-2014 ultimate rates

General Service (Retirees)
- Males: RP-2014 Healthy Annuitant Males, adjusted by 95%
- Females: RP-2014 Healthy Annuitant Females, adjusted by 95%
- Rates are projected generationally using Scale MP-2014 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.

Note 6 – Postemployment Benefit Plans (continued)

Health care claims development – The sample per capita claim cost assumptions shown below by age, benefit, and plan represent the true underlying baseline experience estimated for the City of Seattle's sponsored postretirement benefits and costs.

	Aetna Preventive Plan			Aetna Traditional Plan		
Age	Medical	Rx	Admin	Medical	Rx	Admin
50	$ 11,520	$ 2,677	$ 358	$ 11,243	$ 2,659	$ 358
52	12,533	2,912	358	12,230	2,893	358
55	14,220	3,305	358	13,877	3,282	358
57	15,499	3,601	358	15,125	3,576	358
60	17,638	4,097	358	17,210	4,069	358
62	19,003	4,415	358	18,543	4,384	358

	Group Health Deductible			Group Health Standard		
Age	Medical	Rx	Admin	Medical	Rx	Admin
50	$ 4,961	$ 1,145	$ 689	$ 5,291	$ 1,171	$ 689
52	5,397	1,246	689	5,755	1,273	689
55	6,123	1,413	689	6,531	1,445	689
57	6,674	1,540	689	7,118	1,574	689
60	7,595	1,752	689	8,100	1,792	689
62	8,182	1,888	689	8,727	1,930	689

The average medical and prescription drug per capita claims costs were developed from 2021 calendar year self-funded premium rates. Premium-equivalent rates were provided by City of Seattle's health pricing actuary. The average medical and prescription drug per capita "adult-equivalent" claims costs were based on the respective pre-65 enrollment weighted average of the 2021 four-tier rate structure including the add-on cost of dependent children and trended back from 2021 to 2020 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.

The average medical and prescription drug per capita claims costs were blended with the 2019 medical/Rx per capita developed claims cost trended forward to the valuation date.

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 2020 and future valuations. The Aon consulting team leveraged expertise of Health experts within Aon as it relates to reviewing the models used for development of the per capita claims costs and future trend rates.

Note 6 – Postemployment Benefit Plans (continued)

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

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

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

OPEB liability – The Fund reported an OPEB liability of approximately $3.5 million in 2021 and $3.1 million in 2020. The Fund's proportionate share of the OPEB liability was 5.43% and 5.31% for the years ended December 31, 2021 and 2020, respectively. Based on the actuarial valuation date of January 1, 2020, details regarding the Fund's total OPEB liability, plan fiduciary net position, and net OPEB liability as of December 31, 2021, are shown below.

($ in thousands)	**Total OPEB Liability**
Changes recognized for the fiscal year:	
Service cost	$ 218.0
Interest on the total OPEB liability	98.4
Differences between expected and actual experience	0.0
Changes of assumptions	202.9
Benefit payments	(159.3)
Contributions from the employer	0.0
Other changes	74.8
Net changes	434.8
Balance recognized at 12/31/2020	3,101.7
Balance recognized at 12/31/2021	$ 3,536.5

Note 6 – Postemployment Benefit Plans (continued)

The Fund recorded an expense for OPEB of $259,035 in 2021 and $239,525 in 2020. The Health Care Subfund of the General Fund is reported in The City of Seattle's Annual Comprehensive Financial Report.

Discount rate and healthcare cost trend rates – The discount rate used to measure the total OPEB liability is 2.12% for 2021 and 2.74% for 2020. The following tables present the sensitivity of net OPEB liability calculation to a 1% increase and a 1% decrease in the discount rate used to measure the total OPEB liability:

Discount Rate Sensitivity
(in millions)

	OPEB Liability at December 31,	
	2021	2020
Discount rate		
1% decrease	$ 3.9	$ 3.4
Current discount rate	3.5	3.1
1% increase	3.2	2.8

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

Healthcare Cost Trend Rate Sensitivity
(in millions)

	OPEB Liability at December 31,	
	2021	2020
Discount rate		
1% decrease	$ 3.0	$ 2.7
Trend rate	3.5	3.1
1% increase	4.1	3.5

Note 6 – Postemployment Benefit Plans (continued)

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, 2021:

(in thousands)	Deferred Outflows	Deferred Inflows
Difference between actual and expected experience	$ 658.8	$ -
Assumption changes	181.3	1,051.8
Contributions made in 2021 after measurement date	165.0	N/A
Total	$ 1,005.1	$ 1,051.8

The Fund's contributions made in 2021 in the amount of $165,016 are reported as deferred outflows of resources and will be recognized as a reduction of the net OPEB liability in the year ended December 31, 2021. These contributions will be recognized in the future as shown in the following table. Note that additional future deferred outflows and inflows of resources may impact these amounts.

Year Ending December 31, *(in thousands)*	Amortization
2022	$ (47.1)
2023	(47.1)
2024	(47.1)
2025	(47.1)
2026	(47.1)
Thereafter	23.8
Total	$ (211.7)

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

Note 7 – Claims Payable

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

For 2021 and 2020, liabilities for workers' compensation claims, as well as other claims, are discounted over a 15-year period at the City's rate of return on investments of 1.378% and 1.816%, respectively. Claims expected to be paid within one year are $ 2,773,063 and $1,545,720 as of December 31, 2021 and 2020, respectively.

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

	2021	2020
Beginning liability, discounted	$ 6,652,041	$ 7,180,077
Payments	(3,536,966)	(1,144,821)
Incurred claims and change in estimate	7,942,992	616,785
Ending liability, discounted	$ 11,058,067	$ 6,652,041

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

Note 8 – Compensated Absences

The Fund has recorded a liability for earned but unused compensatory and vacation leave, as well as estimated sick leave payments calculated based on the termination payment method. The schedules below show the compensated absences activity during the years ended December 31, 2021 and 2020:

	2021	2020
Beginning liability	$ 6,065,712	$ 4,925,878
Additions	6,753,641	5,981,336
Reductions	(5,984,910)	(4,841,502)
Ending liability	$ 6,834,443	$ 6,065,712

Note 9 – Pension Benefit Plan

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

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

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

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

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

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

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

Note 9 – Pension Benefit Plan (continued)

Member and employer contributions – member and employer contributions are:

	YEAR	SCERS I	SCERS II
Member contribution	2021	10.03%	7.00%
	2020	10.03%	7.00%
Employer contribution	2021	16.20%	15.72%
	2020	16.20%	15.76%

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, 2021 and 2020, were $9,665,999 and $9,697,951, respectively.

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

Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions – At December 31, 2021 and 2020, the Fund reported a liability of $54,686,589 and $72,049,064, respectively, of its proportionate share of the System's net pension liability. The net pension liability was measured as of December 31, 2020 and 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of those dates. The Fund's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating parties, actuarially determined. At December 31, 2021 and 2020, the Fund's proportion was 6.87% and 6.74%, respectively.

For the years ended December 31, 2021 and 2020, the Fund recognized pension expense of approximately $3,539,000 and $10,289,000, respectively.

Note 9 – Pension Benefit Plan (continued)

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

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

The Fund's deferred outflows and inflows of resources are as follows at December 31, 2020:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 8,994	$ 2,565,347
Change of assumptions	3,854,118	-
Difference between projected and actual earnings	-	7,343,352
Contributions made subsequent to measurement date	9,367,024	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	4,412,576
Total	$ 13,230,136	$ 14,321,275

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

2022	$ (6,497,814)
2023	(2,702,703)
2024	(7,007,861)
2025	(3,666,201)
2026	229,099
Total	$ (19,645,480)

Note 9 – Pension Benefit Plan (continued)

Actuarial assumptions – The total pension liability as of December 31, 2021, was determined using the following actuarial assumptions:

Valuation date	January 1, 2020
Measurement date	December 31, 2020
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	2.75%
Investment rate of return	7.25% compounded annually, net of expenses
Discount rate	7.25%
Projected general wage inflation	3.5%
Postretirement benefit increases	1.5%
Mortality	Various rates based on RP-2014 mortality tables and using generational projection of improvement using MP-2014 Ultimate projection scale. See 2018 Investigation of Experience report for details.

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

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

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

Note 9 – Pension Benefit Plan (continued)

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, 2020, are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return
Equity: Public	4.25%
Equity: Private	7.32%
Fixed Income: Broad	-0.10%
Fixed Income: Credit	3.26%
Real Assets: Real Estate	3.41%
Real Assets: Infrastructure	3.85%
Diversifying Strategies	N/A

Sensitivity analysis – The following presents the Fund's proportionate share of the net pension liability calculated using the discounted rate of 7.25%, 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 (6.25%) or one percentage point higher (8.25%) than the current rate.

1% Decrease 6.25%	Current Discount Rate 7.25%	1% Increase 8.25%
$ 86,328,743	54,686,589	$ 28,231,832

Note 10 – Environmental Liabilities

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

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

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

Note 10 – Environmental Liabilities (continued)

East Waterway Site – In 2006 the EPA issued an AOC for a Supplemental RI and FS for the East Waterway, an operable unit of the Harbor Island Superfund Site. The Port of Seattle (the Port) alone signed the AOC. Both the City and King County signed a Memorandum of Agreement with the Port to participate as cost share partners in the RI/FS work required by the EPA. The RI and FS are complete. The FS identifies a range of alternatives for cleanup construction that range in cost from $256 million to $411 million (2016 dollars). EPA is currently developing the Proposed Plan, which will be followed by a Record of Decision. The schedule for release of EPA's Proposed Plan is 2022. The Record of Decision is expected in 2023. Remedial design activities would start in late 2023 at the earliest. The Fund recorded an estimate of its share of the estimated total cost.

Gas Works Park Sediment Site – In April 2002, the Department of Ecology (DOE) named the City and another party, Puget Sound Energy, as PRPs for contamination at the Gas Works Sediments Site in North Lake Union. The City and Puget Sound Energy signed an Agreed Order with the DOE in 2005 to initiate two RIs and FSs for the sediment site: one in the western portion of the site led by the City, and another in the eastern portion of the site led by Puget Sound Energy. Subsequently, in fall of 2012, the City and Puget Sound Energy entered into a Settlement, Release, and Cost Allocation Agreement that puts Puget Sound Energy in the lead for all additional cleanup work at the site; the east-west split is no longer in place. Based on the 2012 Agreement, the City pays for 20% of the Shared Costs incurred by Puget Sound Energy for the cleanup work. A revised draft RI/FS was submitted to DOE in late 2021. A Clean-up Action Plan, which is the State's equivalent to a Record of Decision under the Model Toxics Control Act, is expected in 2023.

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

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

Note 10 – Environmental Liabilities (continued)

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

The Fund has included in its estimated liability those portions of the environmental remediation work that are currently deemed to be reasonably estimable. Cost estimates were developed using the expected cash flow technique in accordance with GASB 49. For most of the sites, estimated outlays were based on current cost and no adjustments were made for discounting or inflation. The Duwamish site cost estimates were adjusted to remove discounting and to record the costs in 2021 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 $2.6 million as of December 31, 2020, and $2.6 million as of December 31, 2019.

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

	2021	2020
Beginning environmental liability, net of recovery	$ 180,758,983	$ 180,884,361
Payments or amortization	(2,643,903)	(3,176,623)
Incurred environmental liability	6,783,497	3,051,245
Ending environmental liability, net of recovery	$ 184,898,577	$ 180,758,983

Note 10 – Environmental Liabilities (continued)

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

	2021	2020
Environmental liability, current	$ 3,589,550	$ 2,811,563
Environmental liability, noncurrent	181,309,027	177,947,420
Ending liability	$ 184,898,577	$ 180,758,983

Note 11 – Loans

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

In 2019, the Fund entered into a 20-year loan agreement with the Washington State Department of Ecology to borrow up to $25.0 million to support the Ship Canal Water Quality Project for protecting Lake Washington Ship Canal from combined sewer overflow from Ballard, Fremont, Wallingford, and North Queen Anne. Amounts borrowed under this agreement accrue interest at the rate of 2.0% per annum and estimated initiation of operation date is December 31, 2021. As of December 31, 2021, the Fund had drawn $17.6 million on the loan.

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, 2021, the Fund had drawn $8.9 million on the loan.

In 2021, the Fund entered into a 20-year loan agreement with the Washington State Department of Ecology to borrow up to $25.0 million to support the Ship Canal Water Quality Project for protecting Lake Washington Ship Canal from combined sewer overflow from Ballard, Fremont, Wallingford, and North Queen Anne. Amounts borrowed under this agreement accrue interest at the rate of 1.2% per annum and estimated initiation of operation date is January 1, 2025. As of December 31, 2021, the Fund had drawn $36.0 million on the loan.

Note 11 – Loans (continued)

Loans outstanding as of December 31, 2021 and 2020, are as follows:

Description	Maturity Years	Interest Rate	Amount Borrowed	Loans Outstanding 2021	Loans Outstanding 2020
Midvale	2013-2031	0.25%	$ 4,000,000	$ 2,117,707	$ 2,329,478
Thornton Creek Natural Drainage Systems	2006-2024	0.50%	3,700,000	587,647	783,529
High Point Natural Drainage Systems	2010-2029	1.50%	2,679,413	1,115,884	1,255,413
South Park Flood Control and Local Drainage Program	2007-2025	0.50%	3,400,000	788,491	985,614
Thornton Creek Water Quality Project	2011-2030	1.50%	6,983,021	3,308,175	3,670,381
Capital Hill Water Quality Project	2014-2033	2.60%	1,880,598	1,277,944	1,367,536
Henderson CSO	2018-2037	2.40%	36,372,252	29,876,802	31,449,380
Ship Canal Water Quality Project (EL190167)	2022-2042	2.00%	17,603,061	17,603,061	12,623,133
Pearl Street	2021-2039	1.58%	8,890,307	8,654,975	1,590,305
Ship Canal Water Quality Project (EL210276)	2025-2044	1.20%	36,013,810	36,013,810	-
			$ 121,522,462	$ 101,344,496	$ 56,054,769

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

Years Ending December 31,	Principal	Interest	Total
2022	$ 4,052,026	$ 935,357	$ 4,987,383
2023	4,060,505	1,232,902	5,293,407
2024	4,125,237	1,158,079	5,283,316
2025	5,804,212	1,292,361	7,096,573
2026	5,478,641	1,411,697	6,890,338
2027 - 2031	27,729,244	5,581,694	33,310,938
2032 - 2036	26,714,215	3,114,710	29,828,925
2037 - 2041	16,929,190	1,058,476	17,987,666
2042 - 2044	6,451,226	130,725	6,581,951
	$ 101,344,496	$ 15,916,001	$ 117,260,497

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

	2021	2020
Net loans, beginning of year	$ 56,054,769	$ 45,015,448
Loan proceeds	48,293,740	13,832,217
Principal payments	(3,004,013)	(2,792,896)
Net loans, end of year	$ 101,344,496	$ 56,054,769
Loans due within one year	$ 4,052,026	$ 2,852,381
Loans, noncurrent	$ 97,292,470	$ 53,202,388

Note 12 – Wastewater Disposal Agreement

The Fund has a wastewater disposal agreement with the King County Department of Natural Resources Wastewater Treatment Division (the Division), which expires in 2036. The monthly wastewater disposal charge paid to the Division is based on the Division's budgeted cost for providing the service. The charges are determined by water consumption and the number of single-family residences as reported by SPU and other component agencies. Payments made by the Fund were $164,550,293 and $167,490,395 for fiscal years 2021 and 2020, respectively.

Required Supplementary Information

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

	2021	2020	2019	2018	2017	2016
Employer's proportion of the net pension liability	14.62%	14.33%	14.55%	14.73%	15.13%	16.37%
Employer's proportionate share of the net pension liability	$ 143,163,797	$ 180,105,232	$ 221,049,893	$ 163,086,154	$ 197,454,529	$ 212,671,200
Employer's covered payroll	$ 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	112.21%	160.05%	197.41%	151.40%	185.06%	202.48%
Plan fiduciary net position as a percentage of the total pension liability	78.81%	71.48%	64.14%	72.04%	65.60%	64.03%

Schedule of Seattle Public Utilities' Contributions

	2021	2020	2019	2018	2017	2016
Contractually required employer contribution	$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	(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	$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	16.19%	15.14%	15.27%	15.29%	15.33%	15.70%

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

	December 31, 2021	December 31, 2020	December 31, 2019
Total OPEB Liability			
Normal cost	$ 4,015,249	$ 3,378,925	$ 3,842,152
Interest	1,813,401	2,586,942	2,195,238
Differences between expected and actual experience	-	6,956,579	-
Changes in assumptions	3,738,597	(7,760,776)	(3,886,702)
Benefit payment	(2,933,774)	(2,484,320)	(2,333,610)
Total OPEB liability – beginning of year	63,624,261	60,946,911	61,129,833
Total OPEB liability – end of year	$ 70,257,734	$ 63,624,261	$ 60,946,911
Covered-employee payroll	$ 1,124,692,046	$ 1,124,692,046	$ 1,015,097,334
Net OPEB liability as percentage of covered-employee payroll	6.25%	5.66%	6.00%

Other Information (Unaudited)

Drainage Wastewater Debt Service Coverage Calculation 2021

Operating Revenues		
Wastewater	$	328,311,496
Drainage		166,693,194
Other		7,512,455
Total Operating Revenue		502,517,145
Operating Expense		
Wastewater Treatment Contract		165,084,528
Other Operations and Maintenance		115,085,639
City Taxes		58,248,201
Other Taxes		7,520,235
Total Operating Expenses Before Debt Service		345,938,603
Net Operating Income		156,578,542
Adjustments		
Add: Claim Expense		7,942,992
Add: City Taxes		58,248,201
Add: Investment Interest		3,903,201
Less: DSRF Earnings		(433,683)
Add: BAB's Subsidy		1,584,823
Add (Less): Net Other Nonoperating Revenues/(Expenses)		2,487,944
Add: Proceeds from Sale of Assets		-
Total Adjustments		73,733,478
Net Revenue Available for Debt Service	$	230,312,020
Net Revenue Available for Debt Service (w/o City Taxes)	$	172,063,819
Annual Debt Service	$	60,900,710
Less: DSRF Earnings		(433,683)
Adjusted Annual Debt Service	$	60,467,027
Coverage		3.81
Coverage without taxes		2.85

Statistics Required for Revenue Bond Continuing Disclosure

Wastewater System Operating Statistics

	2017	2018	2019	2020	2021
Population Served	694,513	707,555	724,144	737,015	742,400
Billed Wastewater Revenues ($1,000's)	$ 272,085	$ 280,554	$ 303,935	$ 302,829	$ 324,630
Billed Wastewater Volume (Thousand CCF)					
Residential	7,699	7,613	7,723	7,851	7,867
Commercial	13,584	13,504	13,554	11,995	12,127
Total	21,283	21,117	21,277	19,846	19,994
Gallons Used Per Day Per Capita	62.76	61.13	60.18	55.15	55.16

Drainage and Wastewater – 2021 Accounts and Billed Revenues

	Drainage	Wastewater
Customer Accounts		
Residential	156,150	157,122
Commercial	66,301	18,985
Total	222,451	176,107

	Drainage	Wastewater
Billed Revenue		
Residential	$ 79,852,347	$ 121,014,025
Commercial	86,845,853	203,615,716
Total	$ 166,698,200	$ 324,629,741

Major Wastewater Customers – 2021 Annual Billed Revenues and Percentage of Revenue

Major Wastewater Customers

Name	Revenue	% of Total Revenue
University of Washington	$ 9,181,691	2.8%
Seattle Housing Authority	6,964,822	2.1%
City of Seattle	3,205,419	1.0%
Equity Residential	3,041,500	0.9%
Marriott International Inc	1,894,266	0.6%
King County	1,849,135	0.6%
Port of Seattle	1,525,371	0.5%
Harborview Medical Center	1,308,137	0.4%
Seattle Children's	1,245,977	0.4%
Essex Property Trust	1,231,265	0.4%

Major Drainage Customers – 2021 Annual Billed Revenues and Percentage of Revenue

Name	Revenue	% of Total Revenue
City of Seattle	$ 10,808,331	6.5%
King County	3,457,684	2.1%
Seattle Public Schools	3,385,362	2.0%
University Of Washington	2,812,450	1.7%
BNSF	2,520,317	1.5%
Federal Government	1,188,517	0.7%
Seattle Housing Authority	1,118,799	0.7%
Union Pacific	950,036	0.6%
Archdiocese Of Seattle	652,341	0.4%
Prologis Inc	646,421	0.4%

Wastewater Rates

	2017	2018	2019	2020	2021	2022
Volume rate per ccf	$ 12.93	$ 13.46	$ 14.48	$ 15.55	$ 16.67	$ 17.68

Note: 1 CCF equals 748 gallons. Wastewater rate increased 7.2% and 7.4% in 2021 and 2020, respectively.

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

Drainage Rates

Flat Rate per Parcel	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**% Impervious Space**
Single Family Residential*								
0-1,999 sq. ft.	$ 123.81	$ 140.46	$ 159.68	$ 169.81	$ 183.47	$ 195.57	$ 204.21	
2,000 - 2,999 sq. ft.	$ 206.93	$ 231.47	$ 259.68	$ 276.51	$ 298.75	$ 320.58	$ 337.13	
3,000 - 4,999 sq. ft.	$ 286.63	$ 319.05	$ 356.15	$ 383.43	$ 414.26	$ 445.25	$ 465.91	
5,000 - 6,999 sq. ft.	$ 390.03	$ 432.45	$ 480.86	$ 516.72	$ 558.27	$ 599.94	$ 632.67	
7,000 - 9,999 sq. ft.	$ 491.40	$ 543.98	$ 603.90	$ 652.61	$ 705.09	$ 757.69	$ 797.99	
Rate per 1,000 sq. ft.								
Undeveloped								0 - 15%
Regular	$ 31.24	$ 34.76	$ 38.78	$ 42.62	$ 46.05	$ 49.49	$ 53.68	
Low Impact	$ 18.57	$ 20.67	$ 23.06	$ 25.36	$ 27.40	$ 29.45	$ 31.11	
Light								16 - 35%
Regular	$ 48.52	$ 53.54	$ 59.24	$ 63.64	$ 68.75	73.92	79.66	
Low Impact	$ 38.31	$ 42.26	$ 46.74	$ 49.85	$ 53.85	$ 57.87	$ 61.92	
Medium								36 - 65%
Regular	$ 70.67	$ 77.60	$ 85.45	$ 90.58	$ 97.86	$ 105.15	$ 112.87	
Low Impact	$ 57.21	$ 62.86	$ 69.28	$ 73.31	$ 79.21	$ 85.00	$ 91.20	
High	$ 93.56	$ 102.48	$ 112.57	$ 119.86	$ 129.50	$ 139.17	$ 149.12	66 - 85%
Very High	$ 112.38	$ 122.94	$ 134.85	$ 143.10	$ 154.60	$ 165.81	$ 177.83	86 - 100%

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

MOSSADAMS

APPENDIX D

DEMOGRAPHIC AND ECONOMIC INFORMATION

This page left blank intentionally.

DEMOGRAPHIC AND ECONOMIC INFORMATION

Seattle is the largest city in the Pacific Northwest, serves as the County seat and is the center of the County's economic activity. King County is the largest county in the State in population, number of cities and employment, and the twelfth most populous county in the United States. Of the State's population, nearly 30% reside in the County, and of the County's population, 32% live in the City of Seattle.

Population

The most recently released historical and current population counts and estimates for the State of Washington, the County, and the City are given below.

POPULATION

Year	Washington	King County	Seattle
2012 (1)	6,835,396	1,945,686	614,283
2013 (1)	6,909,666	1,983,550	624,045
2014 (1)	7,005,504	2,021,027	638,784
2015 (1)	7,106,989	2,061,981	660,908
2016 (1)	7,237,661	2,118,958	684,136
2017 (1)	7,344,589	2,149,910	694,513
2018 (1)	7,464,069	2,187,460	707,555
2019 (1)	7,582,481	2,227,755	724,144
2020 (2)	7,705,281	2,269,675	737,015
2021 (3)	7,766,975	2,287,050	742,400

(1) Source: State of Washington, Office of Financial Management ("OFM"). Intercensal population estimates are bracketed by the two most recent decennial censuses and are provided by OFM to yield a more consistent series than the original postcensal estimates—see following note.

(2) Source: U.S. Department of Commerce, Bureau of Census.

(3) State of Washington, OFM, April 1 Postcensal Estimates of Population (2021 Revised, released November 30, 2021). City postcensal population estimates reference the most recent decennial census count and are updated each year based on changes in housing stock and counts of persons in group quarters facilities.

Per Capita Income

The following table presents per capita personal income for the Seattle Metropolitan Division, the County, the State, and the United States.

PER CAPITA INCOME

	2016	2017	2018	2019	2020
Seattle MD	$ 71,903	$ 75,973	$ 81,201	$ 85,284	$ 87,452
King County	79,742	84,542	90,438	94,974	96,647
State of Washington	55,884	58,550	62,026	64,758	67,126
United States	49,870	51,885	54,446	56,490	59,510

Source: U.S. Bureau of Economic Analysis, U.S. Department of Commerce

Construction

The table below lists the value of housing construction for which building permits have been issued within the City. The value of public construction is not included in this table.

CITY OF SEATTLE
RESIDENTIAL BUILDING PERMIT VALUES

	New Single Family Units		New Multi-Family Units		
Year	**Number**	**Value($)**	**Number**	**Value($)**	**Total Value($)**
2016	797	216,693,139	9,202	1,242,951,877	1,459,645,016
2017	593	162,452,219	9,294	1,562,063,391	1,724,515,610
2018	523	141,737,845	7,395	892,514,843	1,034,252,688
2019	507	139,195,045	10,277	1,554,462,494	1,693,657,539
2020	247	111,343,923	5,479	637,037,156	748,381,079
2021	264	78,231,798	11,716	1,849,751,186	1,927,982,984
2021(1)	37	15,904,494	1,619	203,821,469	219,725,963
2022(1)	63	17,274,694	836	161,552,811	178,827,505

(1) Estimated through February.

Source: U.S. Bureau of the Census

Retail Activity

The following tables present information on taxable retail sales in King County and the City.

THE CITY OF SEATTLE AND KING COUNTY
TAXABLE RETAIL SALES

Year	King County	City of Seattle
2016	$ 59,530,882,870	$ 24,287,539,378
2017	62,910,608,935	26,005,147,210
2018	69,018,354,390	28,292,069,881
2019	72,785,180,223	29,953,200,188
2020	66,955,895,952	25,904,879,115
2020(1)	48,428,134,083	18,863,518,272
2021(1)	57,372,941,684	21,961,006,124

(1) Through third quarter.

Source: Quarterly Business Review, Washington State Department of Revenue

Employment

The following table presents total employment in Washington State as of December 31, 2020 (unless otherwise noted) for certain major employers in the Puget Sound area.

PUGET SOUND
MAJOR EMPLOYERS

Employer	Employees
Amazon.com	80,000
Microsoft Corp.	57,700
The Boeing Co.	56,900(1)
Joint Base Lewis-McChord	54,000(2)
University of Washington Seattle	49,500
Providence	43,500
Walmart Inc.	22,100
Costco Wholesale Corp.	20,200
Albertsons Cos. dba Safeway, Haggen, Albertsons	20,000
MultiCare Health System	18,300
Virginia Mason Franciscan Health(3)	17,800
King County Government	16,400
Fred Meyer Stores	16,100
City of Seattle(4)	15,200
Starbucks Coffee Co.	14,000
Swedish Health Services	12,700
Seattle Public Schools	11,700
Alaska Air Group Inc.	9,200
Kaiser Permanente	8,200
Seattle Children's Foundation	8,000
T-Mobile USA Inc.	8,000

(1) In the past couple of years, Boeing has faced financial stress and has significantly reduced its company-wide workforce through a combination of buyouts and layoffs and the shift of 787 production out of the State. The State's quarterly economic and revenue forecast released in September 2021 assumed that Boeing was about three quarters of the way through its announced 31,000 company-wide layoffs, which were assumed to be concentrated in the State.

(2) 40,000 are service members and 14,000 are civilian employees.

(3) Virginia Mason and CHI Franciscan Health merged in January 2021.

(4) Source: City of Seattle (as of January 2022).

Source: Puget Sound Business Journal, Publication Date October 8, 2021

KING COUNTY
RESIDENT CIVILIAN LABOR FORCE AND EMPLOYMENT
AND NONAGRICULTURAL WAGE AND SALARY EMPLOYMENT(1)

	Annual Average				
	2017	**2018**	**2019**	**2020**	**2021**
Civilian Labor Force	1,231,166	1,260,655	1,285,974	1,278,594	1,278,003
Total Employment	1,187,422	1,218,696	1,250,766	1,178,362	1,223,432
Total Unemployment	43,744	41,959	35,208	100,232	54,571
Percent of Labor Force	3.6%	3.3%	2.7%	7.8%	4.3%

NAICS INDUSTRY	**2017**	**2018**	**2019**	**2020**	**2021**
Total Nonfarm	1,397,875	1,432,817	1,467,850	1,383,033	1,407,858
Total Private	1,216,542	1,254,283	1,292,300	1,211,158	1,237,183
Goods Producing	177,733	181,550	186,058	172,467	168,533
Mining and Logging	533	500	500	475	408
Construction	74,342	78,108	79,533	76,675	79,258
Manufacturing	102,867	102,925	106,000	95,267	88,850
Service Providing	1,220,142	1,251,267	1,281,792	1,210,567	1,239,325
Trade, Transportation, and Utilities	268,325	274,642	280,933	276,558	282,650
Information	102,883	111,017	121,633	127,908	134,450
Financial Activities	71,450	73,708	75,267	72,533	73,567
Professional and Business Services	227,792	233,092	238,875	234,558	245,675
Educational and Health Services	179,142	185,842	189,592	179,767	182,683
Leisure and Hospitality	140,775	145,050	146,833	100,675	104,417
Other Services	48,442	49,383	53,108	46,692	45,208
Government	181,333	178,533	175,550	171,875	170,675
Workers in Labor/Management Disputes	0	0	0	0	0

	Mar. 2022
Civilian Labor Force	1,322,510
Total Employment	1,282,742
Total Unemployment	39,768
Percent of Labor Force	3.0%

(1) Columns may not add to totals due to rounding.

Source: Washington State Employment Security Department.

APPENDIX E

BOOK-ENTRY TRANSFER SYSTEM

This page left blank intentionally.

BOOK-ENTRY TRANSFER SYSTEM

The following information has been provided by DTC. The City makes no representation as to the accuracy or completeness thereof. Purchasers of the Bonds (the "Beneficial Owners") should confirm the following with DTC or its participants (the "Participants").

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has an S&P rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at *www.dtcc.com*.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or Bond Registrar, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Bond Registrar, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) are the responsibility of the City or the Bond Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the City or the Bond Registrar. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

The following information has been provided by the City.

The City and the Bond Registrar may treat DTC (or its nominee) as the sole and exclusive Registered Owner of the Bonds registered in such name for the purposes of payment of the principal of and premium, if any, or interest with respect to those Bonds, selecting Bonds or portions thereof to be redeemed, giving any notice permitted or required to be given to Registered Owners of Bonds under the Bond Documents, registering the transfer of Bonds, obtaining any consent or other action to be taken by Registered Owners of Bonds, and for all other purposes whatsoever; and the City and the Bond Registrar shall not be affected by any notice to the contrary. The City and the Bond Registrar shall not have any responsibility or obligation to any direct or indirect DTC participant, any person claiming a beneficial ownership interest in the Bonds under or through DTC or any such participant, or any other person which is not shown on the Bond Register as being a Registered Owner of Bonds, with respect to: (i) the Bonds; (ii) any records maintained by DTC or any such participant; (iii) the payment by DTC or such participant of any amount in respect of the principal of, premium, if any, or interest with respect to the Bonds; (iv) any notice which is permitted or required to be given to Registered Owners of Bonds under the Bond Documents; (v) the selection by DTC or any such participant of any person to receive payment in the event of a partial redemption of the Bonds; or (vi) any consent given or other action taken by DTC as Registered Owner of the Bonds.