REPORT OF INDEPENDENT AUDITORS AND FINANCIAL STATEMENTS WITH REQUIRED SUPPLEMENTARY INFORMATION AND OTHER INFORMATION

SEATTLE PUBLIC UTILITIES – SOLID WASTE FUND (AN ENTERPRISE FUND OF THE CITY OF SEATTLE)

December 31, 2017 and 2016

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Report of Independent Auditors

To the Director of Seattle Public Utilities
Solid Waste Fund
Seattle, Washington

Report on the Financial Statements

We have audited the accompanying financial statements of Seattle Public Utilities – Solid Waste Fund (the Fund), which comprise the statements of net position as of December 31, 2017 and 2016, 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.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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 Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Seattle Public Utilities – Solid Waste Fund as of December 31, 2017 and 2016, and the results of its operations and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The other information on pages 44 – 47 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion or provide any assurance on it.

Moss Adams LLP

Seattle, Washington
May 4, 2018

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 Solid Waste Fund (the Fund) for the fiscal years ended December 31, 2017 and 2016. The revenues, expenses, assets, deferred outflows of resources, liabilities, and deferred inflows of resources of the City of Seattle's solid waste system are recorded in the Solid Waste Fund, the functions of which are primarily supported by user fees and charges billed 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 statement of net position presents information, as of December 31, 2017 and 2016, 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, 2017 and 2016. 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, 2017 and 2016. 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.

Overview of the Financial Statements (continued)

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, 2017, the Fund had a surplus in total net position of $32.9 million compared to a surplus of $21.0 million in 2016. In 2017, the Fund's change in net position was an increase of $11.9 million (56.9%), as compared to 2016 with an increase of $9.6 million (84.8%). The following summary statement of net position presents the assets and deferred outflows of resources of the Fund and shows the mix of liabilities and deferred inflows of resources and net position used to acquire these assets.

Summary Statement of Net Position

	2017	2016	2015
ASSETS			
Current assets	$ 72,278,351	$ 53,719,898	$ 57,239,916
Capital assets, net	226,971,895	227,756,103	205,737,898
Other	75,149,393	68,911,792	59,349,626
Total assets	374,399,639	350,387,793	322,327,440
DEFERRED OUTFLOWS OF RESOURCES	7,161,986	8,907,565	6,327,726
Total assets and deferred outflows of resources	$ 381,561,625	$ 359,295,358	$ 328,655,166
LIABILITIES			
Current liabilities	$ 33,455,690	$ 30,735,342	$ 35,677,196
Revenue bonds	215,229,288	223,028,112	210,309,632
Other	71,737,688	58,426,923	52,844,020
Total liabilities	320,422,666	312,190,377	298,830,848
DEFERRED INFLOWS OF RESOURCES	28,241,369	26,137,772	18,481,201
NET POSITION			
Net investment in capital assets	35,863,284	32,779,245	16,276,742
Restricted	244,124	198,092	-
Unrestricted	(3,209,818)	(12,010,128)	(4,933,625)
Total net position	32,897,590	20,967,209	11,343,117
Total net position, liabilities and deferred inflows of resources	$ 381,561,625	$ 359,295,358	$ 328,655,166

Financial Analysis (continued)

2017 Compared to 2016

Assets – Current assets increased by $18.6 million (34.5%) from the prior year due to a $19.5 million increase in operating cash offset by a $1.1 million decrease in accounts receivable, net of allowance for doubtful accounts. The increase in operating cash was primarily the result of operating income. The accounts receivable decrease consisted of $0.2 million reduction from commercial customers and $0.8 million from residential customers. Balances in unbilled receivables, and amounts due from other City funds and other governments remained essentially unchanged from 2016.

Capital assets decreased $0.8 million (-0.3%) over the prior year. This decrease is due to $11.3 million accumulated depreciation offset by a $10.6 million increase in construction in progress and other plant assets, driven by costs for the South Transfer Station rebuild and the financial system upgrade project.

Other assets increased $6.2 million (9.1%) from the prior year. This change consisted of an increase of $9.2 million in accrued landfill closure/postclosure costs offset by a decrease in restricted cash and equity in pooled investments of $2.8 million and a decrease in other noncurrent and regulatory assets of $0.2 million. The $2.8 million change in restricted cash and equity in pooled investments is mostly attributable to transfers of construction cash to the operating cash for payment of current year projects.

Deferred outflows of resources – Deferred outflows of resources decreased by $1.7 million (19.6%) from 2016. This increase is attributed to changes in assumptions related to pension accounting.

Liabilities – Current liabilities increased $2.7 million (8.9%) from the prior year. This is mostly attributed to an accrual of $3.5 million made, relating to the payment of construction costs for the North Transfer Station, and an increase of $0.2 million in revenue bonds due within one year. These increases were offset by decreases of $0.4 million related to the accrual of 2017 expenses, $0.3 million decrease in miscellaneous liabilities and $0.1 million for interest payable.

Noncurrent and other liabilities increased $5.5 million (2.0%) from 2017. This increase is mostly attributed to an increase of $9.4 million in accrued landfill closure/postclosure costs and a $6.0 million increase in the noncurrent portion of environmental liabilities. These increases were offset by a decrease of $7.8 million in Revenue Bonds and related liabilities and a $2.3 million decrease in net pension liability.

Deferred inflows of resources – Deferred inflows of resources increased by $2.1 million (8.0%) from 2016 due to a $1.7 million (214.4%) increase attributed to changes in assumptions for pension accounting as well as an increase in the rate stabilization account of $0.4 million (1.6%) due to interest earned in 2017.

Financial Analysis (continued)

Net position – A portion of the Fund's net position ($35.8 million) 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. During 2017, net position invested in capital assets increased $3.0 million due to an increase in capital assets and decrease in debt related to investment in capital.

The primary remaining portion of the Fund's net position (a negative $3.2 million) represents resources that are unrestricted. The unrestricted portion of net position increased $8.8 million from the prior year primarily as a result of operating income.

2016 Compared to 2015

Assets – Current assets decreased by $3.5 million (-6.1%) from the prior year due to a $6.0 million decrease in operating cash. The decrease in operating cash was primarily the result of decreased transfers from the construction cash account for reimbursements of 2016 construction costs paid out of the operating cash. Balances in accounts receivable increased $2.1 million net of allowance for doubtful accounts, consisting mostly of $1.2 million from commercial customers and $1.0 million from residential customers. Balances in unbilled receivables, and amounts due from other City funds and other governments remained essentially unchanged from 2015.

Capital assets increased $22.0 million (10.7%) over the prior year. The increase in capital assets is due to a $28.5 million increase in construction in progress and other plant assets, driven by costs for the North Transfer Station rebuild and the replacement of the customer utility billing system. Offsetting these changes were $6.5 million in accumulated depreciation.

Other assets increased $9.6 million (16.1%) from the prior year. This change consisted of an increase in restricted cash and equity in pooled investments of $12.2 million offset by a $2.6 million decrease in other noncurrent assets. The $12.2 million increase is mostly attributed to a transfer of operating cash to the rate stabilization account of $6.6 million and the issuance of revenue and refunding bonds in 2016 resulting in a $5.0 million increase in available construction funds and a $0.6 million increase in the bond reserve account. The decrease in other noncurrent assets includes $1.4 million in environmental recoveries, $1.3 million in landfill postclosure costs and $0.1 million in other charges offset by $0.2 million in unamortized bond issue costs, net.

Deferred outflows of resources – Deferred outflows of resources increased by $2.6 million (40.8%) from 2015. This increase is attributed to changes in assumptions related to pension accounting.

Liabilities – Current liabilities decreased $4.9 million (-13.9%) from the prior year. This is mostly attributed to decreases of $4.2 million related to the accrual of 2016 expenses, $1.5 million for environmental liabilities, and $0.5 million in accrued interest. These decreases were offset by increases of $0.8 million for revenue bonds due within one year, $0.4 million increase in miscellaneous liabilities that includes the hazardous waste program and $0.1 million for landfill closure/postclosure liability.

Financial Analysis (continued)

Noncurrent and other liabilities increased $18.3 million (7.0%) from 2015. The increases are mostly attributed to a $12.7 million increase in Revenue Bonds and related liabilities from a new bond issue in 2016, and a net pension liability increase of $3.7 million. Additionally, there was a $3.0 million increase in the noncurrent portion of environmental liabilities. These increases were offset by a decrease of $1.1 million in accrued landfill closure/postclosure costs.

Deferred inflows of resources – Rate stabilization account increased by $6.9 million (37.1%) from 2015 due to a cash transfer from the operating fund and interest earned in 2016.

Net position – A portion of the Fund's net position ($32.8 million) 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. During 2016, net position invested in capital assets increased $16.5 million due to an increase in capital assets and debt related to investment in capital.

The primary remaining portion of the Fund's net position (a negative $12.0 million) represents resources that are unrestricted. The unrestricted portion of net position decreased $7.1 million from the prior year primarily due to the recording of the pension liability as required by GASB Statement No. 68 for reporting pensions (Note 9).

The following summary statements of revenues, expenses, and changes in net position present the annual surplus (or deficit) of revenues over expenses (the change in net position):

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

	2017	2016	2015
Operating revenues	$ 209,643,612	$ 183,666,276	$ 174,787,770
Operating expenses	(191,064,424)	(170,785,025)	(169,740,350)
Net operating income	18,579,188	12,881,251	5,047,420
Other expenses, net of other revenues	(7,005,412)	(3,861,175)	(4,247,539)
Fees, contributions, and grants	356,605	604,016	584,409
Change in net position	$ 11,930,381	$ 9,624,092	$ 1,384,290

Financial Analysis (continued)

2017 Compared to 2016

Current year operating revenues increased $26.0 million (14.1%) compared to the prior year. There were several key factors affecting this change. There was an approximate 7.2% rate increase for residential and commercial garbage, and composting services effective April 1, 2017. This resulted in residential and commercial solid waste collection service revenue gains of $12.3 million, including $8.2 million in residential garbage collection and $4.1 million in commercial collection revenue. There was also a $7.0 million increase in the Solid Waste Disposal Services. The opening of the North Transfer Station in November of 2016 resulted in a revenue increase of $4.6 million. In addition, the Fund experienced a $2.2 million increase from fluctuations in pricing of recycling commodities. Additionally, there was no transfer to the rate stabilization account in 2017 as compared to a $6.6 million transfer in 2016.

Seattle City Council enacted legislation in 2012 (ordinance 124056) instructing the Fund to make contributions to a Rate Stabilization Account if the balance of operating cash on hand at year-end met certain targets. The legislation dictates that Seattle Public Utilities shall deposit cash into the Solid Waste Fund's Rate Stabilization Account and defer revenues equal to the amount that the Fund's operating cash balance at the end of 2016 exceeded $15.9 million. There was no such target for 2017. The deposits will be limited to cash and revenues that are not required to meet financial policy targets for the Fund with respect to debt service coverage, net income, or cash-financed capital expense. The fund may withdraw revenues from the Fund's Rate Stabilization Account provided that: such a withdrawal will allow the Fund to meet one or more financial policy targets that it would not have otherwise met in the absence of such a withdrawal; or to reduce the size of any adjustment to 2016 or 2017 solid waste rates, if such a reduction to the rates would not jeopardize the Fund's ability to meet operating cash balances specified in the legislation and the financial policy targets for debt service coverage, net income, and cash-financed capital projects. The $15.9 million operating cash target was exceeded in 2016 and $6.6 million of revenue was deferred and deposited into the Rate Stabilization Account. At year end of 2017, net income, cash balances and debt service targets met the Fund's financial policies. As such, there was no transfer to the Rate Stabilization Account for 2017.

Operating expenses in 2017 increased $20.3 million (11.9%) compared to 2016. The largest operating expense increase was a $6.0 million increase in City and State taxes due to the increase in revenue in 2017. Additional increases included $4.6 million in depreciation and amortization; $3.2 million increase in utility systems management; $2.9 million increase in solid waste collection; $2.5 million increase in general and administrative; and a $1.7 million increase in field operations. These increases were offset by decreased expenses of $0.6 million in project delivery and planning and development.

Nonoperating expenses increased $3.4 million (104.1%). Most of this increase was related to $3.8 million increase in interest expense.

Financial Analysis (continued)

2016 Compared to 2015

Current year operating revenues increased $8.9 million (5.1%) compared to the prior year. There were several key factors affecting this change. There was an approximate 5.9% rate increase for residential and commercial garbage, and composting services effective April 1, 2016. This resulted in residential and commercial solid waste collection service revenue gains of $6.8 million, including $4.7 million in residential garbage collection and $2.1 million in commercial collection revenue. Additionally, there was a $6.0 million increase in the Solid Waste Disposal Services due to a pricing change for the recycling costs in the Rabanco Disposal Services (Rabanco) Contract. Due to a change in contract terms with Rabanco, the recycling revenues are now reported at gross (previous year's revenues were reported at net of expenses). These gains were offset by a transfer to the rate stabilization account of $6.6 million as compared to a $2.5 million transfer in 2015, an increase of $4.1 million.

Ordinance 124056 instructed the Solid Waste Fund to make contributions to a Rate Stabilization Account if the balance of operating cash on hand at year-end met certain targets in 2015 and 2016. The fund may withdraw revenues from the Fund's Rate Stabilization Account provided that: such a withdrawal will allow the Fund to meet one or more financial policy targets that it would not have otherwise met in the absence of such a withdrawal; or to reduce the size of any adjustment to 2016 or 2017 solid waste rates, if such a reduction to the rates would not jeopardize the Fund's ability to meet operating cash balances specified in the legislation and the financial policy targets for debt service coverage, net income, and cash-financed capital projects. The $15.9 million operating cash target was exceeded in 2016 and $6.6 million of revenue was deferred and deposited into the Rate Stabilization Account.

Operating expenses in 2016 increased $1.0 million (0.6%) compared to 2015. The largest operating expense increase was a $4.6 million increase in Solid Waste collection due to recycling costs in the Rabanco Disposal Services Contract and a change in the contract terms, which had previously netted these costs with recycling revenues. Additional increases included $2.2 million in general and administrative; $1.3 million increase in City and State taxes; and a $0.7 million increase in field operations. These increases were offset by decreased expenses of $4.6 million for the environmental cleanup of the South Park Landfill; $1.8 million decrease in depreciation and amortization; $0.7 million decrease in utility system management; $0.4 million decrease in project delivery and a $0.3 million decrease in customer service.

Nonoperating expenses decreased $0.4 million (-11.0%) Most of this decrease was related to $0.4 million reduction in the interest expense due to the 2016 issuance of a Revenue and Refunding Bond and an increase in the gain on sale of assets.

Capital Assets

The following table summarizes capital assets, net of accumulated depreciation, by major asset category as of December 31, 2017, 2016, and 2015:

Summary of Capital Assets, Net of Accumulated Depreciation

	2017	2016	2015
Land and land rights	$ 26,882,856	$ 26,882,856	$ 15,217,643
Buildings	119,359,504	47,860,782	49,134,328
Structures	10,705,962	3,540,149	3,707,295
Machinery and equipment	40,176,383	124,786,938	24,190,656
Computer systems	16,499,240	16,203,854	3,209,280
Construction in progress	10,904,375	6,037,949	108,235,121
Other property	2,443,575	2,443,575	2,043,575
Capital assets, net of accumulated depreciation	$ 226,971,895	$ 227,756,103	$ 205,737,898

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

2017 Compared to 2016

The Fund's capital assets (net of accumulated depreciation) for the year ended December 31, 2017 is $227.0 million. This represents a decrease of approximately $0.8 million (0.3%) compared to 2016.

Highlights of the Fund's capital assets placed in service during 2017 include the following:

- $5.1 million for the North Transfer Station
- $1.8 million for the new customer billing system

The Fund's construction in progress activity at year end included $3.2 million for the South Transfer Station 2 Facility and $2.3 million for the financial system project.

2016 Compared to 2015

The Fund's capital assets (net of accumulated depreciation) for the year ended December 31, 2016 is $227.8 million. This represents an increase of approximately $22.0 million (10.7%) compared to 2015. The Fund spent $28.2 million for construction projects in 2016. The construction projects were multi-year projects and $130.4 million related to these projects were capitalized as assets in 2016. This increase in assets was offset by $0.2 million for asset retirements and $6.7 million for depreciation.

Capital Assets (continued)

Highlights of the Fund's capital assets placed in service during 2016 include the following:

- $114.4 million for the North Transfer Station
- $14.0 million for the new customer billing system
- $1.0 million for heavy equipment purchases
- $0.8 million for IT infrastructure upgrades

The Fund's construction in progress activity at year end included $2.7 million for the South Transfer Station 2 Facility.

Debt Administration

The Fund's debt primarily consists of bonded debt, which is secured solely by solid waste revenues and provides financing for capital improvements. The Fund's credit rating on its bonds are AA by Standard & Poor's Rating Service and Aa3 by Moody's Investors Service. These ratings remain unchanged from 2016. Additional information about the Fund's long-term debt can be found in Note 4 of this report.

2017 Compared to 2016

At the end of 2017, the Fund had $201.0 million in bonded debt, as compared to $207.5 million in 2016, all of which was secured solely by solid waste revenues. This decrease of $6.5 million is attributed to scheduled principal payments for existing bond debt. The Fund has used bond proceeds mostly for the completion of the North Transfer Station, the new customer billing system and the financial system upgrade. The Fund retains bond reserves of $9.8 million.

2016 Compared to 2015

At the end of 2016, the Fund had $207.5 million in bonded debt, as compared to $197.8 million in 2015, all of which was secured solely by solid waste revenues. This increase of $9.7 million is attributed to the issuance of $35.3 million in new debt, a refunding of $19.9 million and $5.8 million scheduled principal payments for existing bond debt. The Fund has used bond proceeds mostly for the completion of the North Transfer Station and new customer billing system. The Fund retains bond reserves of $9.8 million.

Economic Factors Affecting Next Year

Effective April 1, 2018, the Fund will adopt a rate increase of approximately 1.9% for residential and commercial services. This rate increase is expected to bring an additional $2.7 million in operating revenues to the Fund in 2018.

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, Finance Division, PO Box 34018, Seattle, WA 98124-4018, telephone: (206) 684-3000.

	December 31, 2017	December 31, 2016
ASSETS		
CURRENT ASSETS		
Operating cash and equity in pooled investments	$ 55,716,306	$ 36,174,435
Receivables		
Accounts, net of allowance	14,398,396	15,461,269
Unbilled revenues	236,219	236,327
Due from other funds	746,061	517,940
Due from other governments	1,004,574	1,041,042
Materials and supplies inventory	158,423	155,302
Prepayments and other current assets	18,372	133,583
Total current assets	72,278,351	53,719,898
NONCURRENT ASSETS		
Restricted cash and equity in pooled investments	52,534,011	55,329,001
Prepayments long-term	270,454	288,484
Regulatory landfill closure and postclosure costs	20,239,330	10,993,582
Regulatory assets, net	1,805,349	1,896,508
Other charges	300,249	404,217
Capital assets		
Land and land rights	26,882,856	26,882,856
Plant in service, excluding land	247,059,406	252,386,350
Less accumulated depreciation	(60,318,317)	(59,994,627)
Construction in progress	10,904,375	6,037,949
Other property, net	2,443,575	2,443,575
Total noncurrent assets	302,121,288	296,667,895
Total assets	374,399,639	350,387,793
DEFERRED OUTFLOWS OF RESOURCES		
Unamortized loss on refunded debt	2,303,682	2,507,427
Pension contributions and changes in assumptions	4,858,304	6,400,138
Total deferred outflows of resources	7,161,986	8,907,565
Total assets and deferred outflow of resources	$ 381,561,625	$ 359,295,358

Seattle Public Utilities – Solid Waste Fund
(An Enterprise Fund of the City of Seattle)
Statements of Net Position

	December 31, 2017	December 31, 2016
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	$ 7,856,854	$ 9,857,312
Salaries, benefits and payroll taxes payable	1,499,005	1,226,167
Compensated absences payable	149,371	139,142
Due to other funds	3,005,890	2,048,574
Interest payable	2,293,887	2,398,600
Taxes payable	574,128	239,117
Revenue bonds due within one year	6,775,000	6,545,000
Claims payable	283,560	305,010
Environmental liabilities	456,808	536,000
Landfill closure and postclosure liability	1,604,535	1,643,393
Other	8,956,652	5,797,027
Total current liabilities	33,455,690	30,735,342
NONCURRENT LIABILITIES		
Compensated absences payable	1,575,442	1,555,541
Claims payable	376,855	415,011
Environmental liabilities	16,707,177	10,608,351
Landfill closure and postclosure liability	22,474,861	13,062,239
Unfunded other post retirement benefits	985,173	885,101
Net pension liability	29,618,180	31,900,680
Revenue bonds	201,000,000	207,545,000
Less bonds due within one year	(6,775,000)	(6,545,000)
Bond premium	21,004,288	22,028,112
Total noncurrent liabilities	286,966,976	281,455,035
Total liabilities	320,422,666	312,190,377
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows - pension	2,499,196	794,965
Rate stabilization	25,742,173	25,342,807
Total deferred inflows of resources	28,241,369	26,137,772
NET POSITION		
Net investment in capital assets	35,863,284	32,779,245
Restricted	244,124	198,092
Unrestricted	(3,209,818)	(12,010,128)
Total net position	32,897,590	20,967,209
Total liabilities and net position	$ 381,561,625	$ 359,295,358

See accompanying notes.

Statements of Revenues, Expenses, and Changes in Net Position

	Years Ended December 31, 2017	2016
OPERATING REVENUES		
Charges for services and other revenues	$ 209,643,612	$ 183,666,276
OPERATING EXPENSES		
Solid waste collection	107,528,507	104,639,198
Planning and development	213,285	232,692
Utility systems management	8,619,287	5,409,248
Field operations	9,358,772	7,626,855
Project delivery	113,911	658,215
Customer services	6,317,569	6,312,230
General and administrative	18,887,741	16,409,631
City taxes	24,583,229	19,024,827
Other taxes	3,213,169	2,819,840
Depreciation and amortization	10,854,757	6,282,704
Amortization of landfill closure and postclosure costs	1,374,197	1,369,585
Total operating expenses	191,064,424	170,785,025
OPERATING INCOME	18,579,188	12,881,251
NONOPERATING REVENUES (EXPENSES)		
Investment income	1,058,631	518,891
Interest expense	(9,069,410)	(5,268,859)
Amortization of bond premiums	1,023,824	912,996
Amortization of bond refunding loss	(203,743)	(112,028)
Gain on sale of capital assets	146,021	4,367
Contributions and grants	356,605	604,016
Other, net	39,265	83,458
Total nonoperating revenues (expenses)	(6,648,807)	(3,257,159)
CHANGE IN NET POSITION	11,930,381	9,624,092
NET POSITION		
Beginning of year	20,967,209	11,343,117
End of year	$ 32,897,590	$ 20,967,209

See accompanying notes.

Seattle Public Utilities – Solid Waste Fund
(An Enterprise Fund of the City of Seattle)
Statements of Cash Flows

	Years Ended December 31, 2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	$ 210,264,301	$ 189,184,475
Cash paid to suppliers	(117,855,707)	(118,253,204)
Cash paid to employees	(25,017,417)	(25,139,425)
Cash paid for taxes	(26,403,275)	(21,906,508)
Net cash provided by operating activities	40,987,902	23,885,338
CASH FLOW FROM NONCAPITAL FINANCING ACTIVITIES		
Operating grants received	707,474	377,584
Recovery for environmental liabilities	-	1,358,472
Net cash provided by noncapital and related financing activities	707,474	1,736,056
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from the sales of bonds and other long-term debt	-	40,847,904
Principal payments on long-term debt	(6,453,841)	(5,750,000)
Bond refunding	-	(20,237,397)
Capital expenditures and other charges	(10,401,165)	(24,752,031)
Interest paid on long-term debt	(9,423,550)	(9,823,693)
Debt issuance costs	-	(267,093)
Proceeds from sale of capital assets	156,219	18,173
Net cash used in capital and related financing activities	(26,122,337)	(19,964,137)
CASH FLOWS FROM INVESTING ACTIVITIES		
Net gain on investments	1,173,842	490,919
NET INCREASE IN CASH AND EQUITY IN POOLED INVESTMENTS	16,746,881	6,148,176
CASH AND EQUITY IN POOLED INVESTMENTS		
Beginning of year	91,503,436	85,355,260
End of year	$ 108,250,317	$ 91,503,436
CASH AT THE END OF THE YEAR CONSISTS OF		
Operating cash and equity in pooled investments	$ 55,716,306	$ 36,174,435
Noncurrent restricted cash and equity in pooled investments	52,534,011	55,329,001
Total cash at the end of the year	$ 108,250,317	$ 91,503,436

See accompanying notes.

	Years Ended December 31, 2017	2016
RECONCILIATION OF NET OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	$ 18,579,188	$ 12,881,251
Adjustments to reconcile net operating income to net cash provided by operating activities		
Adjustment for net pension liability	963,565	1,467,495
Depreciation and amortization	10,854,757	6,282,704
Nonoperating revenues and expenses	713,080	675,964
Changes in operating assets and liabilities		
Accounts receivable	1,062,873	(2,229,892)
Unbilled revenues	108	123,431
Due from other City funds	(228,121)	(280,471)
Due from other governments	(314,401)	168,776
Materials and supplies inventory	(3,121)	(53,214)
Other assets	(9,227,718)	1,350,714
Accounts payable	(2,000,458)	(3,985,426)
Salaries, benefits, and payroll taxes payable	272,838	(287,364)
Taxes payable	335,011	(131,966)
Compensated absences payable	30,130	(39,555)
Due to other City funds	957,316	154,651
Claims payable	(59,606)	(48,927)
Accrued landfill closure and post-closure costs	9,373,765	(979,503)
Environmental liability	6,019,635	1,490,276
Rate stabilization	399,366	6,861,606
Other liabilities	3,259,695	464,787
Total adjustments	22,408,714	11,004,086
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 40,987,902	$ 23,885,337

See accompanying notes.

Note 1 – Operations and Summary of Significant Accounting Policies

Operations – The City of Seattle, Seattle Public Utilities – Solid Waste Fund (the Fund) is a public utility enterprise fund of the City of Seattle (the City). The Fund was established to account for the solid waste activities of Seattle Public Utilities (SPU). These activities include the collection and disposal of residential and commercial garbage, recycling, and organic material, operation of the City's two transfer stations and two household hazardous waste facilities, and management of the post closure maintenance and environmental monitoring of the City's two closed landfills. The collection, disposal and/or processing of garbage, recycling, and organic materials is performed by private contractors, under contract with the Fund.

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 2017 and 2016, paid $7,812,030 and $4,669,218, respectively, to the City for its share of these services. The $3.1 million increase is largely attributable to the consolidation of Seattle Information Technology (IT). Additionally, the Fund pays a business and occupation utility tax to the City's General Fund. The Fund paid $19,973,377 and $15,736,017 for these taxes in 2017 and 2016, respectively, as well as $4,609,852 and $3,288,810, respectively, in tonnage taxes on waste collected and transferred in the City for disposal.

Solid waste collection and disposal services provided to other City departments and agencies are billed at rates prescribed by City ordinances. The Fund collected $727,099 in 2017 and $883,828 in 2016 from the City for solid waste services provided.

The utility billing function is co-managed by SPU, Seattle City Light (SCL) and Seattle IT. SPU provides customer service through the call center and walk-in center. SCL and Seattle IT operate and manage the billing system. SPU and SCL bill and reimburse each other for these services. SPU reimburses Seattle IT 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 $1,995,765 and $2,043,002 in 2017 and 2016, respectively. The Fund paid $25,205 and $186,283 for the utility billing services in 2017 and 2016, respectively. These costs do not include reimbursements to Seattle IT for the Fund's share of capital costs for the Customer Care and Billing System (CCB) completed in 2016.

The Fund is subject to regulation by the City and the State of Washington. Service rates are authorized by ordinances passed by the Seattle City Council. 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 Statement 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 Statement of Net Position under the caption "cash and equity in pooled investments." Accordingly, the Statements of Cash Flows reconcile to cash and equity in pooled investments. The restricted cash and equity in pooled investments are comprised of unexpended bond proceeds, bond reserve funds and a rate stabilization fund.

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 amount for services that have been provided but not billed.

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, 2017 and 2016, the Fund's allowance for doubtful accounts was $1,456,281 and $1,349,779, respectively.

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 other funds and governments.

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)

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 consistent with the rate methodology 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 unless the Fund executed GASB 62. In addition, the Fund also uses regulatory accounting for future reasonably estimable landfill postclosure costs and the cleanup costs related to the remediation the South Park Bus Barn site located near the South Park Landfill.

Other charges – Other charges primarily include costs related to the Comprehensive Solid Waste plan which directs the Fund's future operations. 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 materials, 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 improvements is capitalized. SPU's policy is to capitalize assets with a cost of $5,000 or more.

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. In 1990, the Fund purchased 350 acres of land surrounding the Kent-Highlands landfill, which became part of the landfill area. Other property also includes artwork 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 are depreciated on the straight-line method over estimated useful lives as follows:

Buildings	10-75 years
Transfer stations, scale houses, and related improvements	5-33 years
Machinery and equipment	3-20 years
Structures	10-15 years
Computer systems	3-11 years

Note 1 – Operations and Summary of Significant Accounting Policies (continued)

For most assets, it is SPU's policy to begin depreciation in the year following acquisition and to record a full year's depreciation in the year of disposition. This does not apply to heavy equipment, for which depreciation begins in the month following the equipment's in-service date to more accurately allocate equipment costs to various activities.

Deferred outflows/inflows of resources – In addition to assets, the Statement of Net Position, when applicable, will report a separate section for deferred outflows of resources. It represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The Fund has deferred loss on refunding debt, which qualifies for reporting in this category. A deferred loss on refunding bonds results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. As a result of implementing GASB Statement No. 68 and No. 71, the Fund has also recorded deferred outflows/inflows 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 (Note 9).

In addition to liabilities, the statement 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. In 2016, the Fund deposited $6.6 million into the rate stabilization account. These funds will be used in future periods to lessen the impact of rate increases. In 2017, the account earned interest totaling $0.4 million. However, the Fund did not deposit any additional funds into the rate stabilization account in 2017. As a result of implementing GASB Statement No. 68 and No. 71, the Fund has also recorded deferred inflows of resources for changes in proportion and differences between employer contributions and proportionate share of contributions (Note 9).

Environmental liabilities – The Fund has accrued a liability for pollution remediation activities in accordance with GASB Statement No. 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.

Note 1 – Operations and Summary of Significant Accounting Policies (continued)

Most pollution remediation outlays do not qualify for capitalization and the Fund does not anticipate significant capitalized costs in the future. More information about environmental liabilities can be found in Note 11 of this report.

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.

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

Retiring employees who are ineligible 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. The cash payment is 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 – Revenues are recorded through cycle billings rendered to customers monthly or bimonthly. Amounts billed but not earned at year-end are recorded as unearned revenues on the Fund's statement of net position. The Fund accrues and records unbilled collection service revenues in the financial statements for services provided from the date of the last billing to year end.

Other operating revenues include revenues generated from the Fund's two transfer stations. Transfer station revenues are collected from self-haul customers who deliver their garbage, yard waste, wood waste, appliances, and tires for a fee to the two transfer stations.

Note 1 – Operations and Summary of Significant Accounting Policies (continued)

Operating expenses – Certain expenses of the Fund are reported on the Statement of Revenues, Expenses, and Changes in Net Position by functional category. The types of work performed within each category are as follows:

- **Planning and development** – Provides planning services and other related costs prior to the start of capital projects

- **Utility systems management** – Accounts for the overall management of the Fund's infrastructure assets, assuring they are properly designed, constructed, operated, and protected.

- **Field operations** – Operates and maintains the Fund's solid waste systems.

- **Project delivery** – Provides project management and engineering services to the Fund and executes the Fund's capital projects from start to completion.

- **Customer services** – Invoices the Fund's customers for services provided and is the primary point of contact for customers.

Taxes – The Fund paid an 11.5% City utility tax on residential and commercial revenues for January through March and 14.2% for April through December, net of yard waste, recycling, and other costs related to waste reduction. The Fund also is charged a tax by the City based on solid waste tonnage for operating transfer stations and for collecting garbage within the City of Seattle. The City tonnage tax rate of $13.27 per ton remained the same as 2016. In addition, the Fund paid a 1.5% business and occupation tax, a 0.484% wholesale tax, and a 0.471% retail tax to the State on the services provided to residential, commercial, and transfer station customers. The rates remained the same as 2016. The State refuse tax rates remained the same at 3.60% for 2017.

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 statement of net position reports 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.

Note 1 – Operations and Summary of Significant Accounting Policies (continued)

The Fund's restricted net position relates to certain restricted assets that are offset by related liabilities.

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

Arbitrage rebate requirement – The Fund is subject to the Internal Revenue Code (IRC), Section 148(f), related to its tax-exempt revenue bonds. The IRC requires that earnings on gross proceeds of any revenue bonds that are in excess of the amount prescribed be surrendered to the Internal Revenue Service. As such, the Fund would record such a rebate as a liability. The Fund had no arbitrage liability as of December 31, 2017 and 2016.

Accounting standard changes – GASB has issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The primary objective of this statement is for the Fund to record its proportionate share of its defined other post-employment obligations for inactive and retired employees who receive benefits from the Fund. This statement is effective for periods beginning after June 15, 2017. The Fund is evaluating the impact of this standard on the financial statements, but anticipates recording amounts for the unfunded portion of the obligation. At this time, the amounts are not yet known.

GASB has issued Statement No. 82, *Pension Issues-an Amendment of GASB Statements No. 67, No. 68 and No. 73*. The statement requires issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee ("plan member") contribution requirements. This statement is effective for reporting periods beginning after June 15, 2016, except for the requirements for the selection of assumptions that deviate from the guidance in an Actuarial Standard of Practice in which the requirements are effective for an employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. The Fund has included this within the required supplementary information provided.

Use of estimates – The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect amounts reported in the financial statements. Estimates and assumptions are used to record landfill closure and post closure costs, unbilled collection services, 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 2 – Cash and Equity in Pooled Investments

Per Seattle Municipal Code, SMC 5.06.010 Investment Authority, the Director of Finance and Administrative Services (FAS) is authorized to invest all moneys in the City Treasury. Cash resources of all City funds are combined into a common investment pool that is managed by FAS. Each fund's share of the pooled investments is included in the participating fund's balance sheet under the caption "Cash and Equity in Pooled Investments." The pool operates like a demand deposit account in that all City funds may deposit cash at any time and also withdraw cash up to their respective fund balance out of the pool without prior notice or penalty.

Custodial credit risk – deposits – The custodial credit risk of deposits is the risk that in the event of bank failure of 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, 2017, 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.

Credit risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Some of the City's Pooled investments have credit risk from holdings in commercial paper, corporate notes, and taxable municipal bonds. The City may not hold more than 50% of the Pool's total assets in these credit sensitive sectors. State statute defines the investments in commercial paper and corporate notes as a "credit portfolio". The credit portfolio may not exceed 25 percent of the Pool's market value. Credit investments must be diversified by sector and industry. No single issuer shall exceed 3 percent of the Pool's market value. Commercial Paper investments may not have maturities exceeding 270 days and must hold the highest short-term credit rating by all the major credit rating agencies that rate the issuer at the time of purchase. Corporate notes must mature within 5.5 years from the time of purchase and must be rated at least weak single-A or better by all the major rating agencies that rate the note at the time of purchase. No single issuer rated AA or better may exceed 3 percent of the Pool's market value. No single issuer rated in the single-A category may exceed 2 percent of the Pool's market value. Municipal bonds must have a credit rating of weak single-A or better by all the major rating agencies that rate the issuer at the time of purchase. No single issuer may exceed 5 percent of the Pool's market value.

The City also purchases obligations of government-sponsored enterprises which are eligible as collateral for advances to member banks as determined by the Board of Governors of the Federal Reserve System. These include, but are not limited to, debt securities of Federal Home Loan Bank, Federal National Mortgage Association, Wells Fargo, and Federal Home Loan Mortgage Corporation. As of December 31, 2017, these investments were rated Aaa by Moody's Investors Service and AA+ or AA- by Standard & Poor's Rating Service. As of December 31, 2016, these investments were rated Aaa by Moody's Investors Service and AA+ or AA- by Standard & Poor's Rating Service.

Note 2 – Cash and Equity in Pooled Investments (continued)

Interest rate risk – Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. In general, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The City manages this risk by limiting the average maturity of investments to five years. However, the Fund's investments are selected for greater liquidity in order to support the Fund's cash flow needs and therefore typically have much shorter average maturities.

Investments – 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.

Note 2 – Cash and Equity in Pooled Investments (continued)

As of December 31, 2017 and 2016, the City's pooled investments were categorized within the fair value hierarchy as follows:

Investments	Fair Value as of December 31, 2017	Fair Value Measurements Using Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Weighted Average Maturity (Days)
U.S. Government Agency Securities	$ 693,621,813	$ -	$ 693,621,813	$ -	887
U.S. Treasury and U.S. Government-Backed Securities	475,683,801	463,218,182	12,465,619	-	489
Municipal Bonds	366,132,818	-	366,132,818	-	1,858
Commercial Paper	251,665,039	-	251,665,039	-	32
U.S. Government Agency Mortgage-Backed Securities	243,661,069	-	243,661,069	-	450
Repurchase Agreements	138,385,200	138,385,200	-	-	1
Local Government Investment Pool	120,655,354	-	120,655,354	-	-
Bank Note	47,987,867	-	47,987,867	-	293
	$2,337,792,961	$ 601,603,382	$ 1,736,189,579	$ -	
Weighted Average Maturity of the City's Pooled Investments					936

Investments	Fair Value as of December 31, 2016	Fair Value Measurements Using Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Weighted Average Maturity (Days)
Bank Note	$ 48,132,770	$ -	$ 48,132,770	$ -	658
Commercial Paper	204,474,875	-	204,474,875	-	90
Local Government Investment Pool	45,382,406	-	45,382,406	-	-
Municipal Bonds	306,457,925	-	306,457,925	-	1,692
Repurchase Agreements	50,446,235	50,446,235	-	-	2
U.S. Government Agency Mortgage-Backed Securities	261,378,071	-	-	-	-
U.S. Government Agency Securities	553,815,643	-	553,815,643	-	920
U.S. Treasury and U.S. Government-Backed Securities	287,802,378	275,300,476	12,501,902	-	472
	$1,757,890,303	$ 325,746,711	$ 1,170,765,521	$ -	
Weighted Average Maturity of the City's Pooled Investments					1,101

Note 2 – Cash and Equity in Pooled Investments (continued)

As of December 31, the Fund's share of the City Pool was as follows:

	2017	2016
Cash and equity in pooled investments	$ 55,716,306	$ 36,174,435
Restricted cash and equity in pooled investments	52,534,011	55,329,001
	$ 108,250,317	$ 91,503,436
Balance as a percentage of City Pool cash and investments	4.6%	5.2%

Concentration of credit risk – The City's investment policy limits concentration of credit risk for the City's investments as a whole, inclusive of the Fund's investments. These policy limits vary for each investment category.

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

	2017		2016	
Issuer	Fair Value	Percent of Total Investments	Fair Value	Percent of Total Investments
United States Government	$ 475,683,801	20%	$ 287,802,378	16%
Federal National Mortgage Association	339,104,849	15%	302,419,724	17%
Federal Farm Credit Bank	259,982,939	11%	190,087,160	11%
Federal Home Loan Bank	168,930,820	7%	139,856,360	8%
Wells Fargo	138,385,200	6%	**	**
Local Government Investment Pool	120,655,354	5%	**	**
Federal Home Loan Mortgage Corp	**	**	93,916,723	5%
Freddie Mac Multifamily Securities	**	**	88,913,747	5%

** Investment did not represent 5% or more of investments as of December 31, 2017, or 2016.

Note 3 – Capital Assets

Capital assets activity for the year ended December 31, 2017, consisted of the following:

	Beginning Balance	Additions and Transfers In	Retirements and Transfers Out	Ending Balance
Buildings	$ 58,304,475	$ 74,853,173	$ -	$ 133,157,648
Structures	4,248,259	7,674,893	-	11,923,152
Machinery and equipment	151,495,987	(79,779,832)	(926,188)	70,789,967
Computer systems	38,337,629	2,944,775	(10,093,765)	31,188,639
Total capital assets, excluding land	252,386,350	5,693,009	(11,019,953)	247,059,406
Less accumulated depreciation	(59,994,627)	(11,333,445)	11,009,755	(60,318,317)
	192,391,723	(5,640,436)	(10,198)	186,741,089
Construction in progress	6,037,949	9,621,892	(4,755,466)	10,904,375
Land and land rights	26,882,856	-	-	26,882,856
Other property	2,443,575	-	-	2,443,575
Capital assets, net	$ 227,756,103	$ 3,981,456	$ (4,765,664)	$ 226,971,895

Capital assets activity for the year ended December 31, 2016, consisted of the following:

	Beginning Balance	Additions and Transfers In	Retirements and Transfers Out	Ending Balance
Buildings	$ 58,180,700	$ 123,775	$ -	$ 58,304,475
Structures	4,248,259	-	-	4,248,259
Machinery and equipment	47,549,357	104,575,469	(628,839)	151,495,987
Computer systems	23,803,614	14,534,015	-	38,337,629
Total capital assets, excluding land	133,781,930	119,233,259	(628,839)	252,386,350
Less accumulated depreciation	(53,540,371)	(6,685,253)	230,997	(59,994,627)
	80,241,559	112,548,006	(397,842)	192,391,723
Construction in progress	108,235,121	28,205,348	(130,402,520)	6,037,949
Land and land rights	15,217,643	11,665,213	-	26,882,856
Other property	2,043,575	400,000	-	2,443,575
Capital assets, net	$ 205,737,898	$ 152,818,567	$ (130,800,362)	$ 227,756,103

During 2017 and 2016, the Fund capitalized interest costs relating to construction of $249,428 and $4,051,222, respectively. In 2016, $102,774,617 of construction related to the North Transfer Station was capitalized as Machinery and Equipment. In 2017, $82.0 million of these costs were recategorized to Buildings ($74.3 million) and Structures ($7.7 million).

Note 4 – Revenue Bonds

The Fund issues bonds to provide financing for capital improvements. Payment of debt service on the bonds is derived solely from the revenues generated by the Fund. The Fund has set aside $9,769,916 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, 2017, were $201,000,000.

Revenue bonds outstanding as of December 31, 2017 and 2016, consisted of the following Solid Waste bonds:

Name of Issue	Issuance Date	Maturity Years	Interest Rates	Original Issue Amount	Bonds Outstanding 2017	Bonds Outstanding 2016
2007 Revenue Bonds	12/05/2007	2008-2033	4.0 - 5.0%	$ 82,175,000	$ 815,000	$ 3,615,000
2011 Revenue Bonds	6/22/2011	2012-2036	3.0 - 5.0%	45,750,000	39,295,000	40,540,000
2014 Revenue Bonds	6/12/2014	2015-2039	2.0 - 5.0%	95,350,000	91,545,000	92,855,000
2015 Revenue Bonds	6/25/2015	2016-2040	2.0 - 5.0%	35,830,000	34,390,000	35,200,000
2016 Revenue Bonds	6/30/2016	2017-2041	4.0 - 5.0%	35,335,000	34,955,000	35,335,000
				$ 294,440,000	$ 201,000,000	$ 207,545,000

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

Year Ending December 31,	Principal	Interest	Total
2018	$ 6,775,000	$ 9,102,625	$ 15,877,625
2019	7,120,000	8,756,875	15,876,875
2020	7,045,000	8,404,500	15,449,500
2021	7,400,000	8,045,125	15,445,125
2022	7,775,000	7,667,625	15,442,625
2023 - 2027	45,250,000	31,976,300	77,226,300
2028 - 2032	56,540,000	20,094,291	76,634,291
2033 - 2037	45,180,000	8,317,444	53,497,444
2038 - 2042	17,915,000	1,033,900	18,948,900
	$ 201,000,000	$ 103,398,685	$ 304,398,685

The following table shows the revenue bond activity during the year ended December 31, 2017:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable, revenue bonds	$ 207,545,000	$ -	$ (6,545,000)	$ 201,000,000	$ 6,775,000
Add (deduct) deferred amounts					
Issuance premiums	22,028,112	-	(1,023,824)	21,004,288	-
Total bonds payable	$ 229,573,112	$ -	$ (7,568,824)	$ 222,004,288	$ 6,775,000

Note 4 – Revenue Bonds (continued)

The following table shows the revenue bond activity during the year ended December 31, 2016:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable, revenue bonds	$ 197,810,000	$ 35,335,000	$ (25,600,000)	$ 207,545,000	$ 6,545,000
Add (deduct) deferred amounts					
Issuance premiums	18,249,632	5,512,904	(1,734,424)	22,028,112	-
Total bonds payable	$ 216,059,632	$ 40,847,904	$ (27,334,424)	$ 229,573,112	$ 6,545,000

In June 2016, the Fund issued $35,335,000 of Solid Waste Revenue and Refunding Bonds with varying annual principal payments due beginning 2017 and ending in 2041, at interest rates ranging from 4.0 percent to 5.0 percent. There were bond refundings of $19,850,000 in 2016. The 2016 refunding was an additional refunding of the 2007 bond that was partially refunded in 2014. As a result of the refunding, the Fund reduced total debt service requirements by $4.5 million resulting in an economic gain (difference between the present value of the debt service payments on the old and new debt) of $3.7 million.

Defeasance of debt – The Fund defeases certain obligations by placing the proceeds of new bonds 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 statement of net position.

Name of Issue	Amount Outstanding at December 31, 2016	Additions	Redemptions	Amount Outstanding at December 31, 2017
2007 Parity	$ 60,705,000	$ -	$ (60,705,000)	$ -

Name of Issue	Amount Outstanding at December 31, 2015	Additions	Redemptions	Amount Outstanding at December 31, 2016
2007 Parity	$ 40,855,000	$ 19,850,000	$ -	$ 60,705,000

Financial covenants – The revenue bonds contain certain financial covenants, the most significant of which requires the Fund to maintain net revenue available for debt service at least equal to 125% of annual debt service. Net revenue available for debt service, as defined by the bond covenants, was 399% of annual debt service for 2017. Management believes the Fund was in compliance with all debt covenants as of December 31, 2017. For more information, see Other Information (page 44).

Note 5 – Leases

The Fund has noncancelable operating lease commitments for real and personal property with minimum payments of $11,347 in 2017 and $176,306 in 2016. The two remaining leases for the fund will expire as of December 2022. Rents are paid as they become due and payable. Minimum payments under the leases for the years ending December 31, are as follows:

2018	$	9,365
2019		9,516
2020		6,323
2021		1,727
2022		1,727
	$	28,658

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.

Note 6 – Postemployment Benefit Plans (continued)

Other postemployment benefits – 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. Eligible retirees (younger than age 65) may contribute to the medical plan and any additional health care programs contemplated or amended by ordinance of the Seattle City Council and as provided in Seattle Municipal Code 4.50.020.

The Seattle City Council authorizes the obligations of the plan members and the City as employer by passing ordinances and amendments regarding contributions to the plans. Eligible retirees self-pay 100% of the premiums based on blended rates which were established by including the experience of retirees with the experience of active employees for underwriting purposes. The plan is financed on a pay-as-you-go basis, and the City was required to contribute $2.3 million in 2017 and $2.0 million in 2016.

The table below summarizes the City's annual cost, expected contributions to the plan, and changes in the net other post-employment benefit obligation (OPEB) for fiscal years ended December 31, 2017, 2016, and 2015. These calculations are based on the most recent actuarial valuation data available, dated January 1, 2017. The Fund has accrued $985,173 to be paid to the Plan as of December 31, 2017, as a reasonable estimate of expected contributions.

	2017	2016	2015
Annual required contribution	$ 8,090,000	$ 7,733,000	$ 4,605,000
Interest on net OPEB obligation	1,671,000	1,526,000	1,630,000
Adjustment to annual required contribution	(2,791,000)	(2,549,000)	(2,540,000)
Annual OPEB cost (expense)	6,970,000	6,710,000	3,695,000
Contribution (employer-paid benefits)	(2,289,000)	(2,018,000)	(1,141,000)
Increase in net OPEB obligation	4,681,000	4,692,000	2,554,000
Net OPEB obligation, beginning of year	54,074,000	49,382,000	46,828,000
Net OPEB obligation, end of year	$ 58,755,000	$ 54,074,000	$ 49,382,000
Fund's allocated share of city liability	$ 985,173	$ 885,101	$ 860,084

Note 6 – Postemployment Benefit Plans (continued)

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. Actuarial calculations are based on the types of benefits provided under the terms of the plan and on the pattern of shared costs between the employer and plan members, at the time of each valuation. 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. Significant methods and assumptions are as follows:

Actuarial data and assumptions	
Valuation date	January 1, 2017
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	30 years, open
Discount rate	3.09%
Health care cost trend rates - medical	Medical 6.25%, decreasing by 0.25% & 0.21% for two years; 5.79% in year 2018 and decreasing to 5.57% in 2019. Vendor Rx Report: 10.0% in 2016, decreasing by 0.5%, 0.71%, & 0.72% respectively for the next three years.
Participation	40% of Active Employees who retire participate.
Mortality	General Service Actives based on the RP-2000 Employees Tables for Males and Females, with ages set back six years and General Service Retirees based on the RP-2000 Combined Healthy Males with ages set back two years and Females, with ages set back one year.
Marital status	45% of members electing coverage are assumed to be married or to have a registered domestic partner. Male spouses are assumed to be two years older than their female spouses.
Other considerations	Active employees with current spousal and/or dependent coverage and are under Group Health Standard or Group Health Deductible are assumed to elect same plan and coverage after retirement. Of those under City of Seattle Traditional or City of Seattle Preventative 50% are assumed to switch to the Group Health Standard Plan, the other 50% will continue coverage under the same plan.

Note 6 – Postemployment Benefit Plans (continued)

Schedules of funding progress are as follows (dollars in millions):

Actuarial Valuation Date	Actuarial Value of Assets (a)	AAL Entry Age (b)	UAAL (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percent of Covered Payroll ((b-a)/c)
January 1, 2015	$ -	$ 44.4	$ 44.4	0.0%	$ 1,037.9	4.3%
January 1, 2016	$ -	$ 65.7	$ 65.7	0.0%	$ 1,125.7	5.8%
January 1, 2017	$ -	$ 70.1	$ 70.1	0.0%	$ 1,153.8	6.1%

The Health Care Sub Fund of the General Fund is reported in the City's Comprehensive Annual Financial Report, which can be obtained by writing the Department of Finance, City of Seattle, PO Box 94747, Seattle, Washington 98124-4747 or www.seattle.gov/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 2017 and 2016, 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, 1.565% and 1.403%, respectively. Claims expected to be paid within one year are $283,560 and $305,010 as of December 31, 2017 and 2016, respectively.

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

	2017	2016
Beginning liability, discounted	$ 720,021	$ 768,948
Payments	(209,360)	(144,469)
Incurred claims and change in estimate	149,754	95,542
Ending liability, discounted	$ 660,415	$ 720,021

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, merit, 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:

	2017	2016
Beginning liability	$ 1,694,683	$ 1,734,238
Additions	1,713,092	1,550,705
Reductions	(1,682,962)	(1,590,260)
Ending liability	$ 1,724,813	$ 1,694,683

Note 9 – Pension Benefit Plan

Plan description – The Seattle City Employees' Retirement System (the System) is a cost-sharing multiple employer pension plan covering employees of the City 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.

System benefits – The System provides retirement, death, and disability benefits. Retirement benefits vest after five years of credited service, while death and disability benefits vest after ten years of service. All permanent Fund employees are eligible to participate in the System. Members are eligible for retirement benefits after 30 years of service; at age 52 after 20 years of service; at age 57 after ten years of service; and at age 62 after five years of service.

Member and employer contributions – Employees are required to contribute 10.03% of their annual base salaries to the System. The employer's contribution rate for the years ended December 31, 2017 and 2016, was 15.3% and 15.1%, respectively. Employer rates are established by the City Council on a biannual basis. The Fund's contributions to the System for the years ended December 31, 2017 and 2016, were $2,479,364 and $2,453,920, 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.

Note 9 – Pension Benefit Plan (continued)

Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows related to pensions – At December 31, 2017 and 2016, the Fund reported a liability of $29,618,180 and $31,900,680, respectively, its proportionate share of the Systems' net pension liability. The net pension liability was measured as of December 31, 2016 and December 31, 2015 for the years ended December 31, 2017 and 2016, respectively, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of these dates. The Fund's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating parties, actuarially determined. At December 31, 2017 and 2016, the Fund's proportion was 2.27% and 2.46%, respectively.

For the years ended December 31, 2017 and 2016, the Fund recognized pension expense of approximately $4,006,000 and $4,078,000, respectively.

The Fund's deferred outflows and inflows of resources are as follows at December 31, 2017:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 28,639	$ 142,120
Net difference between projected and actual earnings	2,350,301	-
Contributions made subsequent to measurement date	2,479,364	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	2,357,077
Total	$ 4,858,304	$ 2,499,196

The Fund's deferred outflows and inflows of resources are as follows at December 31, 2016:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 39,822	$ -
Net difference between projected and actual earnings	3,906,396	-
Contributions made subsequent to measurement date	2,453,920	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	794,965
Total	$ 6,400,138	$ 794,965

Note 9 – Pension Benefit Plan (continued)

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

2018	$ 287,372
2019	287,372
2020	92,532
2021	(578,489)
2022	(209,042)

Actuarial assumptions – The total pension liability as of December 31, 2017, was determined using the following actuarial assumptions:

Valuation date	January 1, 2016
Measurement date	December 31, 2016
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 Smoothing Method
Inflation	3.25%
Investment rate of return	7.5% compounded annually, net of expenses
Discount rate	7.5%
Projected general wage inflation	4.0%
Postretirement benefit increases	1.5%
Mortality	Various rates based on RP-2000 mortality tables and using generational projection of improvement using Projection Scale AA.

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, 2010 – December 31, 2013.

Note 9 – Pension Benefit Plan (continued)

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

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

Best estimates of geometric real rates of return for each major asset class included in the System's target asset allocation as of December 31, 2016 are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return
Equity: Public	4.99%
Equity: Private	6.25%
Fixed Income: Broad	0.62%
Fixed Income: Credit	3.79%
Real Assets: Real Estate	3.25%
Real Assets: Infrastructure	2.75%
Diversifying Strategies	3.25%

Sensitivity analysis – The following presents the Fund's proportionate share of the net pension liability calculated using the discounted rate of 7.5%, as well as what the employer's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.50%) or 1 percentage point higher (8.50%) than the current rate.

1% Decrease 6.50%	Current Discount Rate 7.50%	1% Increase 8.50%
$ 40,083,810	$ 29,618,180	$ 20,818,157

Note 10 – Contractual Obligations

The City contracts with private companies for the collection of residential and commercial garbage, yard waste, food waste, and recycling. Effective March 30, 2009 the City entered into contracts with Waste Management and Recology CleanScapes for residential and commercial collection. The contracts are scheduled to end on March 31, 2019. Total payments under these contracts for residential and commercial collection in 2017 and 2016, were $78,676,863 and $77,827,245, respectively.

In 1990, the City entered into a contract with Waste Management of Washington, Inc., (f/k/a Washington Waste Systems) for the disposal of non-recyclable City waste. This contract is scheduled to end on March 31, 2028, however the City may terminate this contract at its option without cause on March 31, 2019. Total payments under the terms of this contract for waste disposal in 2017 and 2016 were $14,952,135 and $13,213,084, respectively.

Effective April 1, 2014, the City entered into contracts with PacifiClean Environmental of Washington, LLC and Lenz Enterprises, Inc. to process yard and food waste into marketable products. The contracts were scheduled to end on March 31, 2020, however the City may, at its option, extend the contract in two-year increments up to March 31, 2024. The City terminated the services with PacifiClean effective August 31, 2017 due to failed operations, prior to the end of the original contract term. The City awarded a new contract to Cedar Grove Composting, effective September 1, 2017, to provide additional services. The Cedar Grove Contract will end March 31, 2020, with City options to extend the contract up to March 31, 2024. Total payments under the terms of these contracts for 2017 and 2016 were $4,433,230 and $4,485,403, respectively.

Effective April 1, 2009, the City commenced a contract for recycling processing with Rabanco, LTD. The company is responsible for processing recyclables from both commercial and residential customers. The contract ended on March 31, 2016. There was an option to extend the contract for a three-year period at that time. The City elected to proceed with a solicitation process, and as a result, negotiated a new long term contract with Rabanco, LTD. This contract became effective April 1, 2016, and expires March 31, 2021. The City may, at its option, extend the contract in three year increments up to March 31, 2027. Total payment, net of recycling revenue in 2017 and 2016 were $313,671 and $1,014,986, respectively. This variance resulted from fluctuations in recycling commodity pricing.

Note 11 – Environmental Liabilities

The City of Seattle and a private developer are under an Agreed Order with the Washington State Department of Ecology (Ecology) to perform a Remedial Investigation and Feasibility Study and to draft a Cleanup Action Plan for the historic South Park Landfill site under the State Model Toxics Control Act. The City and developer are working with Ecology to finalize the two reports and a Consent Decree for part of the site with other Potentially Liable Persons, Ecology and the Attorney General's office. Ecology approved an amendment of the Agreed Order to allow the City to construct an interim cleanup action on the City-owned portion of the landfill property. That interim cleanup is expected to be done in the 2020-22 timeframe. Ecology also approved an interim cleanup action by the developer on his portion of site property. That cleanup was completed in 2015. In 2012, the City executed an agreement regarding the developer's interim action that settles City liabilities for the interim cleanup costs but not City liabilities for the permanent cleanup.

The Fund has included in its estimated liability those portions of the environmental remediation work that are deemed to be reasonably estimable. Cost estimates were developed using the expected cash flow technique. Estimated outlays were based on current cost and no adjustments were made for discounting or inflation. 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 were calculated on a weighted average that was based on the probabilities of each scenario being selected and reflected cost-sharing agreements in effect. In addition, certain estimates were derived from independent engineers and consultants. The estimates were made with the latest information available; as new information becomes available, estimates may vary significantly due to price increases or reductions, technology, or applicable laws or regulations. The significant change in 2017 resulted from increased construction costs related to I-5 lane expansion.

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

	2017	2016
Beginning environmental liability, net of recoveries	$ 11,144,351	$ 9,654,075
Payments or amortization	(370,616)	(940,261)
Change in estimated liability	6,390,250	2,430,537
Ending environmental liability, net of recoveries	$ 17,163,985	$ 11,144,351

The following table represents the current and long term positions of the environmental liability:

	2017	2016
Environmental liability, current	$ 456,808	$ 536,000
Environmental liability, noncurrent	16,707,177	10,608,351
Ending liability	$ 17,163,985	$ 11,144,351

Note 12 – Landfill Closure and Post Closure Care

At December 31, 2017, accrued landfill closure and post closure costs consist primarily of monitoring, maintenance, and estimated construction costs related to I-5 improvement projects. It is the City Council's policy to include the Fund's share of all landfill closure and post closure costs in the revenue requirements used to set future solid waste rates. Therefore, the Fund uses regulatory accounting and total estimated landfill closure and post closure care costs are accrued and also reflected as a future costs in the accompanying financial statements, in accordance with generally accepted accounting principles.

These costs are being amortized as they are recovered from rate payers. These costs are regulatory assets even though the Fund chooses to present them separately on the Statement of Net Position. Actual costs for closure and post closure care may be higher due to inflation, changes in technology, or changes in regulations. Such amounts would be added to the liability and accrued when identified. Landfill closure costs were fully amortized in 2009 and landfill postclosure costs will continue to amortize until 2024.

In prior years, the Fund delivered its refuse to two leased disposal sites: the Midway and Kent-Highlands landfills. Subsequent to signing the original lease agreement, federal and state requirements for closure of landfill sites were enacted. The Fund stopped disposing of municipal waste in the Midway site in 1983 and in the Kent-Highlands site in 1986.

Required Supplementary Information

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

	2017	2016	2015
Employer's proportion of the net pension liability	15.13%	16.37%	16.96%
Employer's proportionate share of the net pension liability	$ 197,454,529	$ 212,671,200	$ 187,919,945
Employer's covered payroll	$ 106,696,535	$ 105,031,141	$ 102,783,473
Employer's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	185.06%	202.48%	182.83%
Plan fiduciary net position as a percentage of the total pension liability	65.60%	64.03%	67.70%

Schedule of Seattle Public Utilities' Contributions

	2017	2016	2015
Contractually required employer contribution	$ 16,354,089	$ 16,487,154	$ 15,170,276
Contributions in relation to the contractually required employer contribution	(16,354,089)	(16,487,154)	(15,170,276)
Employer contribution deficiency (excess)	$ -	$ -	$ -
Employer's covered payroll	$ 106,696,535	$ 105,031,141	$ 102,783,473
Employer contributions as a percental of covered payroll	15.33%	15.70%	14.76%

Other Information (Unaudited)

Solid Waste Debt Service Coverage Calculation 2017

Operating Revenue	
Residential Collection Services	$ 125,584,681
Commercial Collection Services	60,291,250
Disposal and Other	23,767,681
Rate Stabilization Account	-
Total Operating Revenue	209,643,612
Operating Expense	
Solid Waste Contract Expense	107,528,507
Other Operations and Maintenance	43,510,565
City Taxes	24,583,229
State B&O Tax	3,213,169
Total Operating Expense	178,835,470
Net Operating Income	30,808,142
Adjustments	
Less: DSRF Earnings	(165,377)
Add: City Taxes	24,583,229
Add: Environmental Liability Costs	6,390,250
Add: Investment Interest	1,191,551
Add: Net Proceeds from Sale on Assets	156,218
Add: Net Other Nonoperating Revenues	39,265
Total Adjustments	32,195,136
Net Revenue Available for Debt Service	$ 63,003,278
Net Revenue Available for Debt Service (w/o City Taxes)	$ 38,420,049
Annual Debt Service	
Annual Debt Service	$ 15,964,350
Less: DSRF Earnings	(165,377)
Adjusted Annual Debt Service	$ 15,798,973
Coverage	3.99
Coverage without taxes	2.43

Solid Waste Customers by Class

	2013	2014	2015	2016	2017
VARIABLE CANS					
No Can/Vacancy	2,385	2,388	2,114	2,280	2,270
12-Gallon Can	18,613	19,215	19,893	20,707	21,355
20-Gallon Can	44,378	46,083	46,942	47,791	47,601
32-Gallon Can	90,499	86,956	86,675	85,503	82,859
64-Gallon Can	6,627	7,034	7,081	7,263	7,466
96-Gallon Can	1,677	1,891	2,008	2,235	2,484
TOTAL VARIABLE CANS	164,179	163,567	164,713	165,779	164,035
Residential Dumpster Accounts	5,185	5,203	5,261	5,383	5,324
Commercial Accounts	8,183	8,168	8,145	8,096	8,082

Solid Waste Tonnage

	2012	2013	2014	2015	2016	2017
GARBAGE						
Residential Collection	111,402	110,838	112,245	101,972	103,720	105,315
Self-Haul Garbage	70,474	74,019	57,844	60,938	65,754	99,290
Commercial Collection	134,089	132,401	139,475	139,557	138,546	139,317
Total tons disposed	315,965	317,258	309,564	302,467	308,020	343,922
RECYCLING						
Private Recycling (1)	218,784	229,279	241,252	235,880	252,242	246,747
Residential Curbside Recycling	55,317	55,023	56,054	57,073	54,207	55,123
Apartment Recycling	20,599	20,886	22,212	24,028	24,781	24,652
Residential Curb Yard & Food Waste	82,244	80,989	82,588	89,213	91,375	90,789
Self Haul Yard Waste	6,593	6,290	4,199	4,009	4,390	6,127
Self-Haul Wood Waste	569	626	523	682	866	1,185
Self-Haul Recycling (1)	3,501	3,413	2,086	2,209	2,747	4,495
Composting (2)	10,800	10,800	10,800	10,800	10,800	10,800
Total tons recycled	398,407	407,306	419,714	423,894	441,408	439,918
Total tons generated	714,372	724,564	729,278	726,361	749,428	783,840
Garbage as a percentage of total tons generated	44%	44%	42%	42%	41%	44%
Recycling as a percentage of total tons generated	56%	56%	58%	58%	59%	56%

(1) Estimate for 2017

(2) Composting figures are estimates based on surveys and include grasscycling and backyard food waste and yard waste composting. Surveys were conducted in 2005 and 2010.

Solid Waste Rate Schedule and Transfer Station Fees

	Rates (Effective April 1, 2018)
Service unit	
No can (minimum charge)	6.85
12-Gallon	23.30
20-Gallon	28.55
32-Gallon	37.15
64-Gallon	74.30
96-Gallon	111.45
Recycling	No charge
Non-Compacted Dumpster (one cubic yard, once/week, one container)(2)	275.32
Compacted Dumpster (three cubic yards, once/week, one container)(2)	794.92
Yard Waste Mini-Can	6.15
Yard Waste 32-Gallon Can	9.25
Yard Waste 96-Gallon Can	11.85

(1) Rates listed are for curb/alley service.

(2) Dumpster rates vary based on size and number of containers as well as the frequency of collection. Dumpster rates shown include a $40.10 monthly account fee.

2018 Commercial Collection Rates

Like other solid waste rates, the City sets commercial rates through ordinance. Commercial rates vary with the type and level of service. A typical commercial customer has 3 cubic yards of garbage collected once per week. As of April 1, 2018 the cost of this service is $498.32 per month, including a monthly account fee of $27.00.

2017 Transfer Station Fees

	Rates (Effective January 1, 2010)
Garbage	
Sedans, SUVs, and station wagons	$30.00 per trip
All other self-haul vehicles with garbage	$145.00 per ton ($30.00 minimum charge)
Yard and wood waste	
Sedans, SUVs, and station wagons	$20.00 per trip
All other self-haul vehicles with yard waste	$110.00 per ton ($20.00 minimum charge)

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